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Ethiopia: Development Framework and Plan of Action 2001 - 2010

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I. Introduction

1. Ethiopia with a population of about 63 million in 2000 is the third most populous country in Africa. The country has long-standing history and diverse cultural heritage. Ethiopia has ample arable land, estimated at about 66 per cent of the 111.5 million hectares of total area of which 22 percent is said to have been under cultivation. The major river basins with abundant potentials for fisheries, irrigation and hydropower development have not yet been harnessed. It is estimated that only 15 per cent of the fisheries, 5 per cent of the irrigation and 1 per cent of the hydropower potentials have been exploited so far. The country has also benefited only a little from its immense livestock resources (although the size is believed to be one of the highest in Africa). Ethiopia has untapped mineral resources which can be a potential source for foreign exchange earnings. Its renowned tourist attractions can also serve as major source to complement the country's foreign exchange earnings.
2. Nevertheless, Ethiopia is a land of contrast. The country has reasonably good resource potential for development. But still the majority of the population live in poverty. In this context, the end of the 1980s was marked by a state of crisis in which living condition worsened. Particularly, the two decades prior to 1990 are characterized by deteriorating living condition, increased vulnerability to socio-political unrest, and exogenous shocks. The seventeen years of economic miss-management under the command economic system, wide-spread civil war and recurring drought left the economy by the turn of the 90s in deep crisis which manifested itself, interalia, in (i) a weak economy where growth plunged in most of the years and accompanied by loss of productive capacity and competitiveness, (ii) severe macroeconomic instability; and (iii) social crisis involving millions of displaced persons, refugees, demobilized soldiers,

homeless and unemployed people, (iv) loss of credibility with domestic and external economic partners.

3. It was against this background, that the **Transitional Government established in May 1991** initiated a broad spectrum of reform to address both the immediate need of economic recovery and reconstruction to jump start the economy as well as the long-term structural problem of underdevelopment. As discussed in the section that follows, under the government's economic reform program, Ethiopia made considerable progress towards the transition from centralized control and command system to an open, deregulated and market - based economy. The country also achieved and sustained macroeconomic stability while putting in place many of the structural reforms required to generate economic growth and removed barriers to private sector investment and operations. As a result, economic growth increased strongly reversing the decline of the 1980s.
4. Even though the progress made so far is encouraging, Ethiopia is still far from securing sustainable development for its people. This broad plan of action, therefore, will assess the socio-economic performance in the 1990s, and the opportunities, challenges and constraints for the future. Based on the assessment, the plan of action will outline Ethiopia's development agenda for 2001- 2010.

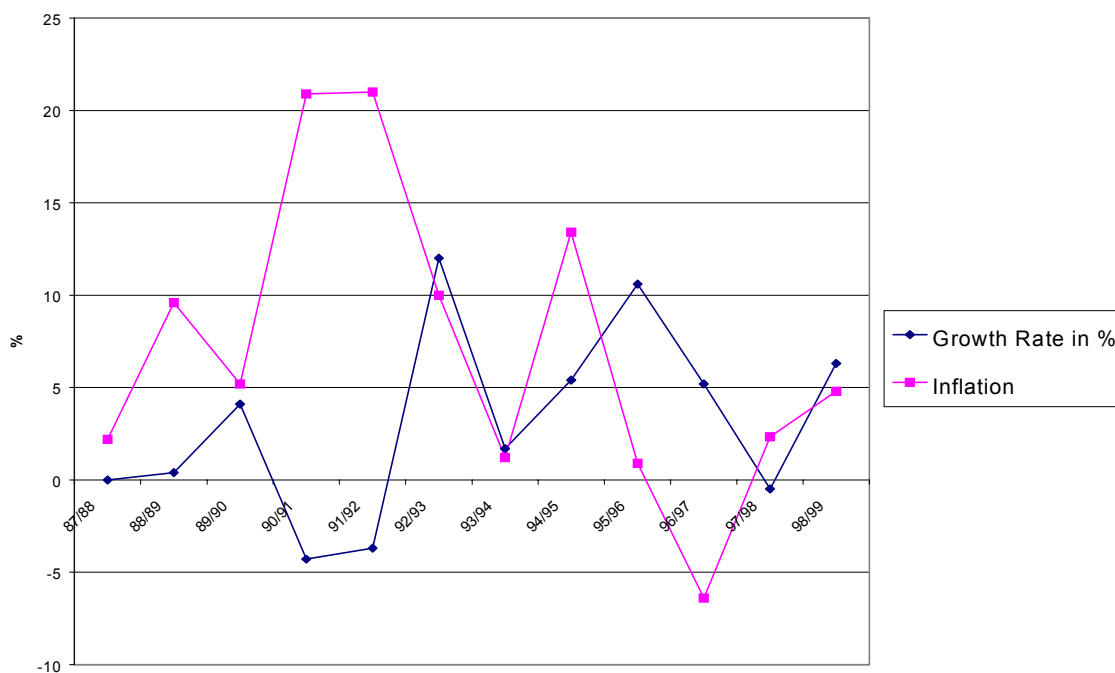
II. The Socio-Economic Performance in the 1990s

5. Among the notable achievements of the Transitional Government of Ethiopia in the early 90s was the **ending of internal conflict** followed by successful **transition made towards peace and democracy**. Since then, a federal system of government has been put in place with the 1994 constitution laying the basis for devolution of decision making power and responsibilities to regional states-thus laying the foundation for participatory development. The restoration of peace and stability in

turn created conducive environment for recovery and re-construction as well as to initiate programs for sustainable development.

6. Thus, Ethiopia entered the 1990s with optimism and showed its commitment to reverse the deterioration in socio-economic condition of the 1980s and bring about broad based development. Given the weak initial condition of the 1980s, the out-turn so far is satisfactory. First, the Ethiopian economy has made encourage progress in bringing **economic recovery and restoring macroeconomic stability**. During the period 1992/93 - 1999/2000, the economy grew at 5.6 per cent per annum in real terms. This overall output growth performance compares favorably with the 1.9 per cent average growth registered during the 1980s. The pattern of growth can also be said broad based. Thus, the performance of the major sector, agriculture, with a 3.4 per cent annual average growth, was relatively encouraging as compared to past trends. A quick recovery was also observed in the industrial and service sectors with 7.6 per cent annual average growth each for the period under review.

Figure 1: Rates of Economic Growth and Inflation

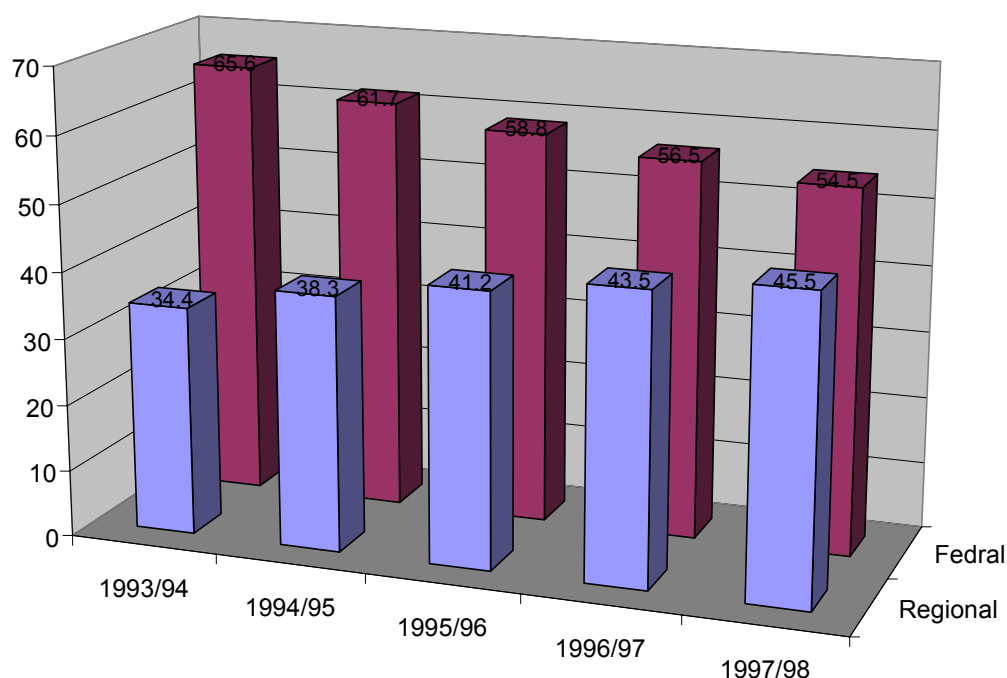


7. More important, notable progress has been made in reversing pre 1991 declining trend in **human development**. The growth in agricultural production following liberalization of agricultural marketing and pricing, and increased investment in rural infrastructure did contribute to improvement in rural incomes and living conditions. Likewise, access to education and health progressively improved since the turn of 90s. **Gross primary school enrollment (GPSE)** at national level increased from 19.7 per cent in 1991/92 to 45.8 per cent in 1999/2000. Qualitative changes have also occurred in terms of **gender composition** of students where female primary school enrollment has almost doubled. **Primary health service** coverage also increased from 46 per cent in 1994/95 to 51 per cent in 1998/99. Immunization reached 60 per cent in 1998/99 from about 20 per cent in 1990/91.

8. The encouraging socio-economic performance of the 1990's was a reflection of improved domestic policy and institutional environment augmented by a modest increase in the availability of external finance. From the outset, with the aim of alleviating poverty and transforming the underlying production structure, the government in 1993 adopted the **Agricultural Development Led Industrialization Strategy (ADLI)**. This strategy aims at improving agricultural production and productivity as a basis for improved income and living condition for the small holder farming population on the one hand, and as a source of improved export earnings to finance investment elsewhere in the economy, on the other. Improved farm income would also generate sufficient demand for the industrial sector instigating dynamism and inter-sectoral linkages. Thus, ADLI is a strategy that generates development process which directly addresses poverty eradication.

9. The ADLI strategy came into effect with the implementation of two medium - term adjustment programs covering the periods 1992/93-1994/95 and 1996/97- 1998/99. The latter was extended by a new medium – term adjustment program for the period 1998/99- 2000/01. Broadly, the **Economic Reform Program (ERP)** was aimed at re-orienting the economy from a command to a market led system, rationalizing the role of the state in the economy, decentralizing economic management, and enhancing the participation of the private sector in the economy. As indication on figure 2, since the introduction of a federal system of government, the responsibilities of regional governments in public expenditure continue to grow.

Figure 2: Share of Federal and Regional Government Expenditure from Total Annual Budget (in Per Cent)



10. The Ethiopian economy benefited from the early restoration of stable macroeconomic environment accompanied by economic recovery with minimum social cost. By the end of the first medium-term adjustment period, the economy fully recovered from pre reform crises, that is, output rebound, inflation brought down to single digit from pre-reform two years average level of 21 per cent, deterioration in the external and internal balance brought under control, and inflationary financing of the budget deficit brought down to an all time low. To this effect, the **restoration of peace and stability**, and the launching of **economic recovery and reconstruction program** helped to improve capacity utilization. In addition, the implementation of carefully selected and well-sequenced macro and structural policies helped to rationalize aggregate demand at the same time improving the incentive environment crucial for the supply response. The social cost of adjustment during the transition has also been minimized as the

government perused expenditure switching strategy and through mobilizing domestic and external resources for financing adjustment.

11. For the human welfare to improve, the effort made to attain food security was crucial. Notably, the introduction of the **nation-wide agricultural extension program** to improve agricultural productivity through the diffusion of simple technology was effective enough to increase its coverage from 32 thousand in 1994/95 to about 2.8 million peasant households in 1998/99. The integrated package approach consisting the use of fertilizer and improved seed along with provision of credit with collateralization of group payment allowed all farmers covered under the extension program to adopt the improved technology. The resulting increase in crop production, augmented by better incentive, for liberalized agricultural output and rural labor market, and reduced macroeconomic bias against agriculture was believed to be crucial in slightly reducing poverty among the rural households.

12. Concomitantly, the observed quick and substantial improvement in the non-agricultural sector output reinforced the gain from agriculture. This in turn, was made possible in part by, **increased private participation and efficiency gain in public enterprises**. In this regard, it is believed that the restoration of stable macroeconomic environment accompanied with measures to correct cost and price distortions in the economy has improved the incentive environment. Particularly, the correction of exchange rate misalignment, rationalization of the level, structure and coverage of tariff, and the lowering of the distorting effect of tax on the economy, the liberalization of labor and credit markets, and institutionalization of land market were crucial in restoring business confidence and minimizing rent-seeking practice. Likewise, commercialization of public enterprises (PEs) and the initiative taken to privatize PEs has created level playing field among economic agents.

These along with the adoption of liberal investment code were responded positively on the part of the private sector.

