



Ethiopia – European Community

Country Strategy Paper and National Indicative Programme for the period 2008-2013

The Government of Ethiopia and the European Commission hereby agree as follows:

- (1) The Government of Ethiopia (represented by HE Ato Sufian Ahmed, National Authorising Officer and Minister of Finance and Economic Development) and the European Commission (represented by Mr Timothy Clarke, Head of Delegation of the European Commission in Ethiopia) hereinafter referred to as the "parties", held discussions in Ethiopia from March 2006 to June 2007 with a view to determining the general approach to cooperation for the period 2008 –2013.
During these discussions, the Country Strategy Paper and an Indicative Programme of Community aid in favour of Ethiopia were drawn up in accordance with Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. These discussions complete the programming process in Ethiopia.
The Country Strategy Paper and the Indicative Programme are annexed.
- (2) As regards the indicative programmable financial resources which the Community plans to make available to Ethiopia for the period 2008-2013, an amount of **€ 644 million** is scheduled for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A allocation) and of **€ 30 million** for the allocation referred to in Article 3.2 (b) (B -allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A -allocation is intended to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The Indicative Programme in Part 2 concerns the A-allocation. It also takes into consideration financing from which Ethiopia benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B -allocation is intended to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B -allocation will be triggered in response to specific mechanisms and procedures and therefore does not yet constitute a part of the Indicative Programme.
- (5) Resources can be committed within the framework of this Country Strategy Paper and Indicative Programme upon the entry into force of the 10th EDF multi-annual financial framework for the period 2008-2013 of the revised ACP-EC Partnership but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Ethiopia within the limits of the A - and B -allocations referred to in this document. Financing decisions can also be taken on the basis of article 15(4) in conjunction with Article 4 (1) (d) of annex IV to the ACP-EC Partnership Agreement for support to non-State actors or on the basis of article 72(6) to the ACP Partnership Agreement for humanitarian and emergency assistance funded from B-allocations. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP-EC Partnership Agreement.

- (6) The European Investment Bank may contribute to implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2(c) and 3 of Annex Ib to the ACP - EC Partnership Agreement regarding the 10th EDF multi-annual financial framework for the period 2008-2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation will undertake an annual operational review of the Indicative Programme and a mid-term review and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of needs and performance at the time.
The mid-term review will be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of prevailing needs and performance.
Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF multi-annual financial framework of for the period 2008-2013, will be regarded as definitive within eight weeks of the date of signature, unless either party communicates the contrary before the end of this period.

Done at Lisbon on 9 December 2007

For the Government of Ethiopia



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For the European Commission



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LIST OF ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AU	African Union
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
COMESA	Common Market for East and Central Africa
CRC	Citizen Report Card
CSA	Central Statistic Authority
CSF	Civil Society Fund
CSO	Civil Society Organization
CSP	Country Strategy Paper
CSRP	Civil Service Reform Program
CTF	Cotonou Task Force
CDU	Coalition of Unity for Democracy
DAC	Development Assistance Committee, OECD
DAG	Development Assistance Group
DBE	Development Bank of Ethiopia
DBS	Direct Budget Support
DFID	Department for International Development, UK Government
DPPA	Disaster Prevention and Preparedness Agency
DTIS	Diagnostic Trade Integration Study
EEBC	Ethiopia-Eritrea Boundary Commission
EFY	Ethiopia Fiscal Year
EMAO	Ethiopian Mine Action Office
EPA	Economic Partnership Agreement (EU)
EPA	Environmental Protection Authority - Ethiopia
EPI	Environmental Performance Index
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERA	Ethiopia Roads Authority
ESA	Eastern and Southern Africa Group
FSP	Food Security Program
GAVI	Global Alliance for Vaccines and Immunization
GBS	General Budget Support
GER	Gross Enrolment Rate
GFATM	Global Fund to Fight AID, Tuberculosis and Malaria
GOE	Government of Ethiopia
HICES	Household Income, Consumption and Expenditure Survey
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired
HoF	House of Federation
HPR	House of People's Representatives
HSDP	Health Sector Development Programme
IFMIS	Integrated Financial Management Information System
IDA	International Development Association
IGAD	Inter-Governmental Authority on Development
JBAR	Joint Budget and Aid Reviews
MCB	Ministry of Capacity Building
MDG	Millennium Development Goal
MEFF	Medium-Term Macro-Economic and Fiscal Framework
MOFED	Ministry of Finance and Economic Development
MOWA	Ministry of Women's Affairs

MSBS	Multi-Sector Budget Support
NEB	National Elections Board
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NSA	Non State Actor
ODA	Official Development Assistance
OLF	Oromya Liberation Front
PANE	Poverty Action Network Ethiopia
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PBS	Protection of Basic Services
PEPFAR	US President's Emergency Plan for AIDS Relief
PCR	Primary School Completion Rates
PFM	Public Financial Management
PER	Public Expenditures Review
PPA	Participatory Poverty Assessment
PSNP	Productive Safety Net Programme
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public- Sector Capacity Building Programme
RSDP	Road Sector Development Programme
RSP	Regional Strategy Paper
SBS	Sector Budget Support
SDPRP	Sustainable Development and Poverty Reduction Programme
SPLA	Sudan People's Liberation Army
SMEs	Small- and Medium-Scale Enterprises
SNNPR	Southern Nations, Nationalities and Peoples Region
SPSP	Road Sector Policy Support Programme
SWAP	Sector- Wide Approach
TCF	Technical Cooperation Facility
TFG	Transitional Federal Government - Somalia
TGE	Transitional Government of Ethiopia
UIC	Union of Islamic Courts
UNFPA	United Nations Family Planning Agency
UNICEF	United Nations Children's Fund
WMS	Welfare Monitoring Survey
WTO	World Trade Organization

EXECUTIVE SUMMARY

1. This Country Strategy Paper (CSP) reflects the EU Strategy for Africa which rests on three pillars: (i) promoting peace, security and good governance; (ii) supporting regional integration, trade and interconnectivity and (iii) improving access to basic social services and protection of the environment to make faster progress towards meeting the MDGs. The CSP also reflects the analysis in the *Country Diagnostic Survey* prepared in early 2006 by the Commission with the participation of EU Member States. One special objective of the Survey was to improve the prospects for moving forward from an “EC Response Strategy” to a “Joint EC and EU Member States’ Response Strategy” for Ethiopia.

2. The response strategy presented here can be considered "joint" in that it has been informed by a Joint Country Diagnostic Survey carried out with several Member States and provides a framework for both the EU Member States and the EC’s cooperation planned in Ethiopia along with the linkages between them. All these initiatives have been aligned to align with the priorities of the Government’s national poverty reduction strategy, the *Plan for Accelerated and Sustainable Development to End Poverty* (PASDEP). Joint programming is by its nature a gradual process, as recognised in the *European Consensus on Development*. This first Joint Response Strategy for Ethiopia takes an important first step towards structuring EU cooperation and provide provides the potential and momentum for joint implementation and deeper joint programming in the future.

3. The strategic focus of the Joint Response Strategy is to support the Government in making decisive progress towards achieving the *Millennium Development Goals (MDGs)*, with the aid of faster and sustained economic growth, significantly - increased Government expenditure targeted on poverty , higher export and lower population growth, reducing the infrastructure deficit, strengthening the democratic process and the position of women, and reversing environmental degradation. Achieving development results is a mutual commitment of the Government and the donor community. In as much as the Joint Response Strategy supports implementation of *PASDEP*, the European Commission and the EU Member States will, jointly with other donors, monitor the implementation of *PASDEP* and participate in joint evaluations of its progress and its continued relevance, based on the PASDEP policy matrix.

4. The EC’s contribution to the Response Strategy is built around three focal sectors: (i) transport and regional integration; (ii) rural development and food security, and; (iii) macro-economic support and governance. It is also proposed to include in the non-focal sector a pioneering programme for restoration and conservation of Ethiopia’s cultural, biological and environmental heritage. The measures proposed have been designed to contribute to reducing regional income inequalities within Ethiopia, and to the key objective of achieving and maintaining peace, political stability, food security and economic prosperity in the Horn of Africa, and are consistent with the approaches and action included in the EC’s Regional Strategy Paper (RSP).

5. Overall, to enhance aid effectiveness, the European Commission and the EU Member States will play a lead role in implementing the Paris Declaration commitments on improving aid delivery, and will draw on their mutual experience to strengthen their role as donors. This Joint Response will promote better donor complementarity by working towards joint multi-annual programming based on Ethiopia’s strategies and processes, common implementation mechanisms, joint donor-wide missions, and the use of co-financing arrangements.

PART 1: COUNTRY STRATEGY PAPER

CHAPTER I: THE FRAMEWORK OF RELATIONS BETWEEN THE COMMUNITY AND THE PARTNER COUNTRY

I.1. General Objectives of the EC's external policy

In accordance with Article 177 of the Treaty Establishing the European Community, Community policy in the sphere of development co-operation is to foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

Europe should project a coherent role as a global partner, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, cooperation under bilateral and multilateral agreements, development cooperation, humanitarian aid and financial assistance and the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.).

EU external action including the Common Foreign and Security policy, common trade policy and cooperation with third countries provides a framework both for integrating all EU instruments and for developing gradually a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted the EU with even greater responsibilities, as regional leader and as global partner. It will therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its own neighbourhood and through its multilateral and bilateral policies which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

I.2. Strategic objectives of co-operation with Ethiopia

The Treaty objectives are confirmed in Article 1 of the *ACP-EU Partnership Agreement*, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Ethiopia is geared to pursuing these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element, as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, the recently adopted *European Consensus on Development* sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and paying particular attention to the Millennium Development Goals. Human rights and good governance are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. Therefore the EU will advance coordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries strategies and processes, common implementation mechanisms, joint donor wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries' efforts to attain the MDGs.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be primarily active in the following nine areas, bearing in mind its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: economic and democratic governance, gender equity; environmental sustainability; and the fight against HIV/AIDS.

In December 2005, the European Council agreed on an EU Strategy for Africa. The Strategy provides a long-term, strategic framework for interaction between Europe and Africa and rests on three pillars: (i) promoting peace, security and good governance as central prerequisites for sustainable development, (ii) supporting regional integration, trade and interconnectivity to promote economic development and (iii) improving access to basic social services (health, education) and protection of the environment to achieve MDGs 1-6 faster. This CSP reflects the above-mentioned Strategy and builds on the analysis in the Diagnostic Survey¹ prepared in early 2006 by the Commission with the participation of Member States. One special objective of the Survey was to improve the prospects for moving forward from an "EC Strategy" to a "Joint EC and EU Member States Response Strategy" for Ethiopia.

¹ "Poverty Reduction through Accelerating Economic Growth - Efforts and Policies of Ethiopia's Government and Donors", Addis Ababa, 31 May 2006.

CHAPTER II: COUNTRY DIAGNOSIS

II.1. Analysis of the political, economic, social and environmental situation in Ethiopia

II.1.1 Regional, political and institutional context

Reflecting its population size, economic strength, resource endowment and its role as a regional service centre, Ethiopia commands a significant economic and geopolitical position in the Horn of Africa, which is one of the most conflict-prone regions in the world and also one of the poorest. The protracted border dispute between Eritrea and Ethiopia, the Somalia crisis and the Sudanese conflicts are having a negative impact on the livelihoods of millions of people, moving the region away from the MDGs. Both the Government of Ethiopia and the EC recognise that economic development in Ethiopia can be accelerated if supported by coherent policies and programmes in the Region. They also recognise that progress on development in Ethiopia can spill over into the region beneficially, thereby contributing to achieving of the overriding aim of promoting peace and security in the Horn of Africa.

The Government takes the view that Ethiopia's potential for economic growth and poverty reduction can be tapped to the full only if it is considered part of broader economic reform programmes to make Ethiopia's economy more competitive and better integrated in the regional economy of the Horn of Africa. Consequently, reducing Ethiopia's infrastructure deficit became one of the pillars of PASDEP for the purpose of facilitating regional connectivity and enhancing export performance. By way of illustration, PASDEP includes programmes for electric interconnections between Ethiopia and the Sudan and, for transport development along the Ethiopia/Djibouti corridor, and also provides pro-active Ethiopian participation in the Nile Basin Initiative. Overall, Ethiopia has much to contribute to reducing the energy deficit in the Horn of Africa by developing its ample and cost-effective hydro resources.

To facilitate the process of regional integration and policy coordination, Ethiopia participates actively in such regional groupings such as the African Union, IGAD, COMESA, the Nile Basin Initiative and NEPAD, in which it strives to achieve regional consensus on programmes and policies for that are mutually beneficial. Ethiopia recently agreed to assume the Chairmanship of NEPAD, which may contribute to strengthening development management in the region. Within the African Union, Ethiopia has supported establishment of the AU Peace Force for Somalia which is currently being formed. This may provide an opportunity to bring peace and political stability to Somalia.

Within Ethiopia, political history has been shaped and dominated by the long reign of Emperor Haile Sellassie (1930-1974) and the ensuing dictatorship of Mengistu Haile Mariam (1974-1991). During that period, the state was centralised, *inter alia*, with the development of a national army. Ethiopia was determined not to be colonized and succeeded in maintaining its independence while the rest of Africa was colonised. However, despite economic reforms undertaken by the Emperor, their benefits were not reaching the peasantry and workers in general. The political situation was also marked by inequalities and lack of representation of various sections of Ethiopian society. This led to a change of regime in 1974. The new administration, the *Derg*, claiming to be guided by Marxist-Leninist theory and politics, attempted to introduce State control over all aspects of society – a concept that was foreign to Ethiopian society and alienated the people from the Government. Equally important was the fact that the undermining of religion further aggravated the differences that the society was

facing. All this gave rise to a proliferation of nationality movements opposed to the Government and struggling to achieve rights for the various nationalities in the country. In 1991, in response to this situation the *Derg*, was overthrown by the *Ethiopian People's Revolutionary Democratic Forces* (EPRDF).