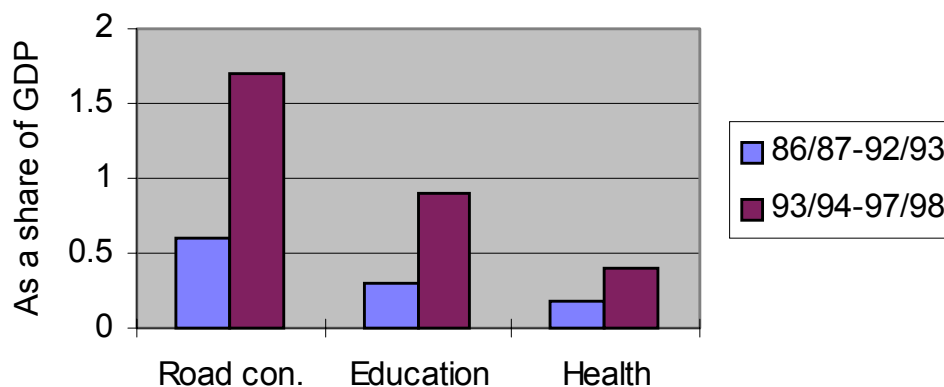
13. The far reaching policy and institutional reform on the domestic front was effective in improving the incentive environment for external trade, and attracting external financial flow. **Exports revived** from the depressed situation in the 1980s, while the country's trade gap widened initially reflecting the compensatory effect of pent-up import demand. Liberalization of the trade and exchange systems coupled with massive rehabilitation and reconstruction measures explain much of these developments in the external account. The increase in current private transfers to an average of 4.8 per cent of GDP since 1991/92 (from 2% of GDP in the 1980s) has however helped maintain the current account deficit at the same level as in the 1980s, i.e. about 6 per cent of GDP. Private transfers have proved to be important sources of finance during the 1990s covering close to 40 per cent of the current account deficit. The balance of traded services, which remained positive and increasing since 1992/93 - albeit small, has also contributed to the stability in the external balance.
14. The domestic reform was also crucial in restoring confidence on external partners for resource flows. Part of this was reflected in the form of debt restructuring and rescheduling. So far, Ethiopia has concluded two agreements with Paris Club creditors resulting in a total amount of debt relief of USD 537.7 million. Out of this amount, USD 141.7 million was canceled, while the remaining USD 396.0 million was rescheduled.
15. With respect to foreign direct investment (FDI), the Governments' commitment in creating conducive environment notably of liberal investment code, opened the way for attracting capital, technology and know-how. Over the period 1992/93 to 1998/99, 163 foreign investment projects received certificate, of which 21 have become

operational and 49 are under implementation. Similarly, regional comparison also shows that Ethiopia stood among prospective continue in SSA. As become evident in the survey of investments in Africa by the World Economic Forum and the Harvard Institute for International Development, a key factor for the growth of FDI has been the increase in investor confidence due to the enabling environment put in place during the 1990s. As per the above report, Ethiopia ranks seventh out of 20 countries in terms of investor protection. Ethiopia has made every effort possible to put in place an investment code in which measures for attraction, protection and guarantees of foreign and domestic private investment have been codified.

16. Sustaining growth beyond recovery requires, among other things, **increased mobilization and accumulation of resources**. In this respect, developments in the past seven years exhibit qualitative and quantitative changes. Thus, Gross Domestic Investment (GDI) registered a steady increase and at the same time, undergone structural changes. First, GDI to GDP ratio increased from 8.7 per cent to 17 percent between 1991/92 and 1997/98. Second, the private sector showed an encouraging come- back. Evidences show that private sector capital formation increased substantially. By now its share in total volume of investment amounts to about fifty per cent. Third, the structure of public investment has been rationalized towards building the productive capacity of the economy. To this effect, the effort made to enhance domestic resource mobilization including limiting the growth of government consumption and correcting the repressive financial regime was crucial. The impact of such environment was clearly manifested on Gross Domestic Saving (GDS) which as share of GDP increased from 3 per cent in 1991/92 to about 6 per cent on the average between 1992/93 and 97/98.
17. The rationalization of the role of the state and the prevalence of peace and stability was crucial in **reorienting public expenditure towards**

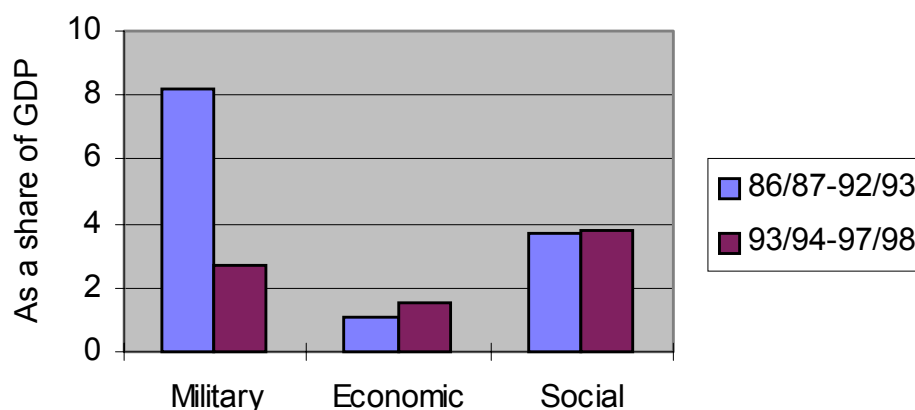
social and economic infrastructure. Between 1991/92 and 1997/98 the proportion of capital spending on social development (including health and education) increased from less than 10 per cent of capital budget to about 24 per cent. Likewise, investment on roads increased from 6 per cent to about 21 per cent during the same period. This reorientation of public expenditure towards human and infrastructure stood as a clear evidence of the government's effort to tackle poverty.

Figure 3: Capital Expenditure by Major Area



18. The emphasis on social sector development is reflected on availability of additional service providing facilities. For example, the total number of primary schools has increased from 9004 in 1991 to 11051 in 1998/99. With respect to road, design works for 32 roads with a total length of 7305 kms have been completed while upgrading construction works on 13 asphalt roads of 2097 kms long is under implementation. Major maintenance work has also been carried out on main roads amounting to 1714 kms. In addition, Regional governments have been constructing and rehabilitating rural roads covering 7499 kms since 1994/95.

Figure 4: Recurrent Expenditure by Selected Sectors



19. The effort for the provision of water supply has resulted in an overall access to safe drinking water for 30 per cent of the total population in 1998/99 from 23 per cent in 1994/95. Progress in rural water supply has particularly been substantial with the increase in the population coverage of water supply from 14.3 per cent in 1994/95 to 24 per cent in 1998/99. Regarding telecommunication, expansion and modernization has been carried out which increased the number of telephone lines from 180,000 in 1994/95 to 532,000 in 1999/2000.
20. Despite the positive out-turn mentioned above, Ethiopia remains among the most affected country by **negative developments in the global economy during the 1990s. Unfavorable terms of trade** resulting from increasing price of import and declining price of export stood as the major source of leakage. World price for Ethiopian export, which has never been stable, worsened in the second half of the 1990s as the international price for almost all export commodities declined continuously. Between 1997/98 and 1999/00, the world market price of five major export commodities, coffee, leather and leather products,

pulses, fruits and vegetables and gold dropped by 37 per cent, 28 per cent, 20 per cent, 26 per cent and 41.4 per cent respectively. On the other hand, import price and hence costs, increased substantially. Among import, the increase in the price of oil was very high in which between June 1998 and July 2000 the ex-refinery price of regular gasoline rose by 143.2 per cent, from Birr 0.95 to Birr 2.31 a liter. The Asian financial crisis accounts for the declining export price through depressed demand on one hand and increased availability of supply from these countries owing to depreciated currency.

21. **The implication of deteriorating terms of trade was significant.** Revenue from merchandise export declined from USD 602.1 million in 1997/98 to USD 505.1 million in 1999/00. On the other hand, total value of import rose from USD 1254.2 million to USD 1708.9 million. This in turn forced the current account balance to switch from USD 29.6 million surplus in 1997/98 to USD 485.2 million deficit. The source of deterioration on the external balance was associated by and large with the decline in the price of export and hence earning. Between 1997/98 and 1999/00, the loss in export revenue resulting from the fall in price of the aforementioned five export commodities which account for about 92 per cent of export earning is estimated to be USD 202.2 million or about 40 per cent of the 1999/00 foreign exchange earning from export of goods. The fall in the revenue from coffee obviously was the highest, USD 158.7 million or 79 per cent of total lost revenue.
22. Not to mention the increase in the price of import, the fall in export revenue was also reflected on import financing capability of export earning. Between 1997/98 and 1999/00, value ratio of export to import fell from 48 per cent to 30 per cent. Out of this, the decline in export price accounts for more than 12 percentage points. Similarly, the decline in commodity prices accounts for about 47 per cent of the deficit in the current account in 1999/00. The loss in revenue from

weak terms of trade (ToT) was also significantly high as compared to non-export earnings. Thus, the amount of export earning lost due to export price fall in 1999/00 was more than 150 per cent of net external capital (flow) and about 100 per cent of official transfer.

23. **Adverse ToT was further compounded by a decline of ODA flows (commitment) since 1998/99** Thus, the amount of ODA flow (commitment) to Ethiopia fell from USD 1086.2 million in 1997/98 to USD 405.9 million by 1989/00. It is worth noting also that per capita ODA flow to Ethiopia between 1990 and 1997, on average, was just 60 per cent of LDCs average of USD 24.2 per capita. In contrast, the stock of debt to GDP in 1997 was 152 per cent, twice that of LDCs on average, during the same period. In spite of Ethiopia's good economic reform track record, she has secured only modest level of FDI as compared to non-LDC developing economies. In fact this is among the problems of LDCs as a group whose share of direct foreign investment flow to developing countries is only one per cent. This was paralleled by a drop in the aid effort from 0.33 per cent of donors' GNP in 1990 to 0.23 per cent in 1998 at the global level.
24. The aforementioned negative development was further exacerbated by war of aggression and reoccurrence of drought. The impact, particularly was clearly visible on the macro economy in the last two years. Defence expenditure rose induced by the unprovoked aggression of Ethiopia by Eritrea. The severe drought, the sharp decline in the terms of trade due to fall mainly in coffee export prices and the sharp rise in petroleum import price resulted in the deterioration of balance of payment situation all of which combined to produce a slow down in economic growth. The signing of peace agreement has rekindled hope for peace and stability, but the country faces considerable post-conflict emergency rehabilitation, demobilization and reconstruction tasks in addition to the long-term development agenda.

III. Development Challenges

25. Given the positive socio-economic performance in the 1990s, Ethiopia has good reasons to enter the new millenium with hope and strong foundation for accelerated economic growth with social justice. To realize this, however, the development challenges that the country faces are formidable. The level of **per capita income** and the state of **human development** is one of the lowest in the region. Similarly, the structure of the economy represents a typical dual structure. The traditional agricultural sector stood as the mainstay of the economy with high vulnerability to the vagaries of nature. The share of industry has never exceeded 15 per cent of the GDP. Similarly, the structure of export reflects heavy reliance on primary commodity, and high vertical and horizontal concentration which exposes the country to commodity price instability on the world market.

Figure 5: Sectoral Distribution of GDP 1998/99

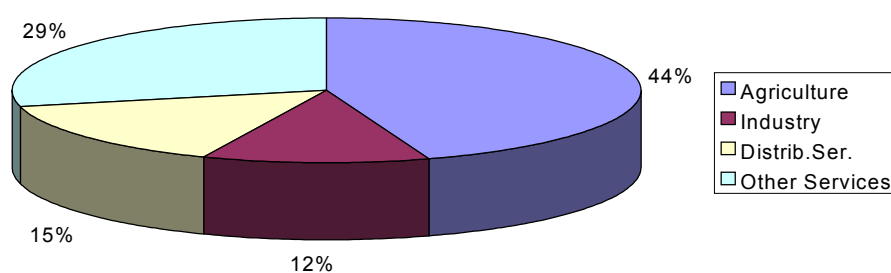
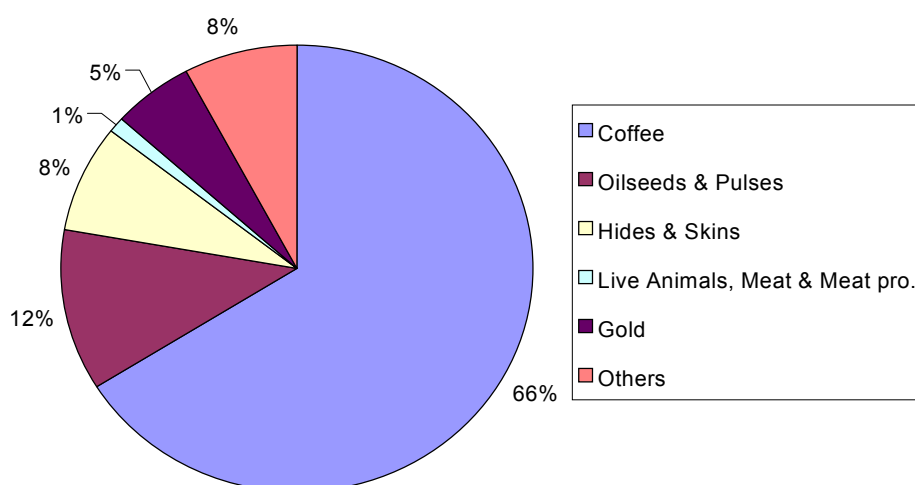