Since then, the political system of Ethiopia has developed into a parliamentary system with a tripartite separation of powers into legislative, executive and judicial branches at both the federal and state levels, with a clear supremacy of the legislative body. At the federal level, there are two legislative houses, the House of Peoples' Representatives (HPR) and the House of the Federation (HoF). While the HPR has to approve the annual budget, it is the HoF which ultimately resolves issues concerning the sharing of revenues. The President is a non-executive Head of State. On the other hand, the Prime Minister is the Chief Executive, the Chairman of the Council of Ministers and the Commander-in-Chief of the national armed forces.

According to the Constitution, the state structure is decentralized. Ethiopia's regional states vary enormously in size and population. The three largest regions account for more than 80% of the national population. The regional constitutions stipulate the devolution of power to lower levels of administration. Regions themselves are divided into zones and *woredas* (districts). *Woredas* in turn are divided into *kebeles*, which are the lowest administrative unit to have an elected council.

The security sector comprises the military, paramilitary and the police, both federal and regional. Beyond Parliament, the civil institutions for democratic control of the security sector include the Ministry of Defence, the Judiciary, and the Special Prosecutor's Office. The Human Rights Commission, the Ombudsman and civil society organisations are in the process of developing the necessary capacities to perform their watchdog duties. The police and the security forces are disciplined but still require enhancing their overall capacity most particularly in terms of training and equipment for efficiently discharging their professional responsibilities.

As regards **democratic governance**, Ethiopia has held a number of elections since the *Derg* regime was toppled by the EPRDF in 1991. The first interim national elections led to the establishment of the *Transitional Government of Ethiopia* (TGE) in 1992. General elections were held in 1995 and a permanent government of the *Federal Democratic Republic of Ethiopia* (FDRE) was set up. Subsequently a federal structure was established along with a constitution regulating the powers of the federal and regional governments. In 2000/2001, national elections for federal and regional assemblies were held which gave the ruling EPRDF a second term in office. Though they constituted progress compared to the authoritarian background of the country and the military dictatorship of the *Derg*, these elections nonetheless showed that the country had to do more to fully meet international democratic standards.

The year 2005 saw the first openly contested elections in Ethiopia's history. The pre-election period was marked by unprecedented openness and public debate. Voting in May 2005 was peaceful and voter participation high. During the counting and aggregation process, however, divergences emerged between the Opposition and the Government with respect to vote counting and the role of international observers. The *Coalition for Unity and Democracy* (CUD) accused the EPRDF of electoral fraud, and political tensions continued to rise between the two camps. This escalated in street violence in June 2005 during which many civilians and

some members of the security forces were killed in the capital and elsewhere. Following re-runs in disputed election precincts, in September 2005, the election authorities announced that the EPRDF and affiliate parties had won the elections. The opposition also protested over alleged fraud in November 2005 once again precipitating violent protests in which more civilians and some members of the security forces were killed. A Commission of Enquiry later reported that 193 people died in the violence, among them six members of the security forces.

Following the breakdown of attempts for dialogue, the ex-CUD leadership, journalists and members of civil society organisations as well as thousands of mostly young men were arrested in November 2005. The latter were released in the subsequent months. Most of the former group was recently given pardon by the President after having been tried and sentenced for charges that included, attempting to overthrow the constitutional order. .

Following the events of 2005, the EU Members States and the Government began a dialogue to in an attempt to restore mutual confidence. Thus, a *Cotonou* Article 8 dialogue took place in January 2006 dealing with issues such as democratisation, the rule of law and the respect for human rights as well as regional stability. The continuation of the dialogue was deemed important by both parties and a second dialogue took place in October 2006.

In addition, the Government initiated a number of measures to address the concerns of the donor community and the Opposition – notably in relation to changing the parliamentary procedures and the media laws, in both cases based on studies by international experts from Canada, Germany, India and the United Kingdom. The new parliamentary procedures were adopted at the beginning of July 2006 by a large majority of all parties represented in Parliament. Parliament also established an independent commission to see whether disproportionate force had been used to contain the violence in the June and November events. Dialogue was also initiated with some opposition parties that had taken their seats in Parliament.

Relations between the Government and some sections of civil society, particularly NGOs, were been affected by the political developments in 2005 but have gradually improved since then. However, enhancing partnership and trust between these players, improving the legal and institutional environment for NSAs to operate, setting up sustainable dialogue structures to ensure NSA participation in the development process, continue to remain priority areas for NSAs as well as for donors. The Government on its part has made it clear that there is a need for conceptual clarity with respect to NSA that are membership based, therefore, whose viability is based on the participation of their membership and NGOs that are not so based. A new federal NGO law has been introduced to permit legalisation of NSA networks or umbrella organisations, allow income-generating activities, and simplify registration requirements.

In conclusion, after the difficult period following the elections in 2005, the Government continued to take steps to achieve progress towards development of a democratic and pluralistic society and political system. The importance and necessity of establishing an inclusive political process which offers a place and voice for all Ethiopian political forces is recognised by all political actors in Ethiopia, and the Government has always expressed its firm commitment to this objective. With the majority of the Opposition forces showing interest and being receptive to such an approach, the political situation in Ethiopia in the coming years offers a real chance for reconciliation between the rival political currents and

for the establishment of a real democratic political culture moulded by political fairness and mutual respect for each others' political position.

Ethiopia has come out of a non-democratic tradition in which human rights were grossly abused. Respect for human rights in today's Ethiopia has improved and the Government is committed to further progress in this regards.

Gender equality is far from being achieved in Ethiopia. Although good progress has been made in education, primary school completion rates remain far lower for girls than for boys. Girls and women are vulnerable as a result of cultural practices, including female genital mutilation. The HIV/AIDS prevalence rate is low but is much higher amongst females. Whilst a high proportion of members of Parliament are women, overall participation rates in Government are much lower, especially in key policy making and managerial roles.

At the policy level the framework for achieving gender equality was established with the "National Policy on Ethiopian Women" issued in 1993. A *Ministry for Women's Affairs* (MOWA) was established in 2005 and has become operational. It should provide a focal point for public sector led gender issues. MOWA released the *National Action Plan for Gender Equality* (NAP-GE), 2006-2010 in January 2006. This includes a matrix including objectives, activities and indicators. The gender situation in line Ministries and other public sector bodies varies but is not encouraging. Overall it appears that there is a considerable distance to go before gender is fully mainstreamed into public sector policies and practices. The latter, however, is enshrined in PASDEP. A positive aspect is that gender, women's rights and empowerment are areas in which civil society is most active, with great potential for effective work on societal and attitudinal change.

Governance, both democratic governance and economic governance, has emerged as a major cross-cutting issue at the very core of government and donor concerns. Attempts are made to improve the capacity of institutions to improve their performance in this area, with a view to raising professionalism, transparency and accountability and to promote qualitative change. Monitoring systems and targets have been jointly established by government and donors and are incorporated into the PASDEP Matrix which comprises for the first time a dedicated Governance Chapter and corresponding policy matrix, linking progress in this area to the broader development agenda. Improved public sector management, empowerment of certain types of civil society organisations, and decentralisation to the regions are important elements of this policy.

II.1.2. Economic and commercial situation

Macro-economic growth trends

Success in the Government moves towards political reconciliation is important for creating a consensus for reversing the unfavourable long-term trends in Ethiopia's growth performance. The latter has been heavily influenced by the fact that over the past 40 years Ethiopia has had three completely different regimes with a corresponding shift in economic policies and strategies. Each regime had or has established its own institutions for executing the economic policies and strategies of the time. These changes of regime and shifts in economic thinking have had a significant impact on the pace of macro-economic growth and make it hard to meaningfully analyse long-term trends.

Notwithstanding the regime changes and the fact that Ethiopia suffered from droughts, famines, civil war, a war with Eritrea and the spread of HIV/AIDS, GDP growth reached 3.15% per annum over the past 40 years – slightly above the high rate of population increase of 2.5–3% per annum. This sum of factors however, left virtually no room for per capita income growth and explains why Ethiopia remains one of the least developed nations in the world. Agricultural GDP over this 40 year period rose by 1.4% per annum, significantly below population growth, so that the living standard of Ethiopia's rural population actually declined. This has contributed to impoverishment and shows up in malnutrition, high infant and maternal mortality rates and in a life expectancy of just 53 years. Yet, with the help of donor support, Government expanded its social service delivery programmes with positive impact on outcomes in health, education, water supply and sanitation.

Since the war with Eritrea ended in 2000, Ethiopia's economy began to perform progressively better, despite a serious drought in 2002-2003. In 2002 Government launched the 3-year Sustainable Development and Poverty Reduction Programme (SDPRP) which targeted a 6% annual economic growth rate. Ethiopia's growth performance was considerably better than the target: in fact annual GDP growth averaged some 8% in the SDPRP period. Since the drought year 2002/03 annual economic growth averaged 11%:

Table 1: Growth in Constant GDP - 2001/02-2005/06 (%)

GDP/Sectors	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005	2005/ 2006	Increase 2005/06 over 2000/01	Average growth 2003/04- 2005/06
GDP at Constant Market Prices	1.2	-1.7	13.1	13.4	10.3	34.9	11.4
Agriculture	-2.2	-11.4	17.3	13.4	11.2	28.2	14.0
Of which Crop	-3.7	-16.5	25.5	19.4	13.9	37.6	19.7
Manufacturing	1.3	0.8	6.5	8.0	8.1	26.9	7.5
Services	4.3	2.8	10.7	8.1	10.4	40.6	10.2

Source: MOFED, Annual Economic Report, 2006

Economic growth acceleration was facilitated by five factors: (i) The economic policies and strategies implemented by the Government (ii) The peace dividend, coming from a reduction in defence spending from 13% of GDP in 2000 to 2.7% now; (iii) The virtual tripling of Official Development Aid (ODA) for Ethiopia, rising from US \$370 million in 2000 to US \$937 million in 2004, raising the share of ODA in Ethiopia's Gross National Income (GNI) from 4.7% in 2000 to 9.9% in 2004; (iv) The receipt of external debt relief under HIPC and from the IMF, which reduced the burden of paid external debt service on Ethiopia's GDP by over 2%, and (v) good weather which prevailed in the three years since the drought which made for an average annual increase in crop production of close to 20 percent.

High economic growth helped in reducing non-monetary poverty and Ethiopia could move forward on several MDG targets, particularly in education and health. In 2005 the share of people living below the poverty line fell slightly to 34% - down from 42% in 2000, but per capita income was still as low as US \$158. In the same year Ethiopia ranked among the bottom ten countries on UNDP's Human Development Index, and life expectancy stood at 53 years.

There is now evidence that the surge in economic growth of the last three years reflects not just a recovery from the drought of 2002-2003 and the good weather conditions in 2004 - 2006, but that Ethiopia may have moved upwards on an S-curve of high growth of 7%, which is the target rate for the PASDEP period 2005/6-2009/10. Whether these high rates of

economic growth are sustainable is, however, currently in question. A key assumption is that Government will be able to soon restore macro-economic balance and internal and external financial viability. This is needed to deal effectively with the rise of inflation to double-digit levels which occurred in 2006, and by a significant fall in the country's foreign exchange reserves. A second assumption is that that agriculture would have to grow at a rate of 7-8% per annum which may be possible if growth performance of the past 4 years can be maintained. But it assumes "normal and evenly distributed rainfall"² which is an optimistic assumption.

Structural change in the Ethiopian economy

Within the context of Ethiopia's slow long-term expansion of its economy, the process of structural transformation of the Ethiopian economy made its beginning. Over the past forty years, the share of agriculture – while remaining dominant – fell by some 20 percentage points of GDP, from close to 70% of GDP in the sixties to 48% today. While this may have reduced volatility in Ethiopia's economic performance, low agricultural growth had a depressing effect on other sectors of the economy, notably in industry which virtually stagnated at about 13% of GDP. Slow industrial growth also mirrors the effect of Government's policies, which recently seem to be changing, by emphasising the private sector as the engine of economic growth.

By contrast, buoyancy in the services sector since the 1960s raised its share in GDP by some 14 percentage points to 42% today, close to present day's agriculture's contribution to GDP. This sector includes public administration, defence, public investment and social services delivery, including education. But it also includes such modernizing sectors as banking and insurance which doubled its share in GDP.

As elsewhere in the world, rural/urban migration is accelerating: Ethiopia's urban population may well have grown by some 6-7% per annum, more than double the rate of national population growth. It is due to both pull and push factors. Slow growth in the agriculture sector is believed to be one of the factors forcing outward rural migration, but it is also being fuelled by seemingly attractive livelihood prospects in urban areas. However, in the absence of faster economic growth in the urban areas and fully funded policies and programmes for productive rural migrants' absorption, poverty, deprivation and unemployment have become major problems in urban areas.

Persistence of chronic food insecurity and threat of famine

Chronic food insecurity, malnutrition and famine remain major unresolved issues in the Horn of Africa, especially in Ethiopia. This partly reflects the inability of both Government and the donor community to deal decisively with this issue. Over the past 30 years there has been a marked increase in the frequency of drought and famine in Ethiopia, and in the number of people affected. Famine also appears to spread geographically, and the length of assistance which people require is also rising. In the 30 years' period 1972-1973 and 2002-2003 the proportion of people affected rose from 4% in the 1970s, to over 19% in 2002-2003 when drought touched over 13 million people. These worrisome trends indicate that the country's capacity to withstand the more frequently occurring and longer drought conditions is deteriorating. It is seen to be the result from – and as a sign of – deteriorating coping capacity

² PASDEP Policy Matrix, page 3.

of the rural community, the latter attributed to rising population density, environmental degradation, low productivity of land and the difficulty to save and build up an asset base.

While agricultural performance appears to have been strong in recent years, helped by an expansion in land under cultivation, serious concerns remain about long-term prospects. Of great concern is that land productivity has remained low and that labour productivity has fallen. The low productivity of land and the difficulty to build up an asset base are now being addressed by the Productive Safety Nets Programme (PSNP), promoted by the Government and supported by several donors including the EC. The number of people requiring assistance in 2006 under emergency aid programmes and the PSNP is estimated at 9.8 million, about 13% of Ethiopia's population. The growing population – 2 million plus annually – the dominance of rain-fed low-productivity agriculture and the slow growth in off-farm employment opportunities in rural areas, where 85% of the population is still located, all compound to increased vulnerability. But most importantly, the rural areas are finding it difficult to cope with the increase in population density. This lends urgency to a strong expansion of donor support for family planning programmes. Concerned about this issue, under PASDEP Government aims at reducing the country's fertility rate from 5.4 in 2004/5 to 4.0 in 2009/10.