Figure 6: Structure of Export in Value 1998/99

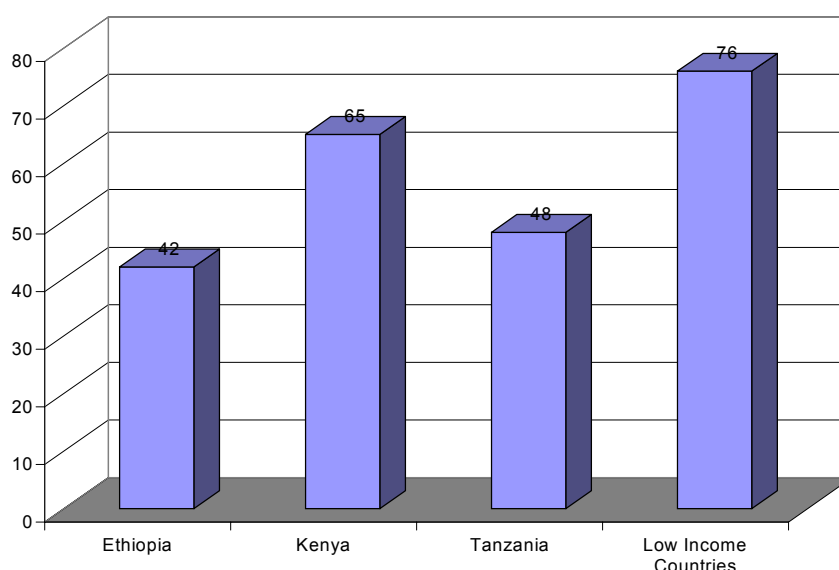


26. As a result, **the incidence of poverty** in Ethiopia remains high with 47 per cent and 33 per cent of the rural and urban population respectively falling below the poverty line. The prevalence of poverty in Ethiopia is associated with low growth and low productivity of subsistence agriculture. Low productivity in turn is associated with very low technical progress. As a result, productivity of labor in this sector remains low - no more than one fifth of the national average. In spite of the fact that impressive progress has been made in the agricultural extension program, the majority of the farmers still await access to new productivity enhancing ideas. This in turn limits their capability for improving productivity hence, hinders economic transformation, and sustainable growth. Moreover, the dependence on rain fed cultivation practice increased the economy's vulnerability to the vagaries of the weather conditions. Obviously, export generated from this sector face the supply side problems constraining competitiveness.
27. One of the serious consequences of the structure of the economy is the problem of **food insecurity**. Data from household and welfare monitoring surveys of 1995/96 shows that half of the population lived

below food poverty line. This number reflects the extent of the problems which the government is making great effort to address urgently through its agriculture and food security programme.

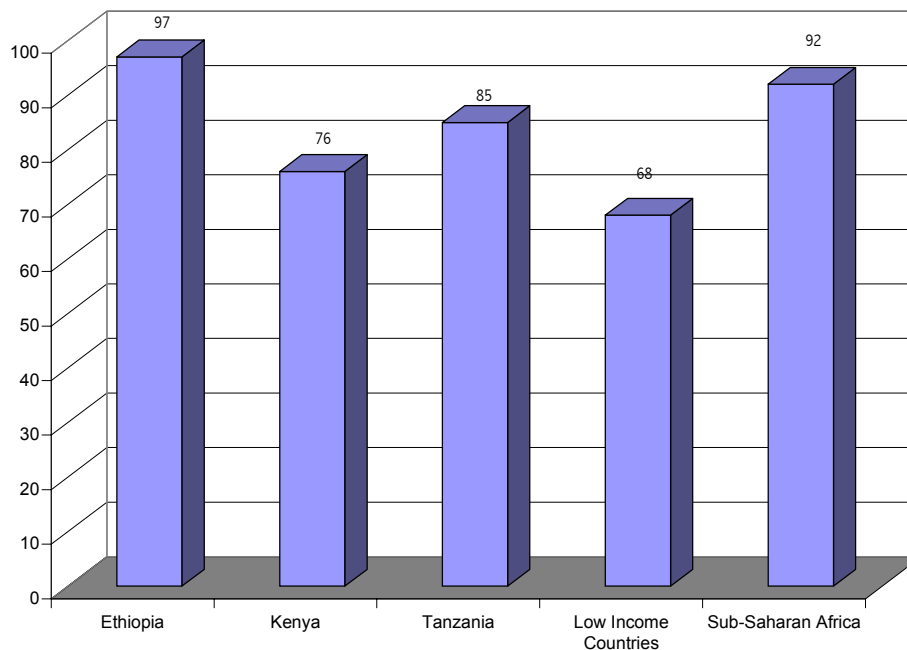
28. With regards to **social development**, although encouraging progress were observed over the 1990's, indicators still show the inadequate availability and accessibility of social services. Among the challenges in this regard include, increasing availability of health facilities, improving the present mal-distribution of existing resources against rural and disadvantaged regions, enhancing access of the poor to health service by improving income and infrastructure, increasing the present poor health awareness on sexually transmitted diseases most importantly of AIDS. Malnutrition is another major challenge undermining health especially among children. In 1995/96, about 44 per cent of 6 - 59 months old children in Ethiopia were believed to be severely stunt. Similarly, access to clean water remains at about 30 per cent of the total population. Access to education in Ethiopia is still the lowest in the region.

Figure 7: Net Primary School Enrollment Ratio of Relevant Age Group 1998



Source: World Development Report 2000/2001, WB 2001.

Figure 8: Infant Mortality Rate Per 1000 Live Birth (1998)



Source: World Development Report 2000/2001, WB 2001.

29. Limited **physical infrastructure** remain one of the weaknesses of the Ethiopian economy. The country's **road network** was among the lowest in Africa with a density of 17.3 km. Per 1000 sq. km. by the beginning of the 1990s. As a result, vast expanse of the country's potentially productive areas lay distant from all-weather roads. Some estimates indicate that about 75 percent of Ethiopian farmers live more than half a day's walk from an all-weather road. With respect to **telecommunication**, despite the significant increase expected with the completion of the 7th Telecommunication Development Program by the year 2002, the telephone density will remain low. Similarly, **the power sector** in Ethiopia is characterized by growing disparity between demand and supply. This has been witnessed during the periods of economic recovery in the past few years and demand is expected to grow fast given the improved policy environment for private investment. Major problems in the sector that impede the delivery of adequate and

reliable services are: high system losses, and slow progress in installing new generation capacity which requires high investment.

30. The Government's effort for development was also constrained by weak **institutional capacity**. One important dimension of institutional problem is the non-existence and/or extreme weakness of markets particularly that of factor markets. The other important dimension of the institutional problem is capacity deficiencies in the public and private sectors, and civil societies. In this regard, the challenge of developing an efficient, transparent and accountable civil service and, a strong judicial, legal, and regulatory capacity is an outstanding task for the country. The presence of weak private sector limited its capacity to efficiently respond to opportunities created in the economy. Among the supply side constraints include, limited size and low skill levels among entrepreneurs, inadequate access to finance and information services, weak physical infrastructure particularly transport and communication. Similarly, the civil society in Ethiopia also lacks the basic skill in organization, communication, financial management, and advocacy to fully realize its potential as partner to government. In this context, the initiative taken to build capacity of public and private sectors needs further strengthening.
31. The major constraints to building the productive capacity of the Ethiopian economy is lack of **adequate finance**. The level of investment in Ethiopia is still very low as compared to other African countries, which had average investment to GDP ratio of 22-25 per cent in the 1990s. So far the resources of private investment by and large comes from local enterprises. Foreign Direct Investment although resumed flowing after the reform, the magnitude remains insignificant.
32. The effort to create conducive domestic policy and institutional environment though encouraging, the extent of participation and the

level of competition achieved by the private sector is limited. Generally **private enterprises** in Ethiopia are still in the rudimentary stage of development because of structural problems. The challenge is multi-dimensional including lack of resource, infrastructure, institutions, skills, and organizational and innovative capabilities for developing Ethiopian enterprises. The problem becomes complex in a liberalized policy environment and increased exposure to global competition. Thus, for Ethiopian enterprises to attain level of competitiveness that are comparable to those of international enterprises, the government has to address the following set of needs (a) information, (b) research and development, (c) financial and infrastructural support service, (d) training and technical assistance, (e) establishing business linkage.

33. Although performance of export in the 90s indicate a sign of recovery from the level recorded at the end of 1980s, **export development** and its economic contribution in Ethiopia is far from satisfactory. Two distinct characteristics can be identified with respect to Ethiopian export trade. These are, the domain of merchandise trade, coming from agriculture and, increased tendency of concentration on single product, coffee. To exploit the static and dynamic comparative advantages of the various sectors, Ethiopia has to diversify its export base and increase the production and export of value-added goods and services. On the domestic front, the major challenge will be enhancing productive capacity and productivity. This in turn requires improving structural constraints including management capability, weak institutional development, low level of technology and lack of technological capacity, inefficient transportation, communication and customs procedures.
34. With respect to demand, promoting and diversifying Ethiopian export face two major challenges; **market access** and **managing commodity market instability**. Market access for Ethiopia export is a serious potential treat given the high concentration on developed markets for

our export. The problem persists both on agri-based traditional exports as well as in areas of future potential such as in textile and leather industries. These products currently being affected by high tariffs, tariff peaks and tariff excavation as well as non tariff barriers including excessive sanitary and phytosanitary requirements.

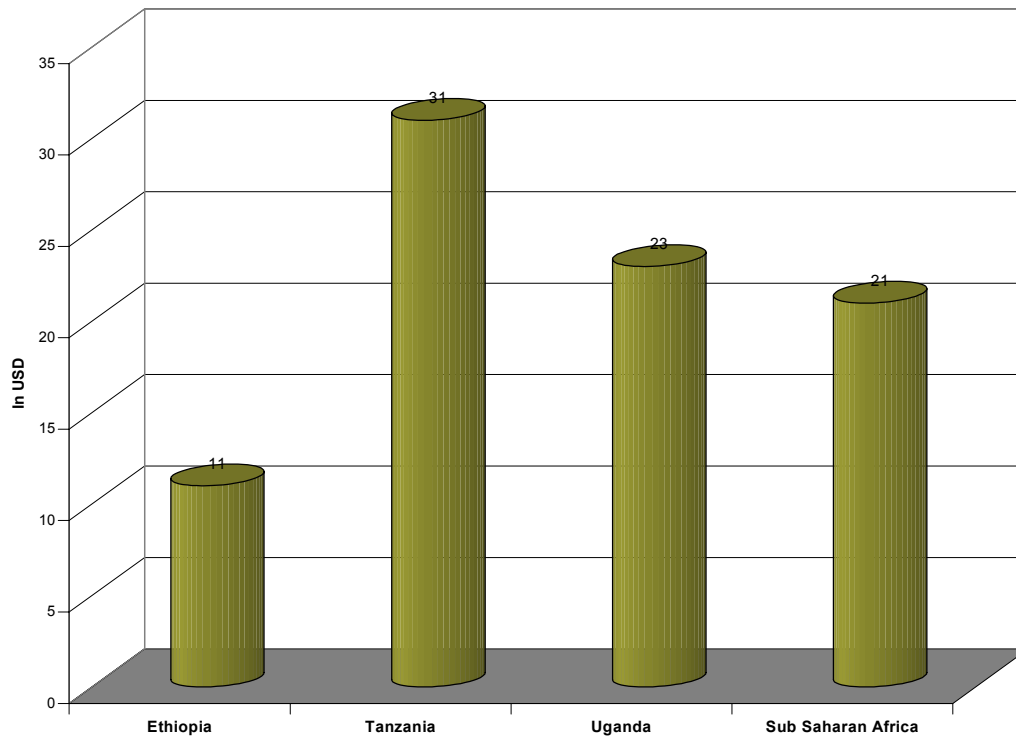
35. The second challenge refers to **volatility and declining prices in commodity markets**. This challenge particularly is important given the low price elasticity of demand nature of major Ethiopian exports such as coffee. The long-run solution still rests on vertical diversification. In the short and medium term, the scope for reducing price fluctuation at the international level has to be addressed. Measures in this regard require an integrated approach involving risk management, insurance scheme as well as buffer stock. In terms of expanding trade, the potential for exploiting economic cooperations such as common market for Eastern and Southern Africa (COMESA), remain a huge task.

36. The magnitude and burden of **external resource leakage in the form of deteriorating ToT, debt servicing and other international payment obligations** is reaching beyond the country's capacity. Particularly, in the face of widespread poverty and resource constrained capital stock, the issue of making globalization work for Ethiopia is a real concern. In 1999/00, total leakage through declined commodity price, debt services and amortization amounts to about Birr 3992 million. Compared to public expenditure on social and economic services, the above resource amounts to about 142 and 139 per cent respectively. In other words, a one year external leakage amounts to about 2 and half years of public expenditure on education and more than 7 years of government expenditure on health. Excluding amortization, the external leakage in 1999/00 amounts to about 138 and 445 per cent of public expenditure on education and health. Under

this adverse external conditions it is difficult to reduce poverty in a significant way.