Efforts and policies of Government to raise private sector investment and growth

Macro-economic trends over the last four years indicate that the public sector, supported by substantial external assistance played an important role in the economic activities that led to growth. In that period public investment rose from 8.8 to 11.9% of GDP³, but private investment virtually stagnated. The latter trend tends to indicate that under the SDPRP, Government has not fully succeeded in creating a better investment climate for the private sector as it had attempted to do.

Table 2: Public and Private Investment 2002-2005

	2002/2003	2003/2004	2004/2005
Gross Domestic Investment	22.7	21.3	26.3
Government Investment	8.8	9.1	11.9
Private Investment	14.0	12.3	15.4

Source: IMF – Article IV Consultations Report 2005 and MoFED

Overall, if Government policy had put more emphasis on private sector-led economic growth by encouraging a pro-active participation of the private sector in Ethiopia's economy, growth and employment generation could have been higher in the SDPRP period than it actually was. There is a possibility that if the Government's stance on the liberalisation of the telecommunications and banking sectors had been more forthcoming, private investment would have been significantly higher.

It is encouraging that PASDEP foresees a stronger private sector contribution to economic growth, export development, employment creation and poverty reduction. To achieve this, several policy measures are announced, including those for simplifying business approval processes and “establishing a level playing field with regard to property ownership through judicial strengthening, implementation of free competition policy and enforcement of contracts” (PASDEP, page 48). Other measures involve financial sector reform – a programme just started with World Bank support - “continued reforms to establish land tenure

³ A key element of Ethiopia's medium-term development strategy is to rapidly fill the country's economic and social infrastructure gap. This has resulted in a rapid increase in Government capital spending on health and education, roads, agriculture, food security and rural electrification.

security for investment and trade purposes”, upgrading the skills of the labour force through expanded education and technical and vocational training programs, as well as the “progressive withdrawal of state entities from areas that can effectively be provided by the private sector, through the continued privatisation program”. In addition, Government intends to strengthen its consultations with the business community to identify and overcome constraints through facilitating development finance and the availability of land and services.

There are indications that in 2005/06 – the first year of PASDEP - Government was beginning to be successful in stimulating private sector activity. The Ethiopian Investment Agency’s survey of new investment project approvals indicate that close to 6,000 investment projects were approved in 2005/06, valued at some ETB 80.0 billion, estimated to create 550,000 new jobs. To what extent these planned projects materialise into actual investment is unclear, yet the figures should at least provide an indication of the appetite for investment in Ethiopia.

The World Bank’s *Doing Business Surveys* demonstrates positive developments in the business environment in Ethiopia: most notably there has been significant improvements in the ease of starting a business. To illustrate, the number of days required to start a business has fallen from 32 in 2005 to only 16 in 2006. Similarly, the minimum capital requirement and financial cost have fallen by 45% and 90% respectively, over the four years of the survey. All in all, Ethiopia ranks only 97th out of 175 countries in the most recent survey, indicating that there is a long way to go to make Ethiopia a favourable business environment.

While the reinforced PASDEP strategy recognises that production increases and employment creation should primarily come from efforts of the private sector – the latter critically important for raising the currently low productivity of investment⁴ - it does not as yet include those policy proposals that would permit the private sector to fully play that role. This is particularly the case in the fields of privatisation of key public enterprises, foreign direct investment and private traders’ access to activities in the supply of agricultural inputs and marketing of produce.

Over the last few years, Ethiopia has carried out trade reforms to make its economy more competitive and integrated in both the regional as well as the global economy. It has streamlined its tariff structure by narrowing tariff dispersion from 9 non-zero tariff bands to 6, and reduced the maximum tariff from 230% in the 1990s to 35% today. In addition, the sales tax has been replaced by Value Added Tax, and the overall taxation structure, including corporate and personal taxes, has been reformed.

Trade reforms are part of broad economic reforms which include export promotion and restructuring of the Ministry of Trade and Industry, the latter to make it more efficient and better attuned to the demands of the increasingly competitive regional and global economy.

Government has established structures to co-ordinate the evolution of trade and associated trade capacity building activities. Emphasis has been placed on public-private sector partnership, and on the need for strong co-ordination between Government and co-operating partners. NSAs are represented in the National Development and Trade Policy Forum, but private sector representation in trade policy formulation remains in need of improvement and, in this context, the strengthening of several Chambers of Commerce would help.

⁴ The capital output ratio is about 5, which is very high. It signifies that there are impediments that prevent investments from having the required impact on growth.

Further improvements in trade policies, legal and regulatory environment, institutions and trade facilitation, as recommended in the Diagnostic Trade Integration Study (DTIS) 2003-2004 carried out in the context of the Integrated Framework (IF) are under consideration. These will serve the goal of greater integration of Ethiopia into the world economy. Government has recently submitted a *Memorandum on the Foreign Trade Regime* to the WTO in line with due process requirements of WTO accession.

Low savings and dependency

The savings rate in Ethiopia has been low relative to other low-income countries and has fallen further in recent years: gross domestic savings fell from 8.1% of GDP in 2002 to 5.5% in 2005. Overall, the share of gross Ethiopian savings in the financing of investment fell from 33% in 2002 to only 12% in 2004/5. An important implication of such imbalance between domestic savings and investment is that it leads to debt financing. Another implication is that the economy is becoming relatively more and more dependent upon foreign resources to finance its basic investment needs, thereby threatening to reduce Government ownership of its investment programme.

Public finance performance

Public financial developments over the past four years reveal slow growth only in Government revenue, reflecting the inelasticity of Ethiopia's system of taxation. In fact, as the Table below illustrates, the Government revenue/GDP ratio showed very little change, rising from 16.2 percent of GDP in 2002/2003 to 16.9 percent only in 2005/6, despite the significant growth in capital expenditure of Government and the sharp fall in external grants. To make up for the reduction in grants and to finance the rapid expansion of capital expenditure, rather than raising the tax/GDP ratio, Government reduced current expenditure significantly – the latter falling from 19.6 percent of GDP in 2002/2003 to 13.2 percent in 2005/6, so that overall expenditure fell from 29.7 percent of GDP in 2002/2003 to 25.4 percent in 2005/6. This reduction made it possible to cut the fiscal deficit (including grants) from 7 percent of GDP in 2002/2003 to 5.2 percent in 2005/6.

Table 3: Government Revenue and Expenditure as % of GDP⁵

Category	2002/ 2003	2003/ 2004	2004/ 2005	Budget 2005/ 2006	Actual 2005/ 2006
Revenue and Grants	22.8	21.9	21.6	25.1	20.1
Revenue	16.2	17.0	16.7	18.9	16.9
Of which tax revenue	12.0	13.3	13.3		12.2
Grants	6.6	4.9	4.9	6.3	3.2
Expenditure	29.7	25.1	26.5	30.4	25.4
Current	19.6	14.6	14.2	14.0	13.2
Capital	9.2	10.1	12.1	16.4	12.1
Defense Exp.	3.4	3.1	3.1	2.6	2.6
Poverty-targeted Exp	12.5	12.4	15.0	17.2	15.8
Deficit incl. Grants	7.0	3.2	5.0	5.2	5.2
Deficit excl Grants	13.4	8.1	9.9	11.5	8.5

Source: MoFED (Note: The Government's definition of poverty-targeted expenditures include those for agriculture, health, education and roads)

While over the period 2002/03-2003/04 virtually the entire deficit (after grants) was financed by net concessional external borrowing and HIPC debt relief, this began to change in 2004/05

⁵ At Current Market Prices.

when close to one-half of the deficit had to be financed from internal resources, with that share rising to close to 75 % in 2005/06. This reflected Government's difficulty with raising concessional borrowing from institutions such as the World Bank and the African Development Bank, following the suspension of Direct Budget Support. The increased use of domestic financing had a negative spill-over onto Ethiopia's official reserves' position which fell progressively to 2-3 months' imports. It also fuelled domestic inflation which rose to double-digit levels, reaching 16.5% by November 2006, up from 6.8% in June 2005.

Table 4: Financing of Government Fiscal Deficit 2002-2006 (Million ETB)

	2002/2003	2003/2004	2004/2005	2005/2006
A. Deficit	- 4793	- 2586	- 4639	- 6064
B. Net External Financing	3865	2400	2384	1512
(i) Gross Borrowing	3608	2555	2507	1520
(ii) HIPC Debt Relief	814	678	728	926
(iii) Amortisation	- 557	- 833	- 851	- 934
C. Remaining to Financed	928	186	2255	4552
Was financed:				
(i) Net Domestic Borrowing	1653	2147	3492	2735
(ii) Privatisation Receipts	8	11	10	0
(iii) Other and Residual	-733	-1972	-1246	1816

Source: MoFED

Clearly, more internal resources could have been mobilised to finance the Government's expanded investment and poverty reduction programme. Compared to other countries in the region, Ethiopia's revenue mobilisation effort offers scope for improvement. At the current level of 12.2% of GDP the burden of taxation in Ethiopia is low in relation to the country's poverty status and its ambitious development programmes. Scope for strengthening revenue mobilization exists, in particular for taxation of luxury consumption. The need for making the tax system more buoyant is also important⁶ as under PASDEP large revenue increases are needed to match significantly higher spending on infrastructure as well as for poverty reduction programmes to reach MDGs. This is indeed foreseen under PASDEP: in fact, Government plans to raise the tax/GDP ratio to some 16 to 17% of GDP by 2009/10. Government has recently embarked – with the assistance of the IMF – on a review of Ethiopia's system of taxation.

As regards expenditure management, over the past 4 years, Government reduced current expenditures by some 6 percent of GDP. In this period, defence expenditures remained low at an average 3% of GDP (it fell to 2.6 percent of GDP in 2005/06), while poverty-targeted recurrent and capital spending rose from 12.5% of GDP in 2002/03 to 15.8% in 2004/05. The share of pro-poor expenditures in Government's overall expenditure rose from 42% in 2002/03 to 62% in 2005/2006⁷, reflecting Government's commitment to re-align expenditures towards pro-poor programmes. The latter was helped by a strengthening of public financial management which has been a key objective of Government fiscal policy.

Compared to other social sectors, such as education, health receives a proportionally small share of public expenditure. In fact, over the period 2002/03-2006/07, whilst the share of

⁶ The tax/GDP ratio fell in 2005/6 by more than one percentage point, from 13.3 percent of GDP in 2004/5 to 12.2 percent in 2005/06.

⁷ The Government's definition of poverty-targeted expenditure includes those for education, health, agriculture and roads.

education in total poverty-targeted recurrent expenditures of Government was 60%, the share of health reached only 15 percent. While prima facie it could be argued that the low budget is an obstacle for strengthening the performance of the health sector, it should be recognised that Ethiopia is one of the biggest receivers in the world of funding from bodies such as the GFATM, PEPFAR and GAVI. The contributions from these bodies are not captured in the budget, but it is clear that they are large. To illustrate, the Global Fund alone has allocated in excess of US \$713 million for Ethiopia and disbursed some US \$ 254 million so far in support of its programmes for HIV/AIDS, malaria and tuberculosis⁸:

Table 5: Allocation and Use of Global Fund Resources in Ethiopia

Disease	Funding Request	Approved	Disbursed
HIV/AIDS	541	541	131
Malaria	215	133	108
Tuberculosis	70	39	15
Total	826	713	254

Source: Global Fund to Fights AIDS, Malaria and Tuberculosis

Overall, it has been estimated that Ethiopia's Government health spending reaches 4% of GDP, which is comparable to the Low Income Countries' average. Still, this level of spending on health remains dramatically low at US \$5.6 per capita in 2000, which compares to the Sub-Saharan Africa average per capita expenditures on health of US \$15.

Public finance management

The macro-management by Government of its public finances has been positive over the past few years. To illustrate, despite facing a serious shortfall in revenues and grants in 2005/2006, largely due to the suspension of Direct Budget Support, Government managed to contain the fiscal deficit at 5% of GDP. Poverty-targeted expenditures were protected and cutbacks were made to federal recurrent and capital expenditures at both federal and regional levels such that the impact on domestic financing of the deficit was minimised. But whilst the Government's management of the budget was in line with prudent fiscal management, the cutbacks in capital expenditure may well have a negative effect on growth and poverty reduction. The Government's Budget for 2006/7 however, may well be overly ambitious, and may be out of line with the Government's Medium-term Macro-Economic and Fiscal Framework (MEFF) which will become available shortly. It is likely that adjustments will have to be made, as part of an effort to restore macro-economic balance. This is a subject which Government and its financing partners will discuss with the IMF when it comes to Ethiopia in early 2007 to conduct the Article IV Consultations process.

Government intends to move further with strengthening the fiduciary management of its finances and is developing strong tools to achieve this. Thus, under PASDEP, Government intends to implement an Account Reform Program, an improved Cash Management System, an Integrated Budgetary and Expenditure System as well as the IFMS.

Balance of payments and trade developments

⁸ Since its establishment the Global Fund received pledges from all donors equivalent to US \$10.3 billion of which the EC pledged US \$721 million, or 7.5%. Paid in so-far by all donors was US \$7.1 billion, of which US \$638 million was paid in by the EC (or 9%).

Over the past 10 years or so Ethiopia's exports lagged behind the growth of GDP, indicating low performance in the value of coffee exports, as well as slow growth in non-coffee exports. The latter, however, has begun to change through export diversification. An important example is provided by the emergence of significant floriculture and horticulture exports. Imports increased much faster than exports. A key factor was the virtual doubling of the value of petroleum product imports, raising in 2005 and 2006 the latter to over US\$ 600 million, up from US \$311 million in 2003/04. This has contributed to the widening of the trade deficit to about US\$3.3 billion in 2005/06, equivalent to 25% of GDP in that year.