37. With limited scope for increasing domestic resource mobilization - domestic saving and earnings from export of goods and services in a short period of time, Ethiopia will have to seek **external development finance**. The lesson drawn from the 1990s entails that Ethiopia is among the Least ODA recipient in LDC, have limited access to private investment capital and, currently facing mounting debt burden. At the same time, ODA which is generally considered counter cyclical to private capital tends to be pro- cyclical for Ethiopia in the 1990s following the changing behavior of donors associated with conditional policies and non-economic developments. Thus, for Ethiopia to address the huge task of development and poverty reduction, external environment has to be conducive for additional, stable, counter cyclical, low cost and capacity building funds from debt relief, official development assistance and private flows.

Fig 9 **ODA per Capita in USD 1998**



Source: World Development Report 2000/2001, WB 2001.

38. Besides the structural problems of the economy discussed above, Ethiopia now finds herself in a post-conflict situation created by the unprovoked Eritrean war of aggression against Ethiopia in May 6, 1998. Due to the war, about 364,000 people were displaced from their localities and about 110,000 Ethiopians were deported from Eritrea. Many civilians and militias who were bread winners to their families have lost their lives. Considerable infrastructure, including residential houses, community infrastructure, roads and power were destroyed. This shows that the country faces considerable post-conflict **emergency rehabilitation, demobilization and reconstruction** tasks in addition to the long term development and poverty reduction agenda.

IV. Development Framework and Program of Action (2001 - 2010)

A. Development Strategy, Policy and Institutional Framework

39. The formulation of this country development framework for Ethiopia is taking place in the midst of the design and implementation of Interim Poverty Reduction Strategy (IPRSP) and Poverty Reduction Growth Faculty (PRGF). Equally important, the context in which this program is being initiated also has to do with the prospect and challenges we are facing in promoting development in an increasingly globalized environment. It is also conceived at a time when the international community converges to take fresh initiative for the reduction of poverty in LDCs, in the spirit of shared responsibility and partnership.
40. In this context, this program rests upon the following principles. (a) sustain the progress made in restoring stable socio-economic and political environment in the country; (b) strengthen the effort in creating conducive environment for economic agents to take initiatives; (c) re-assert the government's commitment in addressing the structural problems of the economy; (d) re- confirm the government's commitment to ensure food security and for the eradication of poverty.
41. Thus, broad based development and reducing poverty in Ethiopia rests **upon four pillars; on employment generation and rural development; on coherent and consistent macro and structural policies for the promotion of economic efficiency and growth; on the setting up of conducive institutional environment for good governance and empowerment, and on institutional and productive capacity building.**
42. **The first pillar in the Ethiopian context fits into the ADLI strategy.** The choice of ADLI strategy as a development framework for Ethiopia

was a necessary step to reduce poverty, promote industrialization and insure a dynamic and self-sustaining growth. Thus, for the coming decade, the government will continue to place strong emphasis on the development of rural areas because of their higher incidence of poverty and continued high potential for growth with their abundant under-employed factor endowment. At the same time, ADLI strategy facilitates industrialization and hence economic transformation as it creates the necessary environment for the enhancement of intra and inter-sectoral linkages. In this context, two important aspects of the strategy become important. First, with ADLI, the role of agriculture will move from the present subsistence state to a vehicle for industrialization by providing market bases for industrial goods. Second, the emphasis on export as an engine of growth within ADLI, re-inforce the process of industrialization by strengthening export-investment nexus in a competitive environment.

43. For Ethiopia, **insuring food security** stands as the most pressing agenda for the coming decade. To this effect, ADLI plays crucial role in moving from relief to long term food security. The exit strategy from food aid therefore, shall aim at reducing food insecurity in rural areas while increasing financial transfer to support residual food deficit households. Under ADLI strategy, the prospect for addressing food security at household level requires increasing production and productivity while at the same time reduces the vulnerability of the sector to the vagaries of the weather. Accordingly, the on-going agriculture extension program shall be strengthened in scope and coverage. At the same time, the implementation of cost-effective irrigation scheme and voluntary resettlement from drought prone and from the highly populated highland areas will be pursued.
44. Until such time to come however, Ethiopia will continue receiving food aid in the form of budgetary support which will be used to procure food locally. Such an approach is useful in that it will provide market

support to farmers as well as help to maintain macroeconomic stability. Furthermore, the existing emergency capability shall be strengthened and the practice of using food aid for environmental protection, afforestation and soil and water conservation shall be intensified.

45. Beyond food security, sustaining the increase in poor farmers' household income under this strategy entails improved access to productive inputs and socioeconomic services. Sustaining the initial take-off in the rural economy, in turn rests upon the resumption of the envisaged process of industrialization. In this context, economic transformation through such process under ADLI rests upon two conditions. These are increased commercialization and mechanization of agriculture on one hand and the creation of conducive business environment for private sector to take development initiative on the other. Within the agricultural sector, getting out of subsistence farming requires increased market interaction on the part of farmers to the envisaged supply response. In this regard, the on- going effort to expand rural infrastructure most importantly, the Implementation of the Rural Road Development program becomes crucial. On the supply side, the ongoing agricultural research and extension program shall be further intensified to reach all farmers, and its scope shall be broadened to include pastoralists. Moreover, the development of rural institutions such as service cooperatives will be given due attention so as to facilitate the integration of the rural economy into the modern exchange system.
46. **The second pillar: promotion of economic efficiency and growth,** entails, continuing implementation of the economic reform program launched at the turn of the 90s. Specifically, under this program, sustaining the existing stable macroeconomic environment and deepening the on- going structural reform will be the agenda. These measures are consistent with the Government's effort for the development of market economy through the promotion of private

sector in commercial farming as well as in the non-agricultural sector. To this effect, the government shall focus on, improving the effectiveness of existing policies, removing impediments, and enhancing implementation capabilities. Among the programs already under implementation includes civil service reform and institutionalization of public- private dialogue. The development of markets will also continue to be the concern of the government under this program period so as to enhance exchange efficiency and flexibility.

47. Sustaining **stable macroeconomic environment** requires maintaining prudent demand management, supplemented by supply side measures aimed at enhancing efficiency and availability of resource. In this regard, fiscal and monetary policies shall be managed in such a way that adequate revenue shall be made available for the development of socio-economic infrastructure, while minimizing the practice of crowding out of the private sector. On the fiscal front, measures will be taken to broaden the tax base and enhance collection efficiency, while sustaining the progress made in reorienting public expenditure for the development of productive capacity. Moreover, measures to broaden and deepen the existing money market shall be given due emphasis. At the same time the effort to build a competitive and efficient financial system will continue through building institutional capabilities to strengthen the regulatory and supervisory capabilities of the monetary authority and the capacity of commercial banks in risk analysis.

48. **The Third pillar for reducing poverty in Ethiopia rests upon effective public service and Institutional development:** Two broad areas of reform can be identified; a) Judiciary and Civil Service Reform; and, b) decentralization and empowerment. One of the areas where Ethiopia introduced fundamental reforms was instituting good governance for a transparent, independent, and efficient judiciary system. To this effect, Ethiopia will continue to improve governance

and institutions through consolidation of the rule of law and institutional strengthening, greater transparency and efficiency in the civil service. The objective in this regard includes, strengthening enforcement of contracts and property right, and reducing transaction cost and non-commercial risk. As per the Civil Service Reform program introduced recently, the government will focus on five areas including, public expenditure management and control; human resource management, improve service delivery, top management system, and ethics in the civil service.

49. From the outset, the Government recognized the significance of participatory approach for promoting development. Thus, to promote democracy and to facilitate the task of addressing the vast economic and social problems, measures were taken towards **devolution of decision-making power and responsibilities to regional and lower levels of government**. This facilitates and brings government closer to the people and empowers them to make faster decisions that are more in line with local needs. Measures have been taken for restructuring government administration and empowering and strengthening regional administrative organs in managing their own affairs. As part of the participatory approach to development, fiscal decentralization was effected vigorously with regional states currently undertaking close to 50 per cent of government expenditure. Consolidation and deepening the process of decentralization and empowerment will continue to ensure maximum participation of the public in effecting socio-economic transformation of Ethiopia.

50. Equally important, **mainstreaming women in the development process in Ethiopia** was brought in focus with the adoption of National policy on the Ethiopian Women in 1993. The National Population Policy, Education, Health, Social Welfare, Environmental and Water Resource Management Policies further reinforced the empowerment of women. The Government's commitment to the cause of women was

consolidated through the Ethiopian constitution which lays the legal and political basis for ensuring their rights. This interfaces well with provisions of conventions and declarations by the UN and other international organizations about women. In the subsequent years, the government will continue to strengthen the process that began to mainstream gender in all spheres of development agenda. In line with the National Policy and the Beijing Platform for Action, a strategic framework for promoting gender issues was developed and agreed upon between government, community organizations and NGOs. This will guide future actions.

51. **Population** is another area in which the government will play an active role. Ethiopia has adopted a Population Policy whose objective is to maintain balance between the size of the population and the country's resource base. Towards this goal, the strategy will focus on addressing the root cause of high population growth rate - high fertility rates, which in turn is caused by low education status of women and high infant and child mortality rates. Thus, main contributor to a reduction in the population growth rate will be an increase in girls education as envisaged in the education sector programme as well as an increase in the level of mother and child health care provision including family planning services.

52. **The fourth Pillar for broad based development and effective poverty reduction in Ethiopia is capacity building.** In a broader context, building a sustainable capacity includes human resources development, creating and strengthening institution and putting in place an effective working methods or practices. This capacity building will cover small holder farmers, public and private sectors. Farmers capacity building activities comprise training of farmers, strengthening farmers cooperative societies, micro-financing institutions and support to public and private sectors organizations engaged in agricultural development. Capacity building in the public sector will focus on

implementing justice and civil service reform from which the private sector is bound to draw benefits. In addition, measures to establish industrial training institutions, strengthening the development of the financial sector, chambers of commerce and industrial associations will no doubt positively impact on the capacity of the private sector.

53. In 1998 Ethiopia designed a Strategy for Capacity Building and Program framework. The implementation of this program will thus be the major concern during the coming years. The impact of the program will be felt across institutions and economic sectors filling critical capacity gaps to effect ADLI and accompanying institutional reforms.
54. One of the critical elements in Ethiopia's capacity building programme worth mentioning is **the development of science and technology support institutions** that will facilitate acquisition, utilization, absorption and domestic generation of technology. The National Science and Technology Policy was issued in 1993. Its main objective is "to build national capacity to generate, select, import, develop, disseminate and apply . . . technologies for the realization of the country's socio-economic objectives." According to the policy, elements that require capacity building include, research and development, technology transfer and application, engineering design and consultancy; technology adoption; science and technology (S&T) manpower training, establish and/or strengthen S&T institutions, R&D centers and support services. Enhancing access and utilization of information technology in an increasingly globalized environment will be given due emphasis for successful development of Ethiopian enterprises.
55. Taken together the four pillars reinforce each other to create a sound basis for enhanced implementation of ADLI. Decentralization and empowerment, judicial and civil service reform and capacity development will positively impact on effectiveness of public service

and institutional development. This will, in turn, make public and private sector institutions efficient and effective - thereby enhancing the implementation of ADLI. They provide context and supportive environment for the implementation of sector development programs and projects discussed in the subsequent sections.

B. National Development Vision and Target for 2010

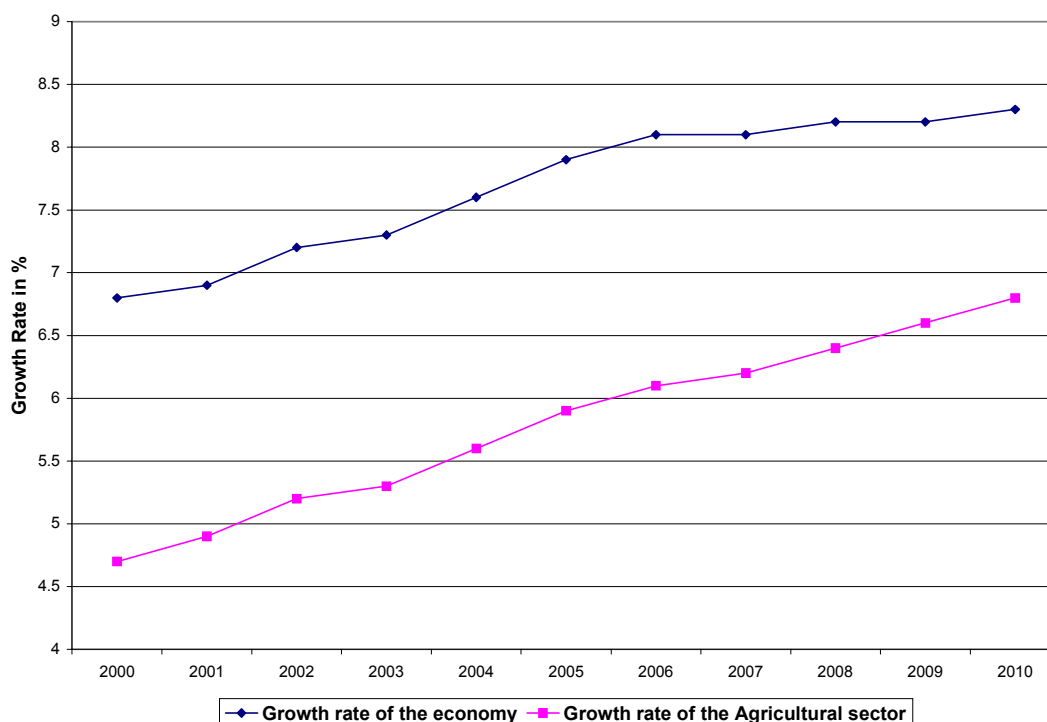
56. As discussed earlier, Ethiopia's long term development objective is to enhance the welfare of the people. In this context, for Ethiopia, the present development challenge and agenda for the decade, therefore, will continue to be broad based economic growth and poverty reduction. This program, therefore, intends to strengthen and deepen the development process so far undertaking to transform the socio-economic structure of Ethiopia. Accordingly, the following human poverty reduction targets are envisaged as realistic and achievable targets by the end of the program period i.e. 2010.

Table 1: Ethiopia: Selected Development Targets for 2010

Development Objective	Current Situation in Ethiopia	Target for 2010
1. Sustain High Growth (GDP, real, annual average)	Annual Average 92/3-97/8 = 5.8%	Annual Average 2001-10 = 7.6%
2. Per Capita Income Growth	Annual Average 92/3-97/8 = 2.8%	Annual Average 2001-10 = 4.0%
3. Reduce Extreme Poverty	Poverty head count (P_o) = 45.5%	P_o = 27.2%
4. Food Insecurity	Food Poverty (FP) = 50%	FP = 15%
5. Improve Health Service		
– Reduce Infant Mortality Rate (IMR)	IMR = 97/1000	IMR = 63/1000
– Reduce under five Child Mortality Rate (CMR)	CMR = 167/1000	CMR = 63/1000
– Reduce Maternal Morality Rate (MMR)	MMR = 705/100000	MMR = 380/100000
– Improve Access to Health Service (AHS)	AHS = 51%	AHS = 74%
– Increase Child Immunization (CI)	CI = 60%	CI = 90%
6. Improve Education Service		
– Increase Gross Enrollment Ratio (Primary) (GERP)	GERP = 45.8%	GERP = 84%
– Reduce gender gap by reducing Ratio of Girls to Boys Students (RGB)	RGB = 37.8%	RGB = 78%
7. Increase Access to Clean Water Supply	Proportion of Population with Access to Clean Water (National) (PPACWN) = 30%	PPACWN = 70%
8. Expand Road Network	Road Density (RD) = 28/1000 km ²	RD = 38/1000 km ²

57. For Ethiopia to reduce extreme poverty, as per the target set above, high and sustained economic growth is the most important strategy. However, high aggregate growth alone can not be sufficient enough to reduce poverty and hence break the vicious - spiral process of underdevelopment that persisted for decades. Therefore, the pattern of growth has to be broad-based with an underlying structural transformation. Thus, for average income to improve as per the target, a sustainable economic growth of at least 7.6 per cent per annum in real terms is envisaged over the program period. Broad-based growth in the Ethiopian context entails agriculture led growth. Accordingly, the rate of growth of agriculture, the mainstay of the economy, is expected to be at least 5 per cent per annum on the average.

Fig. 10 **Ethiopia: Projection of Economic Growth and Growth in Agricultural Sector 2001 - 2010**



58. The envisaged agriculture led growth therefore shall trigger structural change of the economy. Thus, by the end of the decade, the share of agricultural value added from total GDP will come down to less than 40 per cent, while that of industry and services will increase to about 20 and 42 per cent, respectively. Equally important, effort to promote and diversify export shall be reflected on increased internationally traded component of GDP and qualitative change in the structure of export in favor of non- traditional and value added export.

59. Moreover, the country shall also build adequate capacity to withstand external shocks thereby reducing vulnerability to adverse shocks and promoting self-sufficiency in strategic output. Most importantly, within the program period, Ethiopia shall make qualitative change in terms of food availability by moving from food aid dependency to long term food -sufficiency. To attain the above targets the following development

programms and projects will be implemented in the key priority sectors of the economy.

C. Development Programs and Projects

a. Emergency Rehabilitation and Reconstruction Programme

60. In order to mitigate the impact of Ethio-Eritrean war, the government of Ethiopia has prepared two emergency programmes (I) Rehabilitation and Reconstruction, (ii) Demobilization and Reintegration Programme. The major objective of the Rehabilitation and Reconstruction programme is to help the war affected civilian to rebuild their lives and to reconstruct and rehabilitate destroyed and damaged infrastructure. On the other hand, the objective of demobilization and reintegration programme is to release resources for development by reducing military spending. In this programme significant number of war veterans will be demobilized and reintegrated into the society in two phases.

b. Sectoral Development Programmes and Projects

1. Agriculture and Rural Development

1.1 Agriculture and Food Security

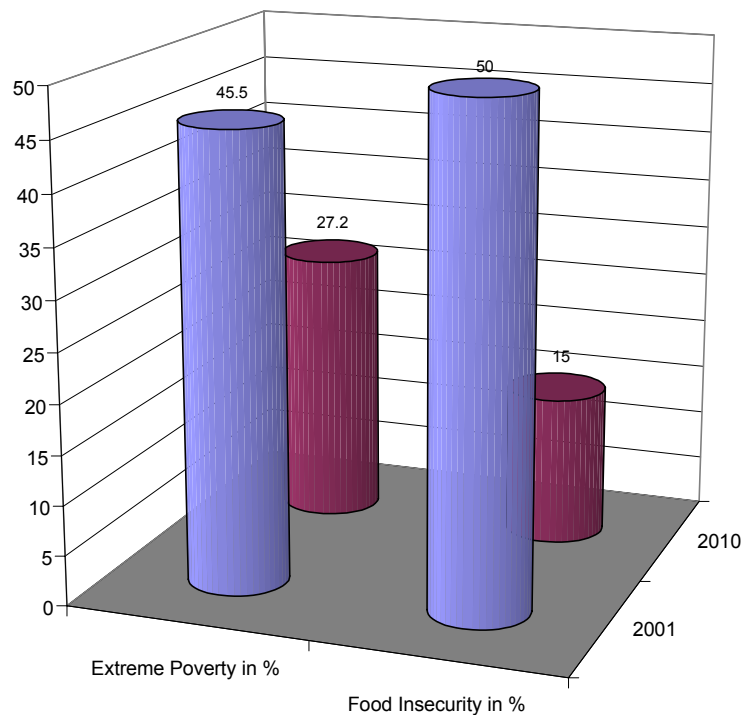
61. Within ADLI, agriculture sector development aims at (a) realizing national food self sufficiency, (b) ensuring food security at household level, (c) sustained improvement in the standard of living of the rural population, (d) effectively serving as an engine for industrialization (e) contribute for increased availability of foreign exchange, and, (f) contribute for the conservation and development of natural resources. To this effect, priority shall be given to the strengthening of the on-going agricultural extension programme, improving and developing the rural marketing system, taking measures to ensure food security at household level, and capacity building for effective implementation of

the programs. The scope of the programs is envisaged to be broad, covering all agro-ecological zones and associated agricultural practices.

62. The experience with the **new extension program** has clearly demonstrated that appropriate and simple productivity enhancing technological packages have a strong potential to achieve the objectives outlined above. So far this package has been administered in areas of better potential and adequate rainfall. As indicated earlier, the result obtained has been considerable in these areas with the diffusion of fertilizers, improved seeds and the provision of credit. Intensifying the new extension program therefore will be among the priority agenda of the future. In currently covered areas, efforts will be made to further encompass all farmers, reaching 98 per cent before the end of the program period. As a result, average yield for major food crops will increase from the present 15.8 quintals/hectare to about 20 quintals/hectare.
63. For **pastoralists**, the extension package shall aim at improving the productivity of the livestock population by upgrading the composition of herd, veterinary services and improving the availability of animal feed and water. Irrigation will be developed and strong marketing system will be introduced to enhance the economic benefits. This process in the long run envisages a gradual transformation in their life style from nomadic to settled life. Available and viable technological opportunities that are appropriate and sustainable will be exploited to effect the transformation of the pastoral economy.
64. **In moisture stress areas** where rainfall is limited, variable and unevenly distributed, food security program has been worked out by regions and is under implementation. These areas are drought prone and food insecurity is high. The food security programme is designed to address entitlement or access to food for the population living in

these food deficit areas to insure food security. The effort that began to introduce suitable technology package for moisture - deficit areas will be strengthened and expanded to make use of opportunities to increase crop production. Particular attention will be given to livestock resource development. Activities will also continue to expand irrigation and to introduce farming techniques that help retention of water. The government will continue to encourage natural resource conservation, afforestation, and soil conservation practices through such programs as food for work. Moreover, expansion of non-agricultural activities in these areas will be encouraged to augment rural employment and income. Further, voluntary resettlement will be carried out accompanied by provision of basic social services in the envisaged resettlement areas. Here again dry land agriculture viable technological opportunities that are appropriate and sustainable will be used to effectively address the problems of drought prone areas.

Fig 11: Ethiopia: Poverty Reduction and Food Security Targets 2010



65. For effective transformation of small holder farming system, the development of marketing system for consumer goods, agricultural inputs and outputs becomes essential. In this regard, the development of rural institutions such as service cooperatives will be given due emphasis. Moreover, the capacity of public institutions involved in execution of agricultural development program and those expected to contribute indirectly will be enhanced. Capacity building in the context of agricultural sector development in Ethiopia encompasses broad spectrum of institutions and individual households so as to ensure effective service delivery, absorption capacity and sustained development and diffusion of improved technology. Therefore, in the coming decade, the government will make effort to build the institutional, legal, infrastructural and human capacity of the rural economy. In this regard, construction of rural roads and small irrigation schemes, agricultural research and training will be undertaken to set in motion the process of agricultural transformation and reduce vulnerability to exogenous shocks. Strengthening such rural institutions as micro-finances and storage facilities will also improve farmers' access to markets and services in the face of the weakness of urban centered and strictly market based services to meet the aspirations of rural communities.
66. The **livestock sub-sector** has substantial contribution to the national economy. The sub-sector accounts for 15 per cent of the GDP and 30 per cent of the agricultural output. Livestock resource ranks 2nd to coffee in terms of foreign exchange earnings. Nearly all of the grain production depends on animal draft power with significant contribution to food security. In spite of these facts, efforts made in the past to develop the sub-sector are not adequate enough.

67. There is a potential to develop a viable livestock industry and increase domestic production to meet the market demand for export, domestic industries and food security. Thus, comprehensive and integrated programs will be introduced to improve situation in the sphere of feed, breeding, health care and cost-effective management. Moreover, the development of links between rural producers and urban consumers through improved transport, storage and distribution network for livestock and livestock products are important for the years to come.
68. The possibility for the improvement of the genetic potential of the indigenous livestock for the development of milk and meat industries is an area where future private and small holder interest will be growing. Similarly, there are wide opportunities for the development of extensive and backyard poultry. In general, enhancement of development in the area of animal health, breed, feed and marketing will be given due consideration.

1.2 Disaster, Prevention and Preparedness

69. The Government has already formulated and implementing its National Disaster Prevention and Preparedness Policy. The country has already a credible and strong early warning system in place. Food security reserve established has already shown its worth in facilitating timely response to drought emergencies. The Government will continue to strengthen its disaster prevention and preparedness capabilities. Accordingly, the following programs make up the country's disaster prevention and preparedness activities during the period 2001-2010; a) strengthening early warning and management information system; b) strengthening emergency food, non-food and other reserves management; c) enhancing logistical capability so as to deliver relief items to disaster victims in an effective and timely manner, d) improving the effectiveness of relief assistance to disaster-affected

population through Employment Generating Schemes (EGS) and Gratuitous Relief (GR) programs.

1.3 Environment

70. The main trust in realizing food security and sufficiency objectives rests up on improved natural resource management. In this regard, Ethiopia adopted an Environmental Policy and a Conservation Strategy in 1997. Broadly, the overall policy goal is to improve and enhance the health and quality of life of all Ethiopians and to promote sustainable social and economic development through the sound management and use of natural, man-made and cultural resources and the environment as a whole so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. This in turn requires ensuring that essential ecological processes and life support systems are sustained, bio-diversity is preserved, and renewable natural resources are used in such a way that their regenerative and productive capabilities are maintained and where possible enhanced so that the satisfaction of the needs of future generations is not compromised. Where this capability is already impaired to seek through appropriate interventions to restore that capability. Moreover, the strategy seeks to ensure that the benefits from the exploitation of non-renewable resources are extended as far into the future can be managed, and minimize the negative impacts of their exploitation on the use and management of other natural resources and the environment.