Table 6: Balance of Payments (US \$Million)

Item	2003/04	2005/05	2005/06	% change 2005/6 over 2003/04
Trade Balance	-1984	-2786	-3383	71
Exports	600	847	1000	67
Imports	2584	3633	4384	70
Of which: fuel	311	663	645	107
Net Services	246	242	108	-56
Current Account Balance (without grants	- 1737	- 1733	- 2414	39
Private Transfers	567	750	866	53
C.A. Balance, incl. transfers)	- 1066	-983	-1547	45
Public Transfers	566	750	866	53
Non-Monetary Capital	379	585	515	36
Errors and Omissions	426	297	705	65
Overall Balance	307	-101	-327	-207
Trade Balance as % of GDP	21	24	25	

Source: National Bank of Ethiopia (NBE)

Over the past few years Ethiopia's external financial position has been strengthened by the very significant rise in the inflow of private remittances and private transfers have statistically become as significant as public transfers: an analysis by the National Bank of Ethiopia for the period 2002-2005 indicates that gross receipts – mostly in cash - rose by some 62%, with most of the increase accounted for by private remittances from Ethiopia's diaspora (in US \$ Million)⁹. This development has eased the task of external financial management in Ethiopia.

Table 7: Private Transfers - NGO Inflows and Private Remittances

Item	2002/03	2003/04	2004/05	% Increase 2004/05 over 2003/04
Total Receipts	511	690	828	62
NGOS	347	457	457	32
- Cash	301	404	444	48
- In kind	46	53	13	
Private Individuals	164	233	371	125
- Cash	141	211	351	150
- In kind	24	22	20	

Source: National Bank of Ethiopia (NBE)

PASDEP recognises that if Ethiopia is to maintain its economic growth under conditions of external financial viability there is need for a further stepping up of growth in exports of goods and services. PASDEP foresees the exports/GDP ratio to rise from the current 8% to close to 11% by 2009/2010. This calls for strong private sector development, vigorous measures for skills-based export diversification as well as maintenance of a realistic exchange

⁹ National Bank of Ethiopia, Annual Report 2004/05.

rate¹⁰, to achieve and maintain export competitiveness and dampen the growth in exports. Fast export development also needs trade policy reform acceleration, as well as more progress towards regional integration and trade development with Ethiopia's neighbours.

There is considerable scope for Ethiopia to benefit more from globalisation. During the last 5 years Ethiopia saw progress in export growth and diversification, as a result of trade liberalisation. Foreign direct investment in Ethiopia remains however below its potential. To benefit from trade, external infrastructure links are important and recognised as such by the Government. Other supply-side constraints are being addressed in the context of the EPA negotiations and WTO accession, while the set of common tools and instruments developed by the COMESA could be exploited to further advance these processes.

In December 2006, the Government submitted its *Memorandum on the Foreign Trade Regime* to the WTO in line with due process requirements of WTO accession. The Government is planning to undertake, with World Bank assistance, an assessment of the effects of freeing entry into the financial and telecommunications sector. The latter could boost private sector investment and add to the efficient functioning of Ethiopia's modern economy.

External assistance issues

During the past six years, annual Official Development Aid (ODA) disbursements nearly tripled from US \$370 million in 1999/2000 to US \$1066 million in 2005/06.

Table 8: Key External Assistance Data for Ethiopia (US \$ Million)

	1999/2000	2000/1	2000/2	2002/3	2003/4	2004/5	2005/6
Gross National Income	7877	7860	7404	7991	9435	11361	13307
Total Net ODA	370	594	867	693	937	1056	1066
Population (mid-year-'000)	62584	64420	66280	68174	70097	72055	74065
GNI per Capita (US \$)	126	122	112	118	135	158	180
ODA per Capita (US \$)	5.9	9.2	13.1	10.1	13.3	14.7	14.4
Ethiopia							
ODA per Capita (US \$) Sub-Saharan Africa	19	20	27	34	35		
ODA as % of GNI Ethiopia	4.7	7.6	11.7	8.7	9.9	9.3	8.0

Source: MoFED (It should be noted that ODA data from DAC/OECD: International Development Statistics (online) are considerably higher).

Ethiopia also receives external financing from NGOs: data from the National Bank of Ethiopia indicate that an annual cash inflow from NGOs has reached over US \$450 million. Over the past five years the interaction between donors and the Government of Ethiopia has been positive: (i) In this period, donors demonstrated their commitment to scale up their provision of aid to Ethiopia by over 250%; (ii) In contrast to the 1990's, volatility of donor support was significantly reduced in the 2000-2004 period even though the experience with Direct Budget Support in 2005 reflected the volatility of this aid category; (iii) There has been coherence between the size and composition of donor support and Government policies and programmes, and; (iv) Aid delivery became more accommodative in terms of availability, as demonstrated by an increase in disbursement rates.

¹⁰ However, the real effective exchange rate has risen by some 13% in the past year, which has reduced the export competitiveness of Ethiopia's economy.

External debt issues

Ethiopia received debt service relief under the enhanced HIPC Initiative valued at €2.8 billion in nominal terms, plus a topping-up of assistance on the order of €600 million. Under the Multilateral Debt Relief Initiative, the IMF approved 100 percent debt relief valued at €130 million. The significant lowering of Ethiopia's external debt (down from 150% of GDP to 102%) and debt service burden (down from 7.3% to 5.2% of GDP) provided room for expanding programmes for poverty reduction and economic growth acceleration.

Table 9: External Debt Burden 2002/03 – 2005/06 (% of GDP)

	2003/03	2003/04	2004/05	2005/06
External Debt stock	85.4	75.7	53.9	47.4
Debt NPV/exports ratio (%)	150.0	126.2	107.8	102.2
External Debt Service Ratio–before debt relief (%)	14.9	15.1	14.2	12.9
External Debt Service Ratio – after HIPC and Fund debt relief (%)	7.3	6.3	7.1	5.2

Source: MoFED

II.1.3. Social situation, including decent work and employment

In 2005 Ethiopia ranked among the bottom ten countries on UNDP's Human Development Index. However, over the past four to five years Ethiopia has demonstrated its ability to scale up social sector service delivery, with positive results in health, education, water supply and sanitation. Donor support – much of it extra-budgetary - was facilitated by Government sector development programmes. Questions have now emerged about the sustainability of expanding social sector facilities much ahead of the ability of Government and beneficiaries to operate and maintain these facilities. At the same time, user fees pose difficulty of access¹¹. The operations and maintenance issue is of key importance in education, where enrolments rates have gone up spectacularly but where completion rates remain low and educational quality is declining. It is also crucial in health, water supply and sanitation.

Table 10: Key indicators for monitoring progress on meeting the MDGs

Indicator	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	MDG 2015
1. Percentage of people below poverty line	42	-	-	-	34	21
2. Infant mortality rate (per '000)	97	-	-	-	80	47
3. % of stunted children 3 years to 59 months	57	-	-	-	47	30
4. Primary (1-8) Gross Enrolment Ratio	61	61	64	68	74	100
5. Primary (1-8) Net Enrolment Ratio	29	32	34	36	37	
6. Grade 4 Completion Rate ¹² (%)	25	31	34	37	40	100
7. Gender parity index for grade 1 to 8	0.7	0.7	0.7	0.76	0.9	1.0
8. Proportion of deliveries attended by skilled health personnel (%)	9	10	10	11	11	75
9. Proportion of children receiving DPT3 vaccination (under 1) (%)	38	45	46	55	61	100
10. HIV prevalence among 15-24 year old pregnant women (%)		8	12	11	10	
11. % of people with access to potable water		31	34	38	40	50

Source: PASDEP

¹¹ But the WMS reports 15% under-utilisation of health services in rural areas on account of high user fees.

¹² WB projections.

Over the period 2000-2005 **the health situation** of Ethiopia's people improved. E.g. infant mortality fell from 97 to 80 per 1000 live births. Much of this progress can be attributed to Government efforts to scale up health sector delivery as well as to action by NGO. The problem of malnutrition continues as illustrated by the fact that a staggering 47% of Ethiopia's children are stunted. The HIV/AIDS epidemic poses a threat to poverty reduction in Ethiopia. The national prevalence rate is estimated at 4.4%, while the rate is almost four times higher in urban areas. Some 1.5 million people are infected with the virus.

In rural areas the utilisation of health services is very limited indeed: 49% of respondents under the Welfare Monitoring Survey reported that had not used the health services at all. This is partly the result of distance: in Tigray, for instance, 46% of the patients had to travel more than 10 km to reach a medical facility. But the cost of getting treatment and medicines was considered very high in Government facilities. Thus, 15% of responding households stated that the service charges were too expensive. This led PASDEP to conclude that "...the cost of medical treatment and drugs needs to be reviewed" (PASDEP, Page 37).

As regards the **education sector**, in 2005 Government continued its ambitious campaign towards meeting the MDG of Universal Primary Education by the year 2015. The Gross enrolment ratio increased from 61% to 74% since 2000-2001. Progress in secondary education has been rapid as well (from 19% GER in 2000 to 23% in 2004), but the enrolment ratio remains low.

In 2005, 7.2 million **chronically food insecure people** appeared to require food or cash transfers. It is estimated that in 2006 9.8 million people required such assistance. This increase is largely a result of the re-targeting exercise undertaken by the Government recently and takes place against a background of strong agricultural production growth and a bumper harvest in 2006, indicating an increasing disconnect between agricultural production and vulnerability.

As regards **water and sanitation**, in 2004 about 36% of Ethiopia's population had access to safe drinking water, up from 28% in 2000. In contrast, about 75% of households in rural areas use unclean drinking water. But in urban areas only 8% of households have to use unsafe water. Over the years, sanitation did not receive high priority from Government and from donors, which explains the low coverage: among rural households: more than 78% do not have any toilet facility; 20% have pit latrines. From a health point of view, it is even more serious to observe that almost a fifth of urban households do not have access to any kind of toilet facility, and have to use open fields.

The 2004/2005 Participatory Poverty Assessment (PPS) reveals a perception of gradual gains in **gender equality** in Ethiopia, principally due to improved land access equality on death and divorce in the rural areas, and increased acceptance of women working in urban areas. Nevertheless a deep conservatism pervades gender roles, severely prescribing what women can and cannot do, especially in rural areas. Despite this progress, Ethiopia still comes close to the bottom of international indexes concerning gender equality. Although progress has been made in education, primary school completion rates remain far lower for girls than for boys. Girls and women are particularly vulnerable as a result of cultural practices: in particular female genital mutilation remains the norm in much of the country. The HIV/AIDS prevalence rate is much higher amongst females than males. Whilst a comparatively high proportion of members of Parliament are women, overall participation rates in Government are much lower, especially in key policy making and managerial roles. "Much remains to be

done, however, to promote changing social attitudes so that women can contribute fully to the development process in Ethiopia in the future” (PASDEP, page 34).

Ethiopia’s overall **fertility rate** – while having fallen from 6.4 to 5.9 per woman since 1990 - remains one of the highest rates in the world. Nearly 80% of the population is aware of at least one family planning method, but utilisation of such services remains low. Recent data indicate that contraceptive prevalence ranges from 18 to 23%. Even by regional standards Ethiopia’s current prevalence remains low, and “the country’s unmet need for contraceptives remains around 36%”¹³. Reducing fertility in urban areas is making some progress, particularly in Addis Ababa where over the past few years a very significant reduction in fertility has been noticed, related to educational achievement and, probably, to the easier availability of contraceptives. In this connection it is of interest to note that the Citizens’ Report card prepared by the NSA “Poverty Action Network of Ethiopia (PANE)” states that “very few respondents reported getting contraceptive advice from government facilities”. PASDEP rightly draws as its conclusion that “delivery of contraceptive services needs to be greatly intensified” (PASDEP, Page 37).

The **urban population** of Ethiopia in 2005 is estimated at 16%, or at 11.7 million people. The urbanisation rate is higher than the country’s capacity to increase basic services and urban infrastructure. A result has been increasing urban poverty. About 30% of the inhabitants of Addis Ababa live below the absolute poverty line. The urban areas are presently suffering from a host of social and economic problems including **high unemployment** (26%, unchanged in 2003 from 1999¹⁴), widening income disparity, deepening poverty, severe housing shortages and poorly developed physical and social infrastructure. The government has embarked on an aggressive policy to build social housing. In addition, recent surveys indicate that unemployment rates in urban areas have shown some decline.

As regards **employment trends** in Ethiopia, the CSA Labour Force Surveys indicates a slight fall in paid employment over the period 1999-2003, inter alia the result of falling paid employment levels in agriculture and restaurants and hotels and other sectors. Manufacturing employment, however, rose by some 16 % over the four-year period. The CSA Urban-Biannual Employment/Unemployment Survey of 2003 reveals that some 43% of the paid urban employed are Government and parastatals’ employees, with some 33% being employed in the private sector. In addition, domestic employees constitute 21% of the labour force.

Table 11: Paid Employment 1999-2003

Sector	1999 – ‘000	2003 – ‘000	Share of total 1999	Share of Total 2003
Agriculture	319	253	12	9
Manufacturing	379	441	14	15
Electricity, Gas and Water	24	32	1	1
Wholesale and Retail trade	549	669	20	23
Hotels and Restaurants	368	224	14	8
Transport	111	119	4	4
Public Admin and Defence	169	224	6	8
Education/health	171	240	6	8
Other	612	383	23	15
Total	2702	2585	100	100

Source: Ministry of Education, Future Demand for Middle-Level Qualified Human Resources in Ethiopia 2004

¹³ Ministry of Health: National Reproductive Health Strategy 2005-2015 (May 2005).

¹⁴ Source: Labour Force Survey 19999 (CSA); and Urban-Biannual Employment/Unemployment (CSA, 2004b).