71. To this effect, this programme will give priority to measures including, identifying and developing natural resources that are currently underutilized, finding new technologies, and/or intensifying existing use of those which are not widely applied; strengthening existing efforts of soil and water conservation, afforestation and water shade management; Improving the environment of human settlements to

satisfy the physical, social, economic, cultural and other needs of their inhabitants on a sustainable bases; and by raising public awareness promote understanding of the essential linkages between environment and development.

2. Developing Human Capital

2.1 Education and Training

72. Education and training stand among the key strategic programs to realize the objectives of ADLI. Expanding basic education and skill is crucial for improving productivity and reducing poverty in the rural area while putting the economy in a dynamic and sustainable growth path depends upon the availability of highly skilled professionals. In the first case, accelerating the implementation of the Education Sector Development Program is crucial. Moreover, provision of less formal education to upgrade small producers to enhance their capability to adopt new technology is important. In the latter case, focus on the development of tertiary education becomes necessary.

73. With respect to basic education, notable progress as per the target set under human poverty has to be made by the end of this program to reach the ultimate goal of universal education by 2015. Thus, in the coming decade, the number of primary schools will increase from the present level of 11490 to 16500. As a result primary school enrollment ratio will reach 84 per cent and ratio of girls to boys will also reach 78.5 per cent. Major areas of intervention includes, (a) Improving educational quality and expanding access to education with special emphasis on primary education in rural and under served areas, as well as the promotion of education for girls, (b) Upgrading the existing schools and building new ones that can accommodate more pupils, (c) improving the quality and efficiency of education in general and primary and secondary schools in particular by improving the standard of schools and upgrading the skill as well as the professional competence

of teachers at all levels, (d) improving access to educational opportunity by adopting a system of eight years of school for all thereby helping families afford schooling and encouraging communities to educate girls and to delay marriage, and (e) strengthening the capacity of regions to implement the ESD program.

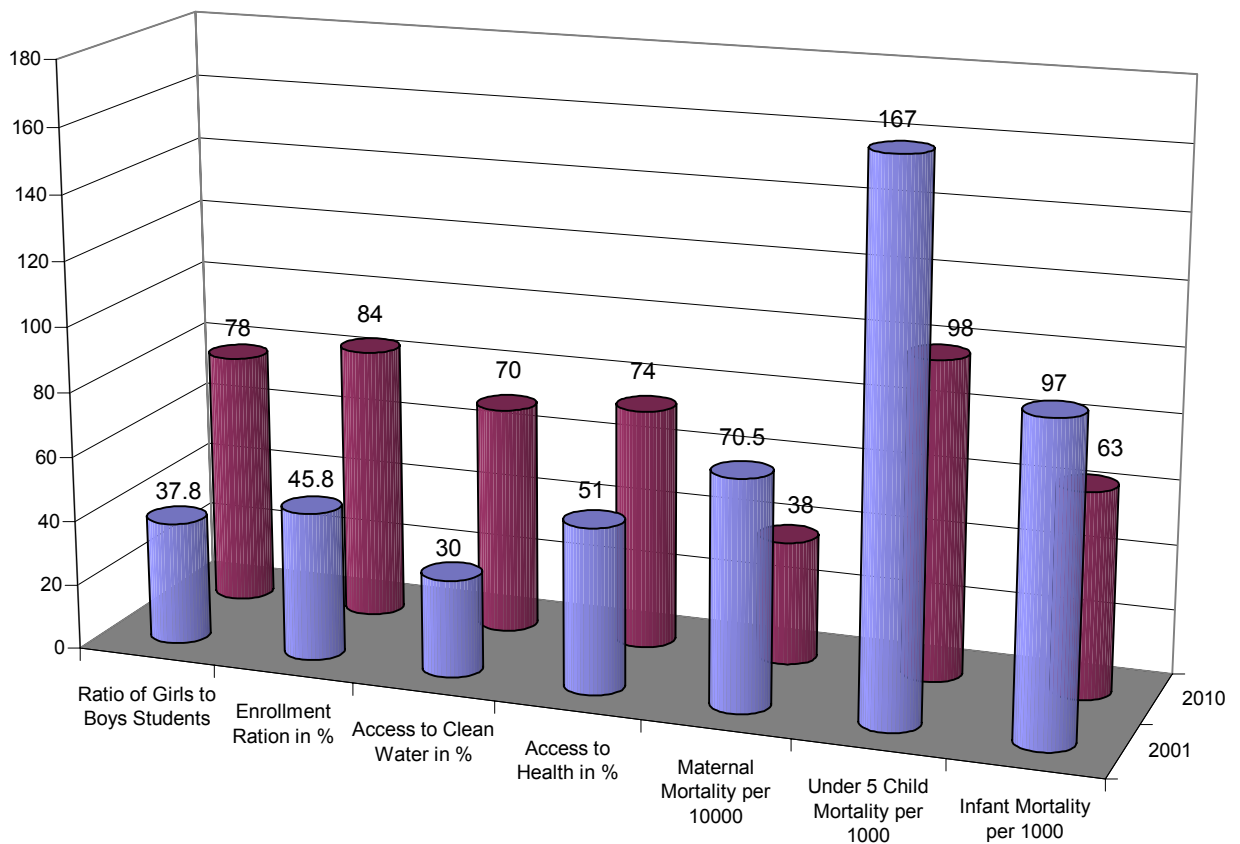
74. The other major concern of Ethiopia is improving the productivity of human capital and its utilization. The introduction of the new education system clearly demonstrate the commitment to produce productive labour force. This programme however requires building and strengthening the national capacity (a) technical vocational training and (b) territory education and research to meet the need for skilled manpower need of the growing economy.

75. In the areas of Technical and Vocational Education and Training (TVET) system, the Government has reviewed the ways and means of expanding and revamping the quality and coverage of TVET and resulted in the preparation of a TVET development program. Accordingly, the government has set the following directions:- to offer TVET mainly after grade 8 and grade 10, which are completion stages of primary education and general secondary education respectively; to give broad based and diversified training relevant to the socio-economic development plans of the country; to give emphasis to agriculture and align vocational training with the aim of agricultural development and rural transformation, and to improve TVET teacher education. In the subsequent years, TVET shall focus on strengthening and expanding existing training centers, building institutions to accommodate increasing number of new entrants and training of trainers, developing curriculum and a flexible system of education to address the need of the economy. The program is going to be implemented by both public and private sector.

2.2 Health

76. Improving the health situation of Ethiopians will remain a challenge to be faced by the government in the coming decade. Ethiopia adopted and started implementing a Health Sector Development Program (HSDP) with a goal of universal primary health care for all by 2015. To this effect, the focus of HSDP is on reproductive health care, treatment and control of basic infectious diseases (like upper respiratory infection), control of epidemic diseases (especially malaria), immunization and control of sexually transmitted diseases (particularly AIDS).
77. In line with this goal and consistent with the target set for the decade; access to health service will increase from the present 51 per cent to 74 per cent by 2010. Similarly, child immunization will increase from 60 per cent to 90 per cent. To this end, the following activities will receive due attention over the coming years (a) Improving the performance of the health system through assuring accessibility of health care for all segment of the population; (b) developing the preventive and promotive components of health care; (c) strengthening capacity for health sector planning and provisions through developing appropriate capacity of both health professionals and health administrators; (d) ensuring the financial sustainability of the health service through developing an equitable and acceptable standard of health service; (e) promoting attitudes and practices that enable to strengthen self reliance in health development through mobilizing and maximum utilization of internal and external resources; and; (f) promoting the participation of the private sector and NGOs in health care provision.

Fig 12 Ethiopia: Social Development Targets 2010



2.3 HIV/ AIDS

78. HIV/AIDS has increasingly become an area of concern. Realizing the fact that HIV/AIDS is not only a health problem but also a development problem and aware of the need for a concerted multi-sectoral effort in controlling HIV/AIDS epidemic, the government adopted an HIV/AIDS Policy in 1998. Since then an institutional framework - National HIV/AIDS Council with a secretariat and members drawn from cross section of society has been put in place. An HIV/AIDS Strategic Framework has also been designed to guide activities. The overall objectives is to reduce the transmission of HIV infection, associated

morbidity, mortality and impact to the individual, family and the society at large.

2.4 Urban Development and Housing

79. In Ethiopia, the level of urbanization grew from 3% in 1940 to 13% in 1994; and it is projected to reach 17.2% by the year 2010. Such level of urbanization has created a very strong demand for housing and basic infrastructures which could not be met under current condition. Increasing cost of construction; lack of access to finance; low saving capacity of the people to finance housing; and limited capacity of the private sector and the government to expand infrastructure are among the serious problems related to urban housing and infrastructure development. Housing supply in urban centers of Ethiopia lags behind demand and housing is one of the chronic problems of the country. Similarly, urban infrastructure is not commensurate with the population size of urban areas. Availability of basic services like drinking water, power and energy, toilet facilities, garbage/waste disposal and roads and transport infrastructures are considered as a key components of urban issues.

80. The current decentralized system of governance, of the country, has empowered urban governments to systematically exert their efforts towards service delivery based on the needs and priorities of their respective regions and localities. In order to address the major urban problems and narrow the prevailing gaps between the demand and supply the government has developed the following future actions and strategies.

81. With regard to the creation of favorable environment for sustainable urban development management:- the preparation of a strategy framework defining the overall urban system and urban centers functions; creation of an institutional legal and regulatory framework;

establishment of an efficient revenue base and administration at different levels; and improvement of the technical and human resource capacity of the overall urban sector institutions are considered in this framework.

82. Similarly, urban planning for achieving a systematic and healthy urban development practices; preparation of various types of plans by analyzing development priorities; improvement of efficient urban land use management practices that are using cadastral and land information systems are taken as major actions. The development of urban information system; and promotion of information exchange and utilization in urban management; strengthening the participation of all stakeholders in the urban development effort; and promotion of coordinated actions are another important issues to be addressed in the coming years.

83. Basic infrastructures and services, are also additional aspects of the urban development issues to be addressed in this development framework. These are water supply, sewerage, solid waste disposal, electricity, telephone etc. The creation of conditions for cost recovery; study and determination of alternative means of service delivery; and building the capacity and resource mobilization based on the capacities of the inhabitants are part of the framework. Moreover organizing market stalls, abattoirs, fire brigades, public toilets, parks etc. are considered in the future action plans. The environmental protection aspect of UDAP involves, purification of polluted water from industries and cattle rearing establishments, construction of facilities in various places, and creation of public awareness about sanitation. Moreover, developing sewage lines, solid waste disposal systems and other means of discarding polluted materials are another important aspects of the development framework.

84. In Ethiopia the development of housing sector is believed to be one of the strategic areas to address the problem of poverty and growth in both urban and rural areas. On one hand, construction of housing creates job opportunity for a large number of people of various skill level and through which they drive their livelihood. Second, improving access to housing, in terms of both quality and quantity entails progress in the well being of our society. Third, construction of housing is believed to contributing for increased stock of physical asset at individual as well as national level. Fourth, with increasing urbanization, housing is emerging as major business line for those who are involved in real-estate development and as capital to access financial resource for investment.

3. Infrastructure Development

3.1 Construction

85. The general state of the construction industry in Ethiopia is characterized by low capacity which could not handle large scale construction demands such as road works. The government has taken a number of measures to stimulate the performance of the domestic construction industry. Some of these are: encouraging private investors to establish construction firms and participate in all areas of construction activities; reorganizing the state owned construction companies as independent enterprises and preparing them for subsequent privatization; decentralizing the rural road construction and maintenance responsibilities to regional governments; assisting the private contractors by awarding various rural road projects and arranging credit facilities to purchase state owned construction equipment.

86. During the program period, a number of interventions are envisaged to properly address the issues and problems of the construction industry.

Some of them are; allowing construction equipment as a collateral for borrowing from banks, encouraging the establishment of equipment rental and leasing firms, capital base enhancement, human resource development and other capacity building measures.

3.2 Road Transport

87. The Road Sector Development Program (RSDP) is expected to play strategic role in the development process of the country in that it impacts almost all socio-economic activities including the effectiveness of other strategic programs such as the extension program, food security, provision of basic services, etc. Particularly farmer productivity and their integration into markets, export development and competitiveness, and private sector development at large hinges upon having well functioning roads. Currently the five year RSDP (1997 - 2002) is under implementation. It is the first phase of a ten-year road development programme covering the years up to 2007.

88. Based on the RSDP and taking into account the recent rate of program implementation, total expansion of the road network between the years 2001 - 2010 is expected to reach 13,600 km. In addition to the existing network, 800 km of trunk roads, 2300 km of major link roads and 10,500 kms of rural roads is expected to be constructed under the program. This implies a raise in the average road density of the network to 38 km/per 1000 km². The program also envisages rehabilitation of 9,500 km of roads (i.e. 2000 km of trunk roads and 7,500 km of rural roads) and upgrading some 4000 km of roads (equally shared between trunk and rural roads). Major rehabilitation works are particularly expected to solve substantially the poor condition of roads prevailing currently.