The limited employment prospects in the urban sector are evident in the performance of the labour market. Overall, there was a mixture of job increases and losses in some sectors and in various occupations. The increase has favoured high level occupation, i.e. managers and professionals, followed by middle-level occupations, i.e. technicians and associated professionals. This reflects a changing demand pattern in favour of higher-skilled jobs. In 2003 only 10% of the urban population had post-secondary education, a ratio which Government rightly intends to raise over the coming years. Under PASDEP Government also plans to expand vocational training and technical education as part of programs supported inter alia by German Cooperation.

As regards **trafficking in human beings**, Ethiopia is a source country for men, women, and children trafficked for labour and other forms of exploitation. Young Ethiopian women are trafficked to Djibouti and the Middle East, particularly Lebanon, the United Arab Emirates, and Saudi Arabia, for often involuntary domestic labour. A small percentage are trafficked for sexual exploitation, with some women reportedly trafficked onward from Lebanon to Europe. Small numbers of men are trafficked to Saudi Arabia and the Gulf states for exploitation as low-skilled labourers. Both children and adults are trafficked internally from rural to urban areas for domestic labour and, to a lesser extent, for commercial sexual exploitation and forced labour, such as street vending. While Government does not fully comply with the minimum standards for the elimination of trafficking, it is making significant efforts to do so. However, to further its efforts to combat trafficking, the government should put in place laws that prohibit all forms of trafficking, begin compiling comprehensive law enforcement statistics, and launch a nationwide public awareness campaign.

II.1.4. Environmental and energy situation

Environmental assessment¹⁵

Reflecting the degradation in its environment, Ethiopia has been placed among the lowest in the 2006 pilot Environmental Performance Index (EPI) issued by Yale University, New haven, Connecticut. According to the EPI, Ethiopia ranks 38th out of 42 African countries. In the category of sustainable energy, Ethiopia performed well, reflecting its low energy use and low levels of greenhouse emission.

The report describes encouraging efforts by several institutions of government to address environmental degradation and natural resource management issues, but the desired results appear far from being achieved. In 2005 the Environmental Protection Authority (EPA) developed guidelines for environmental impact assessments. EPA also assisted regions to establish environmental protection units and conducted a Country Environmental Assessment in 2004.

While PASDEP's environmental programmes are heavily urban oriented, it does address environmental problems facing the rural population. These include issues as fuel wood consumption and charcoal, land degradation under increasing population pressure, watershed management and biodiversity. Soil erosion and degradation remains one of the most serious environmental issues affecting Ethiopia, despite repeated soil and water conservation campaigns throughout the country.

¹⁵ For more detailed analysis, see Annex 2: Country Environment Profile

More decisive action by Government and donors is needed to arrest environmental degradation in Ethiopia, also with a view to adapt to the possible impacts of climate change. While the Government's rural development and food security policies are geared towards maintenance, restoration and enhancement of the natural resource base of the country and aim to mitigate the effects of the Ethiopian climate variability, yet a wide range of programmes (inter alia rural development, resettlement, development of commercial farming) have been implemented which did not sufficiently protect environment resources.

Water and energy resources

Ethiopia possesses substantial untapped water resources that could play a significant role in reducing poverty and accelerating growth, if utilised adequately. It has 12 major river basins and 12 large lakes. The total annual surface run-off is estimated to be in the order of 122 billion m³ and there is a further estimated 2.6 billion m³ of usable groundwater. Various efforts have been made to develop Ethiopia's water resource to increase its contribution to the national economy. However, mainly due to uneven distribution of the resources and limitations of financial and technical inputs, only limited progress has been made so far.

A recent model to deal with water resource management is the Nile Basin Initiative, under which considerable movement is expected during the PASDEP period in terms of: (i) Implementation of a watershed development programme; (ii) Implementation of irrigation and drainage projects, and; (iii) Putting in place flood preparedness and early warning systems around Lake Tana. The target during PASDEP is to raise the rural population with access to potable water within 1.5 Km from 44% to 80% and urban population from 80.6% to 92.5% within 0.5 Km.

Ethiopia's water resources will also be used to help increasing power supply by three-fold over the coming five years. In total, generating capacity is to be increased from the existing 791 MW to about 2,218 MW, mainly through small and larger hydro-power projects. A major element during the PASDEP period will be the launch of a large-scale rural electrification programme, called the Universal Electrification Access Programme (UEAP). At the moment, the access to electric power in rural areas is very limited, as shown by the 2004 WMS results. Under the UEAP, access would be extended to some 24 million people, taking penetration to about 50% of the country within five years.

Apart from hydro-power, the UEAP also relies on other supply options for generating electricity such as coal, gas and wind power (in some cases, the programme also involves small-localised off-grid power sources such as photo-voltaic solar and mini-hydro). Based on the limited exploration activities so far, natural gas and geothermal energy have been identified among the various mineral resources available in Ethiopia. If the Calub gas condensate project comes to development, it can potentially reduce the import of petroleum products, serve as a raw material for fertiliser production and be used for power generation.

II.1.5. Ethiopia in the international context

Ethiopia commands a significant geopolitical political position in the Horn of Africa, reflecting its population size, economic strength, resource endowment and its role as a regional service centre.

The conflict between Ethiopia and Eritrea continues to be an important focus of Ethiopia's external relations agenda. This conflict grew out of the military incursion by Eritrea in May 1998 into Ethiopia ending in the seizure of the town of Badme by Eritrea.

The Eritrea-Ethiopia Claims Commission has given its verdict on this matter characterizing the Eritrean military move as an aggression and a violation of UN Charter Principles. However, even after a decision has been made by the Boundary Commission on the border dispute between the two countries which is final and binding, the two countries were not willing to proceed to demarcation due to a lack of mutual trust and preparedness to create conditions for the resolution of the problem through dialogue as suggested by the witnesses to the Algiers Agreement in their meeting in New York on Feb. 22, 2006.

As regards regional political developments, the year 2006 saw further tension in the Horn of Africa mainly due to the deterioration of the situation in Somalia. The emergence in Mogadishu of an extremist Islamic group under the umbrella of the Union of Islamic Courts (UIC) was perceived by Ethiopia as a threat to its security and the stability in the region. By the third week of December 2006, the military offensive mounted by the UIC aimed at seizing Baidoa, the seat of the internationally recognized Transitional Federal Government of Somalia, became a major threat prompting an Ethiopian counter-offensive in collaboration with the troops of the TFG. The outcome of this was the ousting of the UIC militia and its leadership from Somalia. The defeat of the UIC has created an opportunity for the Somalis and the TFG to focus on political reconciliation and, ultimately, democratization in Somalia.

The area along the Sudanese border remained for a long time difficult due to the civil war in South Sudan. However, the agreement between the South and the North on the Comprehensive Peace Agreement (CPA) has created an opportunity for normality and stability along the common border. For a few years, relations between Sudan and Ethiopia have begun to normalize and have continued to improve after the 1998-2000 war between Eritrea and Ethiopia.

Finally, the border with Kenya has also been affected by incursions by some isolated groups with links to the OLF causing concern for both countries and prompting joint efforts by Ethiopian and Kenyan security forces along the border. Disputes over cattle and pasture grounds, however, continue to be a problem between tribes straddling the common border. Otherwise, relations between Ethiopia and Kenya are excellent. (Addition suggested by Foreign Affairs).

As regards regional trade, Ethiopia participates in regional and global trade through its membership of regional and multilateral arrangements. Ethiopia is a founder member of the Common Market for Eastern and Southern Africa (COMESA) and the Inter-Governmental Agency for Development (IGAD) as well as being a member of the ACP, and, as such, its trade with the European Union is based on the provisions of the Cotonou Agreement. Trade with the rest of the world has been on Most Favoured Nation basis as Ethiopia is not yet a member of the World Trade Organisation (WTO). Ethiopia applied for WTO membership in January 2003 and has recently submitted *Memorandum on the Foreign Trade Regime* to the WTO in line with due process requirements of WTO accession.

Ethiopia's participation in trade integration in COMESA has been limited. While 11 of the regional organisation's members have established a Free Trade Area and the remaining countries have reduced tariffs by up to 80%, Ethiopia only grants and receives a 10%

preference on MFN tariffs in her trade with other COMESA countries. Ethiopia has, however, commissioned studies to assess the implications of further trade liberalisation in the context of COMESA and is currently considering a timeframe for entry into the COMESA Free Trade Area. As a member of the Eastern and Southern Africa (ESA) Group of 16 countries, Ethiopia actively participates in the negotiations for an Economic Partnership Agreement (EPA) with the European Union.

The Africa Union HQ located in Addis Ababa may have spill-over effects in various national sectors.

II.2. Poverty reduction analysis¹⁶

Over the past ten years, but in particular over the past 4 years of the SDPRP, there has been an improvement in both monetary and non-monetary poverty in Ethiopia. According to the 2004/05 HICES, the proportion of poor people (poverty head count index¹⁷) in the country is estimated at 39% in 2004/05 (see the Table below), down from 44% in 1999/2000, reflecting a reduction of 12%.

Table 12: Trends in Total Poverty Index at National level and Rural/Urban Areas 1995-2005

	Index	Index	Index	% change	% change	% change
Head Count	1995/ 1996	1999/ 2000	2004/ 2005	1999/2000 over 1995/96	2004/05 Over 1995/96	2004/05 Over 1999/2000
National	46	44	39	- 3	- 15	- 12
Rural	48	45	39	-4	-17	-13
Urban	33	37	35	11	6	-5

Source: PASDEP, page 23 and HICES 2005

Much of the decline in national poverty is attributed to a decline in poverty in rural areas which has been substantial (13%), and the decline is much higher during the SDPRP period (17%) than in the 1995/1996 period (4%). Urban areas have a slightly lower poverty level than rural areas, but the decline of poverty has been slower there than in rural areas (5% only). However, the latter compares to an increase in urban poverty in the 1995/1999 period (6%).

Much of the decline in monetary poverty reflects the high overall GDP and agricultural sector growth that took place over the past 4 years. PASDEP attributes the decline in the proportion of rural people below the poverty level also to the wide-ranging and multi-faceted pro-poor programs that have been implemented in rural areas such as the agricultural extension program, the food security program and the recent Productive Safety Net Program. The decline in rural poverty is also documented by a study conducted by Addis Ababa University, in collaboration with Oxford University and IFPRI, which identified a fall in head count from

¹⁶ The analysis reflects the results of three sources of information on poverty in Ethiopia of which first results have recently become available: (i) the Welfare Monitoring Surveys (WMS), undertaken every five years since 1996, which tracks household characteristics and the non-income dimensions of poverty; (ii) The 5-yearly Household Income, Consumption and Expenditure Survey (HICE), which measures income poverty; and (iii) The Participatory Poverty Assessments (PPA), which assess people's views on poverty issues and programmes.

¹⁷ The incidence of poverty (headcount index) measures the proportion of the population whose consumption falls below the poverty line, that is, the share of population that cannot afford to buy a basket of goods and essential non-food items.

55% in 1995 to 36% in 2004. It is of special interest that Messrs. Dericon, Gilligan, Hoddinott and Woldehanna (2006)¹⁸ found that there is a strong correlation between road infrastructure expansion and a decline in consumption poverty. The decline in urban poverty is probably the result of the rise in private investment and informal employment in urban areas, reflecting the ongoing construction boom and other expanding sources of job creation. It should be noted that these are the first results deriving from the three studies. More detailed studies will become available shortly.

The reduction in the proportion of people below the poverty line, however, should be seen in the context of continued pervasive poverty in Ethiopia. To illustrate, in 2005 Ethiopia ranked among the bottom ten countries on the United Nations Development Programme (UNDP)'s Human Development Index. In that year per capita income stood at US \$158. Importantly, life expectancy remains low at 53 years. And the absolute number of poor people still stands at 27.5 million people, having declined by 2% only since 1999/2000, reflecting the continued high level of population increase. The latter remains a strong obstacle to reaching the MDG target for reducing poverty by half by 2015.

By any measure, most Ethiopians live under harsh conditions. Among the rural population the main source of income for 87% of the households is low-productivity subsistence agriculture. Income levels are very low and highly variable, subject to climatic shocks. The primary asset to cushion weather shocks is livestock (72% of households own cattle) but the ownership of other physical assets is extremely low: e.g. only 14% of households own a radio while less than 1% owns a bicycle.

Children are very susceptible to nutritional deficiencies, which are indications of lower welfare status of households. Stunting is an indicator of long-term or accumulated nutritional deficiency resulting from lack of adequate dietary intake over a long period of time. According to WMS the number of children aged 3 to 59 months that suffer from chronic malnutrition were still at 47% in 2004/2005, even though having declined from 57 percent in 1999/2000. The prevalence is much higher among rural children (48.5 percent) than urban (29.6 percent).

Of special interest is that the design of PASDEP has benefited from the results reflected in the Citizen's Report Card (CRC), which was conducted by the NGO Poverty Action Network of Ethiopia (PANE). The CRC is a simple but powerful tool to provide public agencies with systematic feedback from the users of public services, to permit the latter to identify the strengths and weaknesses of their work in health, education, water and sanitation as well as in agriculture. The findings generally reinforce the messages emerging from the Welfare Monitoring Surveys. Some of the major findings include (i) 75% of rural respondents depend on non-potable water sources; (ii) access to medical treatment is a major issue for rural communities as are the high cost of medical treatment and the lack of contraceptive advice from Government institutions; (iii) malaria is the most common form of illness; (iv) most children are now at school within 3 km of their residences, but there is an acute shortage of drinking water in schools; and (v) only 56% of farmers found extension services adequate and only 37% of farmers access credit.

Prospects for further poverty reduction

¹⁸ Dericon, S. D. Gilligan, J. Hoddinott and T. Woldehanna (2006)¹⁸ , The impact of roads and agricultural extension on crop income, consumption and poverty in fifteen Ethiopian villages, mimeo.

It is clear that strong economic growth, especially the recovery of food production, has led to significant improvement in the poverty situation of many households since the 1990/2000 HICES. The encouraging trends in the outcomes of the non-income dimension of poverty as inter alia indicated by increased access in primary education, the significant decline in stunting and wasting (improved nutritional trends) increase in literacy and health access rates and reductions in infant mortality complements the outcomes in income poverty which took place in the SDPRP period. The latter was made possible by the increase in poverty-targeted expenditures which increased from 12.5% of GDP in 2002/2003 to 15.8% in 2005/2006. The latter is to rise to 22% of GDP by 2009/2010 (PASDEP – Selected PASDEP targets; page 55).