89. Apart from the high standard roads covered under the RSDP, the construction of low level rural roads will also be a major focus area in

the coming decade. For this purpose a Rural Travel and Transport Program (RTTP) has been launched in 1999 which envisaged the construction of 95,724 km of low level rural roads by the end of 2010. The major objective of the RTTP will be to improve access to motorable track, thereby enhancing access to socio-economic facilities, facilitation and promotion of income generating opportunities and poverty reducing development activities in rural areas. The successful implementation of these road sector programs is expected to benefit from the several policy initiatives that are geared towards creating strong and efficient road sector.

3.3 Communication

90. Major development activities have been undertaken to expand and improve telecommunication services in Ethiopia. Specifically, it has been managed to increase the proportion of telephone lines served by digital exchange centers from 39 per cent in 1993/94 to about 52 per cent in 1998/99. Internet and mobile telephone services have also been introduced. Nevertheless, the issue of low coverage remains one of the challenges of this sector.

91. As per the sector development program which runs up to 2004/5, the following sectoral targets are expected to be met (a) to provide telephone services to 238 hitherto unconnected rural towns. This makes up about 65 per cent of the number of currently unconnected rural towns; (b) increase the share of lines connected to digital automatic exchanges to 100 per cent from 64 per cent in 1999/2000 (c) increase the number of direct telephone lines from an estimated 249 thousand in 1999/2000 to 1.1 million in 2004/5 (d) increase the penetration of Internet and mobile telephone services by 14 and 5 fold respectively during the program period. In the second half of the program additional 120 rural towns will have access to telecommunication services.

3.4 Power

92. Although Ethiopia stands among the leading countries with substantial hydropower potential, less than 1% of this potential is known to have been utilized so far. Similarly, in terms of power distribution and consumption, Ethiopia stood among the least with a total installed capacity of about 400 MW. As a result, until recently only 450 rural towns have electricity services. At national level, the size of population with direct access to electricity has not exceeded 13%. This implies that, per capita consumption of electricity is only 23 K.w.h. Thus, despite the wider scope for the development of renewable sources of energy to address rural energy problems, the existing contribution and development of these sources is at its infant stage. With low level of rural electrification, and expanding private sector investment, satisfying the growing power demand stood as the major challenges of this decade.
93. From the outset, the government has already brought the issue into its development framework by adopting Energy Policy in 1994, outlined the need to rely mainly on hydropower to increase supply of electricity and to take advantage of geothermal, solar, wind and other renewable energy resources wherever appropriate. It also calls for the need to encourage energy conservation in the relevant sectors to ensure that energy development is environmentally sustainable; encourage participation and provide appropriate incentives to private capital. Strategies to implement the tasks of energy policy revolve around the issues of resource development, supply management, promotion of energy efficiency and improvement of institutional setup with the aim of achieving the objectives of the policy.
94. To translate the strategy into action, the government launched a ten-year Power Sector Development Program (PSDP) for the period 1997/98 - 2006/7 which is currently under implementation. Among the

targets include expanding the generation capacity of the power system by about 600 MW before the year 2010.

3.5 Water Sector Development

95. A sharp contrast is also reflected in the water sector. Recent evidence indicate that water supply coverage in the rural and urban areas stood at about 23 and 70 per cent respectively. Similarly, low productivity and increased vulnerability of the rural economy in part is due to the underdevelopment of the sector. The overall potential of irrigable land in Ethiopia ranges from 2-3 million hectares of which only 5 per cent of the potential is currently under irrigation.
96. Strategically developing the water resource in Ethiopia is the most important issue requiring urgent attention for its role in reducing vulnerability to drought, in reducing poverty and achieving food self sufficiency objectives. Moreover, the development of irrigation system contribute for export and increase availability of industrial input. In this context the focus of this program will be realizing the objectives of the Water Sector Policy Issued in 1999.
97. Strategic areas of intervention includes, establish regulatory framework for the sector, undertaking river basin studies, construction of new water supply and sanitation schemes in both rural and urban areas, promote irrigation capacity building in the regional states and other water supply institutions and enhance community participation, and promote private sector participation in the sector. It is planned to raise the proportion of population having access to safe water supply to 70 per cent by the end of the decade. Feasibility study and design of 385 irrigation projects covering an area of 501,685 hectares will be carried out and 200,000 hectares are planned to be developed.

98. With a population growth rate of 2.9 per cent per annum, the country's demand for food keeps increasing from year to year. Moreover, the trend of drought occurrence is also increasing, indicating that we can not meet our food production objectives by depending only on rainfall. For this and many other reasons, the promotion of irrigation in Ethiopia should be one of the main strategy for increasing food production and poverty reduction. The right of the poor living in the river basins must be recognized to use their due share of the water resource to fight food insecurity and other features of poverty. International support is in order which is consistent with the international commitment globally to eradicate poverty. Water shade management and hydropower study are also considered as part of the development objectives of the water sector.

4. Industrial and Mining Development

99. As discussed earlier, broadly, ADLI is an industrialization strategy striving for transformation of the rural based economy. Moreover, the success of the agriculture led industrialization rests, among other things, on the pattern of industrial sector development. Under this programme, the economic contribution of the industrial sector is expected to increase to about 13 per cent and 20 per cent of export earning and GDP respectively. To this effect, there is a need for setting up an industrialization environment conducive for a dynamic, competitive and continuous process of transformation. As per the recently adopted national development program, industrial sector development shall be geared towards building an export focused industrial sector with strong backward linkage.
100. The future development of industry in Ethiopia will be based on four key industrial sub-sectors. These are Textile, Leather, agro-industries and basic metals, chemical and engineering industries. These sub-sectors are based by and large on domestic resource, have large

market for the products, offer excellent export potential and have strong linkages with other sector of the economy especially agriculture.

101. To move from the present weak industrial base, priority shall be given to the development of private sector, strengthening of public/ private partnership and building the institutional, human and material capacity needed for accelerated and sustained export led industrialization. To this effect, attention will be given to cultivating strong and competitive domestic industrial entrepreneurs. This requires progressively improving the incentive environment, access to infrastructure and finance. Moreover, the setting up of the necessary institutional framework and building capacity in both public and private sectors will be emphasized.
102. The institutional requirement for private sector led industrialization in Ethiopia is multifaceted encompassing, (a) private venture capital and leasing companies to enhance the private sector's access to capital, (b) institutions for the development of skill and know-how, (c) competitiveness enhancing institutions for the provision of market and consultancy service, and, (d) institutionalized forum for private-public dialogue. In support of the private sector, the operation of public enterprises will also be oriented towards building their skill and broadening of their external market.
103. At the same time, the development of the mining sector will be geared towards enhancing its contribution to foreign exchange earning as well as providing input for the industrial and agricultural sectors. The basic approach adopted for the development of the country's mineral resources is through the actual participation of the private sector. To facilitate the flow of private investment, appropriate laws and regulations have been put in place since 1993. Promotional activities have been carried out by way of presenting mineral resource potential of the country on national and international forums, disseminating

information with brochures, geological maps and two volumes titled "Mineral investment opportunities in Ethiopia". At present, private investors are active in areas of gold production and exploration, gem stone exploration and production, rock salt production, cutting, polishing and exporting multi-colored and high quality dimension stones and producing and exporting mineral water, to mention but a few. The participation of foreign investors so far is encouraging. Prospecting, exploration and mining licenses have been issued to foreign mining companies from Canada, Italy, Saudi Arabia and the United States.

104. Despite these discoveries and encouraging private participation, mineral development in Ethiopia remains limited, contributing only one per cent to the national economy. Thus, to encourage increased participation of domestic and foreign private investors, additional steps will be taken by the government. Particularly, the effort to generate basic geological data and the exploration of areas with mineral occurrence will be sustained. So far, public investment has been directed towards regional geological mapping (1: 250,000 scale). Localized detailed maps exist for areas with gold, tantalite, iron, phosphate, coal, base metals and other industrial minerals.

5. Export Promotion and Diversification

105. The Ethiopian economy exhibit high dependence on primary commodity export largely generated from the small holder agricultural sector. Obviously, the export sector shares supply side problems of the rural economy. Moreover, Ethiopia also faces inelastic demand for its export. At the same time, the world market for such commodities remains hostile with frequent variability of price. The exit strategy from such structural bottleneck should primarily focus on diversification of export both horizontally and vertically.

106. The ADLI strategy clearly underlined the importance attached to export. Thus, to promote and diversify export, the agenda of this program shall include; (a) support to export firms to improve their export quality, fulfill international requirements and become competitive (b) Improving availability of export market information and exporters access to it, (c) undertake market research based on identified demand at the level of small and medium export firms to expand our share in existing markets and to penetrate new ones, (d) Improve export finance facilities including the existing pre and post shipment schemes and, suppliers credit, (e) strengthen incentives to exporters including the on going export retention and duty drawback systems, (f) promote and strengthen international sub-contracting on specific export products whereby government plays key role in coordinating trade partners, international trading agencies and the local exporters, (g) support the establishment of exporters' associations and strengthen the synergy between government and private exporters, (h) enhance infrastructure networks and services which are key for export development including, cold storage, roads, power, telecommunication (more specifically electronic commerce), and (i) facilitate the development of large commercial farms.

107. As an integral part of export diversification and promotion effort, Ethiopia will give due emphasis for the development and export of services trade. The unique mix of natural, historical, cultural, archeological and anthropological attracts marks out Ethiopia as potentially a key tourist destination in Africa. Since the ERP brought into effect, the number of tourist arrivals as well as the stock of hotel rooms and the number of travel agencies and tour operators have increased. Nevertheless, there is still a general lack of tourist infrastructure. Both local and foreign investors will be encouraged to involve in the development of tourist infrastructure. Similarly, aviation is an important sector both as a means of transport within and outside Ethiopia. Thus, Ethiopia will also capitalize on promoting transport

services, most importantly of air transport where the country currently is among the better performing in the region. Consequently, effort shall be made to involve in niche trade for goods and services. The scope for niche trade is believed wide from organic products to cultural products. To this end, extensive research, market promotion, product development and strengthening infrastructural facilities shall be made.

108. With respect to demand, Ethiopia strives to improve market access and reduce the risk associated with price vulnerability. In collaboration with other partners, Ethiopia will make effort, for, a) the effectiveness of the special and preferential treatment measures outlined in the WTO agreement, b) the abolition of the excess use of trade and non-trade barriers in the context of anti-dumping, countervailing and safeguarding measures. Moreover, issues related to tariff barriers to trade such as sanitary and phytosanitary measures has to be resolved. The envisaged diversification of export in areas such as leather and leather product in which Ethiopia has comparative advantage could only be realized in an environment of low tariff regime. In this respect external bilateral and multilateral technical, and financial cooperation becomes important in addition to the present effort to join WTO. Moreover, increasing attention will also be given to regional cooperation in promoting trade and development.

D. Financing Development

109. The envisaged high and sustained growth target and the development programs and projects set for the decade requires substantial increase in the rate of investment. Thus, average investment to GDP ratio of about 26 per cent is expected to be maintained during the program period,
110. Though Ethiopia is a low saving country, effort shall be made to increasingly rely on domestic resources for financing investment. Thus,

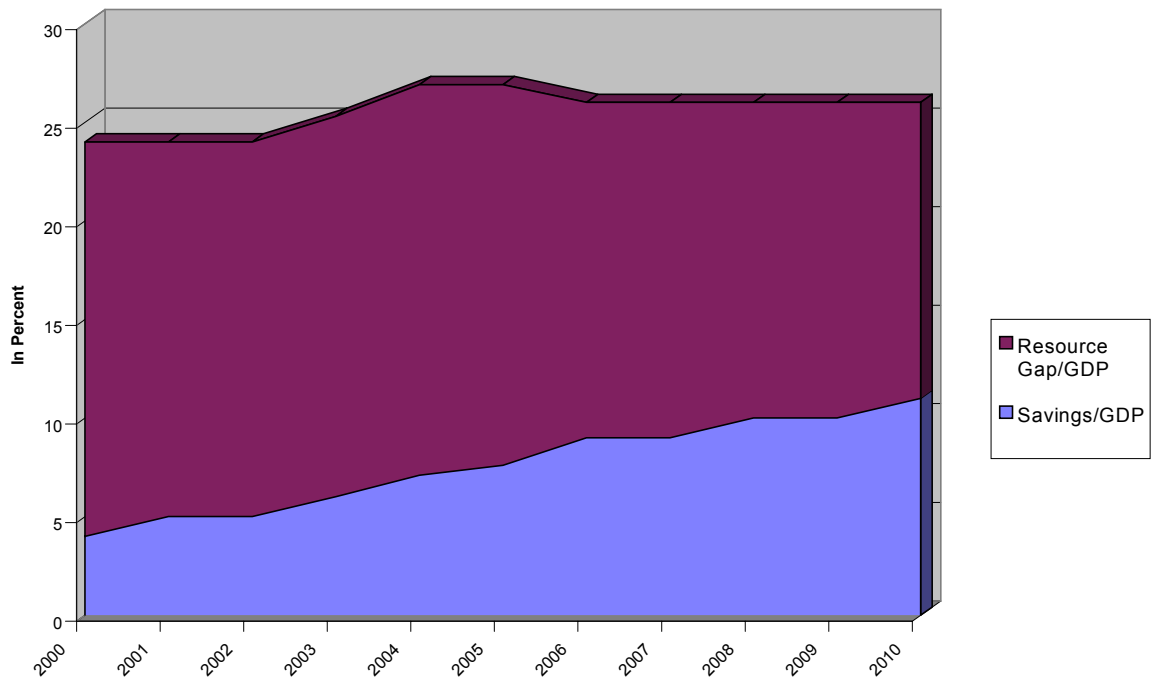
during the program period, steady progress in domestic resource mobilization is envisaged, whereby domestic saving to GDP ratio rises from about 5 per cent to about 10 per cent. To this effect, in addition to maintaining stable macroeconomic environment, improved public saving through better fiscal management, and mobilization of private saving through conducive policy environment and increased monetary deepening in a competitive financial environment will be given due emphasis. In this regard, the development of rural micro financial institutions becomes essential for mobilizing rural saving and facilitate investment in micro enterprises.