If such a trend in poverty reduction continues over the PASDEP period – and this is a key objective of Government policy - the national poverty index could further decline from 34% and reach 29% by 2009/2010 which is the Government's target included in PASDEP. As over the past four years Ethiopia has been on a fast growth trend some 10%, it is not unrealistic to expect that income/consumption poverty will decline to that level if Government succeeds in maintaining an average annual economic growth rate of 7.3%, which is the Government's target. Success in the Government's effort to reduce poverty further will, however, also depend on success which Government is to have in reducing inflation which has reached double-digit levels, the latter hurting especially the poor.

II.3. Ethiopia's development strategy

PASDEP is Ethiopia's guiding strategic framework for the five-year period 2005/6-2009/10. It carries forward key strategic directions pursued under the first poverty reduction programme (SDPRP), but also embodies new directions. Foremost among these is a major focus on economic growth and a scaling-up of efforts to achieve Millennium Development Goals. The PASDEP process benefited from two rounds of consultations with civil society, non-government actors, and donors. It also passed through an extensive process of debate and review within Government.

PASDEP includes fresh approaches to economic growth and poverty reduction in Ethiopia.

These are:

- (i) Putting stronger emphasis on poverty reduction through economic growth acceleration, accelerating market-based agricultural development and strengthening social sector service delivery;
- (ii) Embracing the private sector, accelerating export growth and reducing the country's infrastructure gap;
- (iii) Pursuing the urban agenda and strengthening rural-urban linkages;
- (iv) Strengthening human resource development and decisively reducing high population growth;
- (v) Unleashing the productive potential of Ethiopia's women;
- (vi) Arresting environmental degradation; and
- (vii) Strengthening economic and democratic governance.

Until a few years ago agricultural growth rates over the longer-term has been sluggish, economic growth being driven by services and trade. This has been so since agriculture was largely stuck in subsistence production of food grains, with limited market integration, while

the service and trade sectors have been growing quickly, and are concentrated in urban areas where the first stages of renewed private activity and expenditure have taken place following liberalization. Thus, under PASDEP the dynamic achievements in trade, services, and industry will be sustained and deepened, while an aggressive effort will be launched to maintain the high momentum of recent agricultural growth. Government recognises that in order to achieve the latter, there has to be a shift away from reliance on publicly funded spending to private sector led growth.

The Government recognises that the key drivers of growth are high rates of savings and investment and a low incremental capital-output ratio associated with that investment. Complementary to such accumulation is the acquisition of more advanced technology and raising the skills of the labour force. Therefore, PASDEP proposes programmes and policies to that effect. Of key significance is that PASDEP recognises that inappropriate policies and weak institutions have in the past led to poor growth performance, and emphasises the priority that is attached to reforms in democratic governance, including political, economic, social and environmental governance.

New in PASDEP is also the Government's emerging urban agenda: the development of a balanced urban system is seen as critical to increase market integration by facilitating exchanges and the division of labor, as well as facilitating diversification in the non-agricultural sector. Furthermore, cities are seen to offer the opportunity to deliver services more cheaply and to act as poles of growth, thereby playing an important role in poverty reduction. PASDEP addresses high population growth, very low productivity, structural bottlenecks, dependence on unreliable rainfall, and being land-locked which combine to pose challenges almost unequalled anywhere in the world. This requires Government efforts to accelerate progress as rapidly as possible – including a big push on education, expanding infrastructure, opening the economy, building institutions, and devolving administration.

The Government believes that this major push on economic growth is essential to have a lasting impact on poverty, as well as to finance the necessary social investments for human development. The required growth rates are very high. For example, projections show that with growth at 4% there would still be about 22 million absolute poor by 2015, living at or below the food poverty line. Conversely, calculations show that a growth rate of 8-10% would have to be sustained to reach the MDG of halving income poverty by 2015. This compares to an average actually realised growth rate of 10% during the SDPRP period.

Tackling the non-income dimensions of poverty remains central to the Government's strategy. It had underpinned much of the thrust of the SDPRP, and is now the focus of a massive scaling-up effort to reach the MDGs. Table below shows the MDGs for Ethiopia, and how they relate to the PASDEP programme.

Table 13: Millennium Development Goals

	2000 Level	MDG Target (2015)	Current Level (2005)	PASDEP Target (2010)
Goal: Halve Income Poverty (%)	42	21	34	29
Goal: Achieve Gross Universal Primary Enrolment (%)	61	100	74	100
Goal: Net Universal Primary Enrolment (%)	29		37	
Goal: Achieve Equal Female Participation	?	100	84	97
Reduce Maternal Mortality by Two-thirds (Per 100 000)	970	470	871	600
Halt and Reverse Spread of HIV (%)	7.	---	4.4	4.4

Halt and Reverse spread of malaria (per 100 000)	7.7			
TBC prevention and control (%)	60		76	85
Halve Population without Access to Water and Sanitation	28		36	52

Source: PASDEP

The SDPRP represented a strong start in moving towards MDGs, especially in education, health, and water supply. PASDEP continues these efforts through intensified sectoral programmes in health, education, HIV/AIDS and water-sanitation

Throughout the PASDEP period, Government intends to maintain macroeconomic stability and continue with the record of prudent economic management it has sustained in the past. It is also recognized that the Government cannot afford to finance everything at once, and the PASDEP programmes will be scaled and phased in the annual planning cycle to fit available resources. The latter is especially important now that the Ethiopian economy is facing important macro-economic imbalances. Finally, government will continue with essential efforts already started to strengthen public institutions to support implementation of all of these initiatives, i.e. the Civil Service Reform Programme, law and justice reform, strengthening local government, and capacity-building. Annual targets are presented in considerable detail in the newly-published PASDEP Matrix. The latter also refer to the Government's policies and programs for the fight against corruption. During the PASDEP period Government will develop an ethical and anti-corruption policy and establish "efficient, independent and appropriately-resourced anti-corruption bodies".

II.4 Analysis of the viability of current policies and the medium-term challenges

Both the Government's Annual Performance Reviews of SDPRP and the donor assessment of PASDEP emphasise that faster progress towards reaching MDGs is to come from a stepped up 7%+ economic growth scenario. Government and donors recognise as well that critical importance attaches to making certain that development progress so far achieved is sustained. A key conclusion drawn by Government from the SDPRP experience is that over the past five years there has been an imbalance between expanding social sector service delivery and promoting economic and incomes' growth. Government concluded that re-balancing its development strategy is now called for, which is reflected in PASDEP. It derives from the recognition that if service delivery is expanded further without raising production and incomes simultaneously, a sustainability problem is created and the maintenance of the current stock of infrastructure cannot be guaranteed.

While the reinforced PASDEP strategy recognises that production increases and employment creation should primarily come from efforts of the private sector – the latter critically important for raising the currently low productivity of investment¹⁹ - it does not as yet include those policy proposals that would permit the private sector to fully play that role. This is particularly the case in the fields of privatisation of key public enterprises, foreign direct investment and private traders' access to activities in the supply of agricultural inputs and marketing of produce. The need for further improving the private investment climate is illustrated by Ethiopia's low ranking in the World Economic Forum's 2004/2005 Global Competitiveness Report in which Ethiopia is rated 106th out of 117 countries. In this study,

¹⁹ The capital output ratio is about 5, which is very high. It signifies that there are impediments that prevent investments from having the required impact on growth.

Ethiopia compares unfavourably on most governance indicators, and in the supply of skilled labour and infrastructure services.

A key issue in agriculture relates to the issue of land tenure. This is recognised in PASDEP which aims to provide “improved land tenure security with more flexible and transferable rights”. Over the last 2 years Government has moved forward with the provision of land certificates which are intended to confirm user rights to promote greater tenure security. Over 2 million certificates have so far been issued, mainly in Tigray and Amhara. The Government’s long-term objective is to have cadastral surveys and user title deeds. It is unclear to which extent these certificates increase tenure security, being only for user rights, are of a temporary nature and cannot be used as collateral in the formal banking system.

The proposed re-alignment of public investment priorities to support the re-balanced development thrust calls for a re-alignment of donor programmes towards more support for growth-inducing infrastructure, skills development, an expanded and renewed productive safety net, urban programmes, environmental preservation and reproductive health programmes. Accomplishing this re-alignment may not be easy and will require pro-active aid management by Government and constructive interaction between Government and donors.

Arresting – and possibly reversing - Ethiopia’s rising food insecurity is a key priority for Government and donors alike. Programmes identified in PASDEP to cope with chronic food insecurity reflect a five-pronged approach: (i) Stimulating agriculture growth; (ii) Addressing vulnerability through the Productive Safety Net Programme (PSNP) to cushion the rural poor against income and livelihood shocks that often come from the vagaries of weather and the progressive deterioration of the natural resource base in rural areas; (iii) Reducing population density in rural areas, to be achieved through putting in place a rigorous action plan for family planning and reproductive health, as well as the promotion of gender equality. It also involves letting rural/urban migration take its course and developing promising urban centers to facilitate the productive absorption of rural migrants through skills development and other programmes; (iv) Maintenance, restoration and enhancement of Ethiopia’s natural resource base; and (v) Strengthening disaster preparedness.

II.5. Macro-economic framework and financing of PASDEP

PASDEP includes 5-year projections for Government expenditures, including poverty-oriented expenditures, as well as revenues, which have been prepared within the context of an economic program that is to be consistent with achievement of the twin objectives of macro-economic stability and a 7% growth rate. Two projections of expenditures have been made: (i) an expenditure program which would be consistent with a realistic assessment of both internal and external resource availability; and (ii) an expenditure level that would be required to reach MDGs by 2015 and which would require higher levels of external financing. The expenditure and financing plan has been drawn up against the background of a macro-economic framework that raises annual economic growth to 7 percent, increases investment and domestic resource mobilisation levels, accelerates exports and raises significantly poverty-targeted expenditures. The Table below sets out the macro-framework:

Table 14: Macro-Economic Framework

Percentage of GDP	Baseline: 2004/05	Target: 2009/10
Annual GDP Growth (%)	10.6	7.3
Gross Domestic Investment	20.5	26.1
Gross Domestic savings	3.7	13.1

Exports of Goods and Services	15.8	19.7
Imports of Goods and Services	34.3	31.2
Government Revenue	15.8	18.7
Tax Revenue	12.5	17.0
Total Expenditure	25.2	27.0
Total Poverty-targeted expenditure	14.2	22.3

Source: PASDEP

Clearly, the targets being pursued are ambitious, but would be feasible with appropriate policy action which will unfold over the years. The latter can be monitored on the basis of the DAG Policy Matrix which provides annual targets for the achievement of macro-economic goals. The macro-economic targets also underlie the Government's external financing projections which are reflected in the Table below, that is, with the financing plan that is based on a "realistic assessment of prospective resource availability" which is called the base-case scenario. However, PASDEP also contains an "MDG scenario", as follows:

Table 15: PASDEP- External Financing Requirements 2005/06-2009/10 (Billion Birr)

	2005/06	2006/07	2007/08	2008/09	2009/10	Total
1. Total Spending – MDG needs	52	60	68	74	78	332
1.1 Difference with Base Case	16	15	21	24	25	100
2. Total Spending – Base-Case, of which :	36	45	47	50	53	232
Poverty-oriented Exp.	23	33	36	39	44	175
Recurrent	17	19	20	21	22	97
Capital	19	26	28	29	31	134
3. Government Revenue	22	25	28	33	38	145
4. Deficit (without grants) (2) – (3)	14	20	19	17	15	87
Financing :						
4.1 External	9	9	11	11	13	52
Grants	7	7	8	8	9	38
External borrowing	2	2	3	3	4	14
4.2 Domestic	5	5	5	6	3	24
4.3 Financing Gap with Base Case	0	7	4	0	0	11
5. Financing Gap with MDG Case (1.1+4.3)	16	22	25	24	25	112
6. External financing requirements (5+4.1)	25	31	36	35	38	164
In US\$ billion (@ 10 Birr per US \$)	2.5	3.1	3.6	3.5	3.8	16.4

Source: PASDEP

The base case scenario envisages achieving the Government's growth and poverty-reduction objectives as outlined for the PASDEP period, but would not permit sufficient further progress towards the MDG goals. Under this baseline scenario of a realistic assessment of resource availability, external financing requirements for the PASDEP period would reach Birr 63 billion²⁰, equivalent to about US \$6.3 billion, the latter equivalent in turn to an average annual inflow of external financing of US \$1.3 billion, an amount that is close to current levels of external grants and concessional borrowing.

The MDG scenario contains projections of Government spending that are considered to be necessary in order to ensure rapid progress within the PASDEP period towards the MDG goals by 2015. This scenario involves an additional spending of 100 billion birr over the PASDEP period, equivalent to about US \$ 10 billion, raising external aid requirements to over US \$ 16 billion for the PASDEP period, averaging US \$ 3 billion per year. This scenario would bring Government spending to over 40% of GDP and raise external financing

²⁰ This amount represents the sum of Birr 52 million coming from the "likely receipt" of grants and loans (Line 4.1 in the Table above) and the residual Financing Gap with Base Case of Birr 11 billion (Line 4.3).

requirements to 23% of GDP over the PASDEP period. The Table below provides illustrations:

Table 16: PASDEP- External Financing Requirements 2005/6-2009/10 (% of GDP)

	2005/6	2006/7	2007/8	2008/9	2009/10	Total
1. Total Spending – MDG needs	45	45	45	42	39	43
1.1 Difference with Base Case	13	11	14	14	12	13
Total Spending – Base-Case, of which :	32	34	31	28	27	30
Poverty-oriented Exp.	20	25	24	22	22	23
Recurrent	14	14	13	12	11	13
Capital	17	20	18	17	16	17
3. Government Revenue	19	18	18	18	19	19
Tax Revenue	14	15	16	16	17	16
Non-Tax Revenue	5	3	2	2	2	3
6. External financing requirements- MDG Case	28	23	24	20	19	23
7. External Financing requirements – Base Case	15	12	10	6	7	10

Source: PASDEP

At this time Government is moving ahead with the Baseline scenario which is being implemented within the framework of the Medium-Term Expenditure and Financing Framework (MEEF), but it hopes that in the course of 2007 discussions can be started with its development cooperation partners on a joint Government/donors strategy for the financing of the MDG-based PASDEP program. The February/March 2007 Article IV discussions between the Government the IMF addressed this issue. It is expected that donors will follow-up on these discussions with Government with the aim of considering this matter within the context of meeting of the Consultative Group for Ethiopia which may be held by mid 2007.