Table 2: **Financing Development (2001 - 2010)**

	In billion USD
Investment	39.0
of which:	
Cost of Major development Programs	25.0
Domestic Saving	14.0
Resource Gap	25.0
External Financing	25.0
Debt Cancellation	5.5
New Disbursements	19.5

111. Thus, the realization of targets set under this programme requires an investment amounting to about USD 39 billion. Out of this, about USD 14 billion shall be financed domestically and the balance to be covered from external sources. The modality of external financing shall be both in terms of debt relief, availability of fresh grants and concessional loans as well as foreign direct investment and private transfer. The reserve gap as a share of GDP is expected to decline from 20 to 15 by the end of the decade.

Fig 13 **Ethiopia: Investment, Savings and Resource Gap**
Projection (Ratio to GDP) 2001 -2010



112. From the total USD 39 billion investment, about 55 per cent of it will be used for major development programs, which have strong impact on poverty. Thus, between 2001 - 10, USD 25.0 billion worth of investment is going to be channeled for development programs including, agricultural development, food security, human resource development, infrastructure expansion and disaster prevention and preparedness programs.

Table 3: **Ethiopia: Development Plan of Action 2001 - 2010 Major Development Programmes and Projects Cost Estimate (in million USD)**

	Programme/Project	Cost
	Emergency Rehabilitation and Reconstruction	725.0
	Agriculture and Rural Development	5449.0
	– Agriculture Research and Training Project	181.2
	– National Fertilizer Sector Project	964.0
	– Seed System Development Project	124.0
	– Disaster Prevention and Preparedness Programme	200.0
	– Food Security Programme	2446.8
	– Livestock Development	1533.0
3.	Education Sector Development Programme	5000.0
4.	Health Sector Development Programme	1758.0
5.	Water Sector Development Programme	4668.0
6.	Road Sector Development Programme	4500.0
7.	Telecommunication Sector Development Programme	900.0
8.	Power Development Programme	900.0
9.	Capacity Building Programme	1100.0
10.	Total	25000.0

113. With respect to external resource, in addition to the magnitude, the condition surrounding its flow needs due attention. To this end, the existing weak flow of private capital and ODA have to improve substantially to complement domestic efforts to realize broad based growth and poverty reduction.

V. Enabling Environment for Development Programme Implementation

114. This ten-year program of action attempts to bring together a coherent framework of the Government of Ethiopia's agenda aimed at broad based development and poverty reduction. There is no doubt that the effectiveness of the program requires conducive internal and external environment to ensure mobilization of adequate resources and its efficient utilization. This aspect is discussed below.

A. Supportive Domestic Environment

115. The discussion of supportive domestic environment is a restatement of discussions in earlier chapters to emphasize its importance. From the outset, the Ethiopian Government demonstrated its commitment for the reduction of poverty through creating enabling domestic policy and institutional environment. So far, measures required, to restore macroeconomic stability, to introduce a market oriented economy, to create legal and institutional system needed to support private sector development were effected step by step. The on-going democratization, and the introduction of a federal system of government created an opportunity for decentralized and participatory mode of economic management. At the same time, the on going sector development programs in areas where the scope for poverty reduction is high, stood as a clear evidence that Ethiopia is in the process of working for development and poverty eradication.
116. Building up on the progress made so far, the government in the coming decade, therefore, shall pursue measures aimed at improving the domestic environment, with poverty reduction in sharp focus. In this regard, emphases shall be given for realizing broad based and sustainable growth; measures that help empower the people living in poverty, specially of women, so as to reduce social exclusion; build the human, physical and institutional capability; to create an environment for effective participation in a global market; enhancing mobilization of domestic and foreign resource and diversifying the productive and export base; reducing the scope for vulnerability to the vagaries of weather and other externalities.
117. In this context, and in line with the long term development strategy (ADLI) the government in the coming decade shall continue first to maintain stable macroeconomic environment. Second, to deepen the introduction of a market oriented system, and third, to create an

environment for the development of efficient product and factor markets. On the macroeconomic front, in addition to prudent fiscal and monetary stance, public policy shall focus on increasing availability of resource and improve utilization efficiency.

118. To address supply side constraints, the government will continue to implement sector development programs in areas such as education, health, food security, road, power and communication. To this effect, the government will strengthen its commitment in giving priority in resource allocation to social and economic infrastructure development and encourage private participation. To strengthen the intra and inter-sectoral linkages, effort shall be made to commercialize the rural economy and for enterprise development by setting-up the necessary institutional mechanism required to upgrade their skill and enhance their access to financial and non-financial services. Further steps will be taken to broaden and strengthen the national agricultural extension programme and intensifying the development of rural institutions. In this context, food security, agricultural research, rural roads, micro-finance, non-farm activities irrigation, environment, and disaster prevention and preparedness shall be strategic concerns.

119. The other important building block in the realization of the poverty reduction objective is through creating conducive legal, regulatory and institutional environment and building national capacity. To this end, the implementation of civil service reform will be accelerated so as to promote ethical standards, accountability, transparency with the aim of improving effective and efficient service delivery. At the same time, strengthening the on-going decentralization and devolution process for participatory development management, and creating a mechanism for greater participation of vulnerable groups and other development partners will be maintained. Particularly, programs aimed at reducing gender disparity in accessing economic opportunities and the existence of low capability that restrict their full participation in development

process shall be addressed. Simultaneously, programs and projects intended to enhance the public, private and civil society capacity shall be given due emphasis in line with the country's capacity building strategy.

B. Supportive External Environment

120. The experience of the 90s clearly show the importance of supportive external environment for reducing poverty in an increasingly globalizing world which is entailing intractable challenges on LDCs road to development. Thus, strengthened supportive measures in the area of ODA, debt, trade and investment is required more than ever before to enhance the effectiveness of supportive domestic environment. This, in term, calls for strengthened and smooth working relationship and partnership with our development partners. It needs a long-term commitment, a more transparent, stable and predictable partnership with our development partners. In this regard experience shows us that we still have to go a long way to forge a stable and predictable partnership. It is our hope that the UN LDC III conference provides the opportunity that progress would be made in this respect too.

a. Official Development Assistance (ODA)

121. In the light of unstable export earning, limited access to private financial flows, small domestic savings and accumulated debt problem, Ethiopia will continue to require ODA for financing development. **In the spirit of partnership and shared responsibility**, the international community is expected to increase the availability of ODA in the form of grant and concessional loan. Currently, Ethiopia's ODA/per capita flow is low, necessitating that ODA/per capita flow be raised to meaningfully address poverty. Equally important, the quality, coordination and management of ODA needs due attention so as to improve disbursement and effective utilization. Among the major concerns includes multiplicity

of objectives and conditionalities attached to aid, cumbersome and lengthy donor procedures centralized decision making and the associated delay in responding to requests. Thus, harmonization of donors procedures agreed to in a number of global fora as well as moving towards budgetary support in the context of sector development programmes will induce aid effectiveness as well as avoid over stretching implementation capacity of recipient countries. The decision by EU to move towards budgetary support is a significant move for other donors to consider in their aid management. Decentralization of decision making power of bilateral and multilateral institutions field offices in recipient countries shall also be given serious consideration to increase absorption of aid commitment by LDCs.

b. Support to Debt Reduction

122. Ethiopia is eligible for HIPC. In this regard, the international community needs to accelerate the implementation of the initiative. Furthermore, there is a need to effect the recommendation of Cologne Summit held on June 1999 to "faster, broader and deeper" debt relief and enlarge cancellation of ODA debts. Similarly, the declaration of the second HIPC Ministerial meeting adopted in Geneva on 7 June 2000 for further improvement of the Enhanced HIPC Initiative with respect to eligibility criteria, contributions to HIPC financing and new financing needs, stability, predictability of financing commitments and additionally of resources.

c. Foreign Direct Investment (FDI)

123. Though Ethiopia made significant progress in setting up conducive policy and institutional environment for the private sector to take initiative, the magnitude of FDI flow in the 1990s was insignificant. Like most LDCs, structural problems were believed to be major factors for keeping the size of FDI flow to Ethiopia very small. In addition to

domestic effort to improve the condition, the international community, most importantly, the multilateral agencies are expected to play a significant role to improve the flow of FDI through (a) provision of guarantee to some of the non-commercial risks by directly mobilizing private capital, (b) provision of advice and technical assistance on project development, (c) dissemination of information to potential investors and (d) establishing multi-donor LDCs development fund to support domestic private sector development especially small and medium enterprises as well as to attract foreign direct investment.

d. External Trade

124. Like most LDC's Ethiopia depends on few commodities which come from small holder agriculture whose supply is constrained by low productivity and also suffer from price instability on the world market - thus affecting the implementation of development programs. As a result export diversification has become one of the central measures for increasing productive capacity and competitiveness. To effectively implement the diversification drive important supportive measures in favor of LDCs have been pledged by the international community, though they are short on implementation.
125. Recent times has seen positive development to support export development of LDCs. The European Union has announced its decision to grant duty and quota free access to all products from all LDCs. The United States of America also put in place Africa Growth and Opportunity Act ensuring duty free, quota free US market access for textiles for eligible sub-Saharan Africa. What is required is to broaden and deepen such supportive measures in favor of LDCs on a global level to bring on board other developed countries.
126. Follow-up on the activities undertaken under the International Commodity Agreements, monitoring development and contribute to the

work of the Common Fund for Commodities and the International Force on Commodity Risk Management will bring valuable support. As said time and again, export earnings instability of LDCs is an important constraint to their unhindered development efforts. As such, there was a recognition that issues of compensatory finance need full and genuine consideration. Arrangement like the EU STABEX could be put in place as support for short-term fluctuations in their export earnings.

e. Support for Disaster Management

127. Ethiopia is drought prone with serious consequence on the lives of the people and disruption of development programs. To be better prepared and manage when disaster struck the government has put in place policies and institutions which requires continued support and strengthening. For years to come emergency assistance in cash if not in kind is expected to continue. Strengthening emergency response food security reserve, logistics and early warning is critical. Supporting effective participation and draw benefits from regional early warning networks and satellite driven technologies will also contribute to this effort.

VI. Implementation Strategy, Monitoring and Evaluation

128. Broadly, a systematic approach to monitoring and evaluating the impact of Ethiopia's fight against poverty entails setting up of a flow of information framework consisting of selected indicators. Thus, a more coherent and extensive assessment of trends in the various dimensions of poverty will result in invaluable information for all stakeholders in tracking the effectiveness of the strategy in poverty reduction. It will allow a systematic assessment of the contribution of the entire development effort towards the ultimate goal of poverty eradication and will help to adjust the strategy where necessary. This

will help us ensure that the targets set in the strategy are met and that progress is made towards the goal of ADLI.

129. Monitoring and evaluation (M&E) of this plan of action will take place at different levels. First the M&E system will be used to assess the effect of the poverty reduction strategy on key impact and outcome indicators, relating to income poverty, quality of life and social well being. Secondly, the system will review intermediate indicators more directly linked to the activities specified in this plan of action. Both the effect of sectoral activities and the creation of an enabling environment will be assessed. As the poverty reduction strategy cannot be successful if insufficient resources are available resource flows and allocation (internal and external) will form an important element of M&E.

130. The M&E system for the this plan of action and hence for PRSP will involve a wide range of stakeholders at national, regional, district, woreda and community level. This will include government, civil society, the private sector, research institutions and the communities themselves. It is the government's intention to sustain participation beyond the production of the document into implementation, monitoring and evaluation. Another reason for broad involvement of stakeholders in the M&E process is that the government programme will be complemented by interventions of many other actors their contribution will also need to be monitored and this requires their involvement. Finally, many of the actions specified in the plan of action will be designed and implemented at lower administration level.