CHAPTER III: OVERVIEW OF PAST AND PRESENT COOPERATION, COMPLEMENTARITY AND CONSISTENCY

III.1. Overview of previous and ongoing EC assistance to Ethiopia (lessons learned)

III.1.1. Previous and ongoing EC assistance to Ethiopia

EC assistance dates back to 1975 when Ethiopia became a party to the Lomé Convention. Over the years, Ethiopia has been one of the larger beneficiaries of EC support among the ACP states. The assistance has taken several forms. The several European Development Funds have contributed most to this assistance (total EDF € 1.3 billion), both in the form of programmable resources and (NIPs) and non-programmable resources (mainly Stabex and Structural Adjustment Facility). Very substantial assistance has also been provided in the form of food security/food aid.

In terms of programmable assistance, infrastructure (water, energy and roads) has featured as an important orientation in EC-Ethiopia cooperation. This was supplemented in the 1980s by projects to increase agricultural exports (coffee and cotton) and later by integrated rural development programmes. In the 1990s a gradual shift occurred, following a policy and programming re-orientation – from agriculture & rural development under EDF 6 towards roads in EDF 7 and 8. EDF 9 involved a further shift: while maintaining road transport as a focal sector, priority was accorded to rural development/food security as well as to several macro-economic and sector support mechanisms, such as Direct Budget Support, a Transport Sector Policy Support operation and a project for the Protection of Basic Services.

The financing from the European Development Funds have been supplemented by support from EC Budget Lines. The most significant of these has been the food aid and food security line. Between 1996 and 2005 the EC allocated to Ethiopia some € 600 million from this Budget Line, and is a reflection of food aid emergencies in this period, as well as of chronic food insecurity that millions of Ethiopians face every year. In addition to food aid, the EC has pioneered with the introduction of a Productive Safety Net Programme (PSNP).

Under the NGO Co-financing Budget Line, some 60 NGO projects are typically under implementation, involving an EC contribution of some € 40 million. Most NGO-funded projects are in the fields of agriculture and rural development, health, education and water supply. Several NGOs reach over 100,000 to one million people and have capacity for further scaling up. Other Budget Lines include the Environment, Health and Human Rights and Democratisation Budget Line. Lastly, progress is being made with getting projects under the ACP-EU Water Facility on stream.

Since 1982 the European Investment Bank has granted 18 loans from EDF resources to Ethiopia in an amount of € 245 million. As a result of the implementation of the debt relief program under the HIPC initiative, the Bank's exposure is currently €152.4 million of which € 87.6 million remains to be disburses. More recently EIB activity was focused on the implementation of new projects in three basic public infrastructure sectors:

(i) Power: a third EIB co-financed project (Gilgel Gibe II Hydro power plant) of the Ethiopian Electric Power Corporation (EEPCO) was signed in 2005 for € 50 million. Contributing to the increase of generation capacity, it concerns the construction of a 428 MW hydro power plant and related transmissions lines. It is co-financed by the Italian bi-lateral cooperation.

(ii) Water and Sanitation: A project aiming at improving basic urban water supply and sanitation services for some 500,000 people residing in 15 medium-sized towns was signed on December 2006 involving an amount of € 16.5 million. The project is the Bank's first involvement in Ethiopia's water sector. It will be co financed by the ACP-EU Water Facility.

(iii) Small and Medium Enterprises: the Bank is closely monitoring the utilization of funds under a second loan to the Development Bank of Ethiopia (DBE) - signed in December 2003 for an amount of € 25 million - in favour of the financing of small and medium-sized local private enterprises. Due to organizational restructuring of the financial intermediary, the loan has so far remained dormant, but the new management recently has shown a very strong interest for resuming the operation.

Projects currently under consideration and identified include operations in the Power sector as well as the possible financing of new rolling stock investment within the framework of the privatization of the Ethiopian-Djibouti Railway line. This project is considered by the Bank as eligible for the EU-Africa Infrastructure Partnership Trust Fund support.

III.1.2. Problems and lessons learned

An independent evaluation was concluded in April 2004. The scope and coverage of the evaluation comprised: (i) An assessment of the relevance of the Commission's strategy for Ethiopia under the 8th EDF; (ii) An ex-post evaluation of the impact of all the Commission's programmes from 1996 to 2003 including programmes implemented by non state actors; and (iii) An assessment of the 2002/2007 9th EDF CSP/NIP. The evaluation concluded that the EC Strategies 1996-2001 and 2002-2007 were comprehensive and made the right choices for the focal sectors. They were seen to be largely reflective of government policy and to reflect a fair degree of complementarity with other donors' support. However, the strategies were also seen to suffer from weaknesses. They were seen to be too ambitious, trying to incorporate all of the themes in which the Commission believes it has an added value instead of being selective. They were also seen to be ignoring the limitation of staff capacity of the Delegation.

While these weaknesses have since been addressed, several problems remain, of which capacity problems in the Delegation are not the least important. One other issue was identified: The limited coherence between the design of EDF Programmes and the operations carried out under the several EU Budget Lines. This strained implementation capacities and detracted from the provision of optimal support to the Government's programmes. The present CSP makes an effort to reduce this problem through a more comprehensive approach to assistance programming, as evidenced by the coherence between this CSP and the Regional Indicative Programme, with both Programmes having selected similar focal sectors of food security and regional integration.

In a recent evaluation²¹ of the 9th EDF performance, the Government emphasised that "the performance of the CSP, both commitment and disbursement of funds, has not been encouraging. The lengthy decision making process of EC coupled with lack of interest by adequate contractors as well as weak performance of contractors led to unsatisfactory performance. Moreover, the recent decision of EC to re-orient budget support assistance aggravated the already registered weak performance of the European Union and the

²¹ MoFED: Evaluation of 9th EDF Performance – Addis Ababa, May 2006.

Government of Ethiopia”. The Government’s evaluation identified the following major issues encountered in the implementation of the 9th EDF: (i) lengthy EC procedures (procurement and approval procedures) and limited room for flexibility (origin of goods, eligibility of tenderers, awarding procedures); (ii) the withholding of direct budget support funds and divergence in the interpretation of budget support instruments; and (iii) “access to the B-Envelope needs to be reconsidered by the Commission; the current regulations are not clear in terms of application”.

III.2. Highlights of programme implementation

Important developments on the structural governance agenda have occurred, including the establishment of dialogue structures with Government to address governance performance and private sector development. The dialogue with Non-State Actors was reinforced, helped by the launch of the Civil Society Fund for capacity building of NSAs. The launch in late 2005 of the € 60 million Productive Safety Nets Programme was a major landmark and should help in reducing food aid dependency in Ethiopia. Activity in the transport sector also progressed while the implementation of projects outside the focal sectors has been encouraging.

The post-election crisis of 2005 had a negative impact on EC development co-operation with Ethiopia, leading to a delay in the mobilisation of the funds that had been earmarked for a significant general budget support (GBS) programme – including an € 18 million release from the B -Envelope that was triggered by the country’s appeal to fill the revenue shortfall experienced as a result of the 2002-2003 drought - and to taking off the agenda the Financing Proposal for a € 155 million Road Sector Policy Support Programme (SPSP). However, in late 2006 the €155 million SPSP was approved and a first disbursement of €50 million was made. In addition, the project for Protection of Basic Services (PBS) Programme was approved in early 2007. Under the latter program funds will be made available to the lower-tier governments for the financing of basic services such as health and education. This programme is jointly executed with DFID, the World Bank, CIDA, Ireland and the Netherlands. Together with a new contribution to the ongoing Safety Nets Programme, all funds available under the 9th EDF will in all likelihood be committed before the end of the period.

Against this mixed background of co-operation with Ethiopia, the EC and a number of EU Member States began the formulation of a Joint Response Strategy for Ethiopia for 2008-2013. A particular challenge for the programming of the 10th EDF is whether or not General Budget Support can be provided to Ethiopia. Progress on the governance agenda will inform this decision. It should be noted that Ethiopia is expected to also receive significant resources through the Regional Indicative Programme for 2008-2013.

III.3. Accomplishments in the focal sectors

III.3.1. Transport

Government’s high priority to improving road transport infrastructure is reflected in the 10-year Road Sector Development Programme (RSDP). Physical performance under RSDP II has been impressive: (i) Asphalt roads in good condition have risen from 35 to 54%; (ii)

Gravel roads in the same condition increased to 40%; (iii) Rural roads in good condition have grown by 6 percentage points. The physical outputs of RSDP II have had a positive impact on road conditions. The implementation of the three main EC-financed projects improved progressively, so that the EC could disburse a record € 28.2 million in 2005 for these projects. A step forward was that the highly innovative €155 million Sector Policy Support Programme (SPSP) for the roads sector was approved with a release of the fixed tranche of 50 M€ by end-2006. Important also was the initiation of a study to prepare the National Transport Master Plan and the presentation by consultants of a National Transport Sector Strategy.

III.3.2. Agriculture and food security

A wide array of programmes has been funded to enhance the sustainability of rural development and agriculture. These include several food security programmes, the Coffee Improvement Project, numerous NGO-executed projects, four regional projects²² and the € 60 million Productive Safety Nets Programme. The latter was a major landmark. Participating donors contributed cash and food resources of more than € 220 million to cover the needs of 5 million food insecure people. Evidence indicates that the programme has been successful in meeting its goal of transitioning from a relief-oriented to a development-oriented safety net. The several food security programmes funded by the EC have also had a widespread development impact. Overall, it has been recognized that food insecurity is essentially a problem of (i) lack of access to and (ii) of availability of food resulting from the weak purchasing power of poor households and infrastructure bottlenecks. Thus, the fight against poverty and food insecurity is focusing on increasing incomes of vulnerable groups, based on interventions to promote economic growth and create income-generating opportunities, as well as on extending infrastructure in rural areas. These are both within the realm of rural development, including improvements to the functioning of agricultural markets, the fostering of security of tenure, and more generally, private sector development in the rural context where 85% of Ethiopia's people reside and work.

Over the years the EC has conducted a dialogue with Government on the need for strengthening the statistical data base for agriculture policy making. This was felt necessary as, e.g. agricultural statistics reveal at times contradictory information regarding crop areas and yields. Recognising the importance of strengthened information systems for food security, a contract was signed in 2006 with FAO to carry out the Food Security Information System project for an amount of €2 million. Implementation of the programme is underway. Similarly, the EC signed a contract with UNICEF to help CSA and DPPA establish and strengthen information systems for food security in order to improve the quality of food security and relief interventions. This project – together with the Productive Safety Net Program - will also help Government in pursuing the PASDEP goals of improving “under 5 children nutrition through multi-sector and community-based approaches.

III.3.3. Macro-economic support

As regards macro-economic support, despite the Government's positive macro-economic and public financial performance in the period up to mid-2005, the release of GBS funds was

²² (i) Pan-African Programme for the Control of Epizootics diseases (PACE-Ethiopia); (ii) IGAD Regional Food Security and Risk Management Programme (REFORM); (iii) IGAD Livestock Policy Initiative (LPI); and (iv) African Monitoring of the Environment for Sustainable Development (AMESD).

suspended for two reasons: first, because the Article IV Consultations with the IMF could not be completed at that time, reflecting unresolved external financing issues which arose in the aftermath of the parliamentary elections in 2005, and, secondly on political governance grounds. In 2006 the EC moved forward, jointly with other donors, with a Protection of Basic Services (PBS) programme to prevent the achievements in the social sectors from eroding and to assist lower-level governments in meeting social services' demand. This was done in view of Ethiopia's positive macro-economic adjustment and poverty reduction performance in that year.

III.4. Projects and programmes outside the focal sectors

EC efforts in **Capacity Building for Governance** focused on enhancing partnership and trust between Government and civil society, improving the legal and institutional environment for NSAs to operate and setting up sustainable dialogue structures to ensure NSA participation in the development process. Important developments on the governance agenda have occurred, including the establishment of dialogue structures with Government to address governance performance and private sector development. Together with Canada the EC co-chaired the so-called "Neway" Group, which contributed to the Government's formulation of an elaborate Policy matrix on Governance which is included in the overall PASDEP policy matrix. The dialogue with Non-State Actors was reinforced, helped by the launch of the Civil Society Fund for capacity building of NSAs. In the preparation of this CSP, Government supported and participated in the dialogue with NSAs under the Cotonou Task Force framework. These developments are considered promising by all stakeholders for expanding the scope of the tripartite dialogue in future.

During the 6th Research Framework Programme, Ethiopia participated in 10 ongoing projects.

III.5. Utilisation of the B -envelope

As regards the mobilisation of the B-envelope, several ideas have been proposed. A project to make a contribution to Government funds to offset the oil price rises was originally contemplated, but no longer seems viable. A project for a framework contract with the ICRC is still under consideration. It was agreed to utilise € 18 million to scale up efforts under the PNSP to help reduce the impact of the drought in several regions of Ethiopia. Recently, a request was approved for utilising € 13.2 million to combat the recent outbreak of polio in the eastern regions of Ethiopia (Somali Region). The EC has also been approached to provide funding for the rehabilitation of victims of the August 2006 flood disaster – a contribution of € 7 million is under consideration.

III.6. Information on programmes of EU Member States and other donors

Currently 17 EU Member States are carrying out aid programmes in Ethiopia, including such new Member States as Hungary and Poland. In the 2000-2004 period EU Member States and the EC combined provided US \$875 million in ODA, equivalent to 25% of all aid to Ethiopia. The EU in total has been Ethiopia's second-largest donor group, after IDA (US \$1417 million). Over the five-year period, EU ODA disbursements increased by some 160%, from

US \$112 million in 2000 to US \$295 million in 2004, indicating EU capacity and willingness to scale up aid to Ethiopia. The increasing size of the EU aid programme helps to strengthen the EU policy dialogue with Government.

Table 17: Net ODA Provided to Ethiopia 2000-2004 (US \$ Million)

	2000	2001	2002	2003	2004	2004 over 2000 (%)	Total 2000- 2004	% of total
Total Net ODA	693	1116	1307	1553	1823	263	6492	100
Total EU MSs	176	134	244	323	500	284	1377	21
EC	69	100	116	149	113	164	548	8
Total EU	245	234	360	472	613	250	1925	30
Total Other Bilateral	205	190	250	707	534	260	1887	29
Of which USA	130	94	156	568	402	309	1351	21
IDA	116	434	464	247	476	410	1737	27
UN Organisations	101	104	92	77	69	-32	443	7
Total Multilateral	239	567	635	334	609	255	2384	37
Other	4	125	62	40	67	...	243	5

Source: DAC/OECD: International Development Statistics (Note: The OECD data are in the aggregate higher than those of MOFED, indicating a need for a data reconciliation process).

The most significant EU donors in terms of development aid in descending order are United Kingdom (DFID), Germany, the Netherlands, Italy, Ireland and Sweden. The nature of development cooperation of each EU Member State with the Ethiopian Government is usually governed by their respective Country Strategy Paper.

The United Kingdom (DfID)'s main sector of involvement has been General Budget Support, Safety Nets and, currently, Protection of Basic Services (PBS). Key concerns of Germany are private sector development through education, training and capacity building, urban development and management of natural resources. The Netherlands focuses on rural development, water, education and health, while Italy's co-operation programme is highly diversified and includes projects inter alia in rural development and food security, hydro-energy, industrial development, education and health as well as governance. Ireland supports the Productive Safety Nets Programme (PSNP) and has programmes with the regional Governments of Tigray and SNNPR. Irish Aid continues to have a strong focus on human development, especially HIV/Aids and on governance and human rights issues, especially promoting gender equality. Sweden (SIDA) focuses on democratic governance and human rights as well as social and economic development, and its portfolio includes private sector development programmes, integrated rural development, food security, support to education and research co-operation, sexual and reproductive health and HIV/Aids.

Furthermore, Austria focuses on food security (emphasis on sustainable use of natural resources and rural development), health and energy, and foresees a contribution to PBS in 2007. The Czech Republic focuses on education and humanitarian aid and Finland specialises in education and water and sanitation. France's support activities include water and sanitation, urban development, democratic governance (justice) and civil society, higher education and research, and francophonie and cultural diversity. Spain has been providing support to NGOs in the fields of gender, health and education. Hungary's most important project in Ethiopia relates to hydro-geological studies, design and implementation of potable water supply scheme, pressurized irrigation system and drilling 1-2 water boreholes to fully utilize the ground water available in Kobo Valley (including a training course in Hungary for Ethiopian

irrigation experts). Finally the EC emphasises road transport, macro-economic support (GBS and PBS), and rural development and food security.

The programming cycles of EU Member States and the EC are not as yet fully harmonised. Member States and the EC have different programming cycles, ranging from two to five years. In the five-year category belong the EC, France and Sweden. The three-year group, in which the majority belongs, are DFID, Germany, Netherlands, Ireland, Finland and Austria. Italy has a two year programming cycle.

As each EU Member State is guided by development cooperation policy directives of their national Governments, fast movement towards aligning programming cycles either with the Government's PASDEP or with the CSP for the 10th EDF cannot be expected. All EU Member States can, however, benefit from the Country Diagnostic Survey which has recently been prepared by the Commission with the participation of several Member States

III.7. Description of the Political dialogue with Ethiopia

The political dialogue with Ethiopia on the basis of article 8 of the Cotonou Agreement was officially established in December 2001. Main issues covered were those of immediate concern, including human rights. In 2003, it was agreed that a more substantive and regular dialogue would be implemented and that meetings would be held four times a year, twice with the Prime Minister and twice with the Foreign Minister during the respective Presidencies.

During the pre-election period in 2005, the political dialogue provided a channel of communication with key Ministers and the Prime Minister. This dialogue, at the time, was of a good, steadily improving quality. Following the May 2005 elections, EU Heads of Missions continued to press for regular political dialogue to focus on human rights, governance issues and development cooperation issues. The political dialogue has however been difficult during the post-election period. The Article 8 dialogue meeting with the Prime Minister of January 2006 covered most key topics of interest to both sides: the democratisation process, respect for human rights and the rule of law, and regional peace and stability. During a second Article 8 Dialogue in October 2006, economic issues were added to the agenda. This second dialogue resulted in a firm commitment from the Prime Minister for a more regular and structured dialogue in the future.

Since the 2005 Elections, the political situation in Ethiopia remained high on the political agenda of the European Commission, and of the EU in general. Thus, a series of high-level political visits took place in 2006. EU Commissioner for Development Louis Michel discussed issues related to the post-electoral situation with the Prime Minister in February 2006. Both parties reached agreement on many of the contentious issues related to Ethiopia's democratization process. In October 2006, EU Commission President José Manuel Barroso met with the Prime Minister in the margins of the 3rd EU/AU Commission-to-Commission meeting in Addis Ababa. They had a frank and open discussion.

The political dialogue between Ethiopia and the European Union centred on a series of points which had been identified as crucial for the stabilization of the post-electoral situation. One of them was that the complete truth about the incidents in June and November 2005 would be investigated and made public. Another crucial issue for the European Union was the reform of the *National Election Board* (NEB): Its Members should have been changed in June 2006 but

this did not happen, and their mandate ran out by November while new members remain to be nominated. The holding of elections in 2006 at *kebele* and *woreda* levels was also seen as an important step towards further democratization. However, in September 2006 Kemal Bedri, the NEB Chairman, announced that the local elections would be postponed until April 2007²³.

With regard to the situation of the media and the right of free expression, a further benchmark for the European Union, a comparative study on the media laws, conducted in four countries, was produced by international experts. Their report was distributed to the political parties in Parliament, with the hope that the debate on the report would lead to concrete steps to improve the right of free expression and promote a more enabling environment for the sector to develop.

III.8. Coherence with other EC/EU policies

The Joint Response Strategy reflects the EU Coherence for Development Commitments²⁴, in particular those relating to trade, environment, security, agriculture, food aid, migration and transport. Its design is also consistent with the EU Regional Political Partnership for Peace, Security and Development in the Horn of Africa²⁵, which aims to promote peace, stability and development in the Region.

Under the 9th EDF, a number of policies impacted on aid delivery in Ethiopia. The EU's commitments in the Paris Declaration - to scale up aid and to improve its impact and speed of delivery - provided an important backdrop, aimed as they were at accelerating progress in order to meet the challenges of the MDGs by 2015. These commitments have been strengthened by the "*EU Strategy for Africa*" adopted in June 2005, which focuses in particular on the best ways to achieve an effective scaling up of development assistance, and the EU's revised Development Policy Statement - the "*European Consensus*" – of December 2005, which outlines common strategic objectives as shared by the Member States.

Duty-free quota free access to EU markets under the Everything But Arms (EBA) initiative was an important trade preference, but one which Ethiopia has yet to exploit fully, not least due to supply-side constraints. Fostering of regional integration in the Horn of Africa, *inter alia* through the Economic Partnership Agreement (EPA) negotiations is a key objective which is being pursued under the CSP. In EC regional and pan-African programmes, particular emphasis will be placed on infrastructure and communications as strategic vehicles for regional integration in line with the Africa Strategy. In the context of the EU-Africa Infrastructure Partnership, the EC will develop infrastructure and related services as well as interconnections within the Horn and between African regions.

In August 2006, EC adopted a communication on Governance, with recommendations on Good Governance, and an assertion of the importance of regional organisations and the African Union. The CSP reflects this in full. In January 2006, the EC published guidelines for gender equality which recognizes the importance of a balanced mix of men and women in the planning, decision making and implementation of EC projects and programmes, as well as the

²³ In the event, in early 2007 a decision was taken to postpone these elections again, until December 2007.

²⁴ Brussels, 12.4.2005; COM(2005)134 Final.

²⁵ Brussels, 20.10.2006, COM(2006) 601 Final.

promoting of women participation in service delivery. Also in 2006, the Commission adopted the Communication “*Towards an EU Strategy on the Rights of the Child (COM (2006) 367)*”, which included as one of the first actions, the adoption of an “*Action Plan on Children and Development.*” Consultations are ongoing, and the results will guide the Commission in developing a child-centered component in Ethiopia, based on a comprehensive approach to rights.

Ethiopia and several other countries in the Horn region (Kenya, Sudan and Uganda) have already adhered to the African Peer Review Mechanism (APRM), the African-led process to monitor and improve governance. It is worthy mentioning that Ethiopia has recently been elected to chair the Review Mechanism. Support for the implementation of national reforms triggered by the APRM should be provided through the EU Governance Initiative.

III.9. Alignment, harmonisation and co-ordination of development co-operation

As recognised by the European Consensus on Development and the draft Code of Conduct on Division of Labour, EU harmonisation efforts should bring in other donors wherever possible. This is essential in Ethiopia where a well developed harmonisation structure already exists. A parallel ‘EU only’ track would only duplicate this, in addition to lacking legitimacy vis-à-vis the Government and lacking support from EU Member States. Therefore, the EU seeks to act as a driver and ‘first mover’ of harmonisation in Ethiopia.

Lessons of experience of the past five years regarding aid provision to Ethiopia indicate that the interaction between donors and the Government of Ethiopia has been positive and productive. As to the EU, the Commission has played an active role in coordination and harmonisation with the Government, Member States and other donors, both at the sector level and in connection with budget support for SDPRP implementation. The large size of the EU aid programme helped to strengthen the EU policy dialogue with Government. EU coordination was particularly strong with regard to the political agenda. Here the EU has shown its comparative advantage, with a structured political dialogue with Government under Article 8. This dialogue covered key topics of interest to both sides - the democratisation process, respect for human rights and the rule of law, and regional peace and stability - and helped increase mutual understanding during a difficult period. More generally, at a meeting of all Ethiopian donors in Paris in April, a set of 10 principles were agreed and governance was agreed to be one of the key areas for future action.

At the operational level, the Commission has undertaken a leading role in sector and donor coordination in several Thematic Working Groups of the DAG, including those for governance and private sector development. The Commission also played a lead role in coordinating donor assistance in food security, budget support and related PFM issues. In line with EU policy on harmonisation, EU coordination efforts in Ethiopia form part of the wider donor effort rather than a separate track. The EU aims to be a driver of closer cooperation and set an example of best-practice for the wider community.

There is a well established Harmonisation agenda in Ethiopia which was moving forward at speed until the political upsets in late 2005 threw the process off track. The EC and World Bank have been working particularly closely under the Limelette principles, and signed a joint MoU in October 2005. On the broader harmonisation and improvement of effectiveness agenda, following the Paris Declaration principles and commitments, the EC played a key role

in setting up an EU Steering Committee, chaired by the Presidency. Intensive work, including through the recruitment of an expert to facilitate the coordination process, led to the presentation of a draft EU Road Map at the end of 2005. The Road Map has an annual work plan which aims at ensuring that concrete steps are taken to materialise the principles and objectives agreed on at international and country levels on harmonisation.

The work plan for 2007 is focused on:

- (i) EU Member States' Coordination: Raising awareness of co-operation commitments and opportunities and finalising the EU Joint Response Strategy which follows on from the Joint Diagnostic that was completed in 2006;
- (ii) Division of Labour: Working with other donors to agree a workable division of labour around the Government's national development strategy;
- (iii) DAG reform: Catalysing EU-led proposals for improvements;
- (iv) EC-World Bank Cooperation: Driving co-operation on new initiatives;
- (v) Management Information System ("Blue Book"): Improving information flows and reporting to enable better management decision making.

CHAPTER IV: TOWARDS A JOINT RESPONSE STRATEGY

IV.1. Introduction

The response strategy presented here can be considered "joint" in that it has been informed by a Joint Country Diagnostic Survey carried out with Member States and provides a framework for both their and the EC's planned cooperation initiatives in Ethiopia along with the linkages between them. All of these initiatives have been designed to align with the priorities of the Government's national poverty reduction strategy, the *Plan for Accelerated and Sustainable Development to End Poverty* (PASDEP). Joint programming is by its nature a gradual process, as recognised in the 'European Consensus on Development'. This first Joint Response Strategy for Ethiopia takes an important first step in structuring EU cooperation and thus provides the potential and momentum for joint implementation and deeper joint programming in the future.

The motivation for the European Commission and the EU Member States concerned to develop a Joint Response Strategy is based on the acknowledgement that the overarching objective of the *Cotonou Agreement* to eradicate poverty can only be achieved through better aid effectiveness. To this end, the Joint Response Strategy is an interim step aimed at advancing coordination, harmonisation and alignment of efforts between the European Commission and the EU Member States that have signed up to it.

Overall, to achieve enhanced aid effectiveness, the European Commission and the EU Member States will play a lead role in implementing the Paris Declaration commitments on improving aid delivery, and will capitalise on mutual experience to strengthen their role as donors. This Joint Response Strategy based on the comparative advantages of the EC and the EU Member States, will promote better donor complementarity by working towards joint multi-annual programming based on Ethiopia's strategies and processes, common implementation mechanisms, joint donor- wide missions, and the use of co-financing arrangements.

At the beginning of April 2007 a meeting will be held with EU Member States to further operationalise the commitments to joint programming and implementation set out in this Joint Response Strategy. As recognised in the European Consensus on Development, this needs to be a gradual process and one that includes other donors. The EC will therefore propose an Action Plan for division of labour for endorsement by EU Member States and subsequent presentation to DAG members as an EU proposal. This Action Plan is envisaged as follows:

Step 1: A comprehensive mapping of existing and planned donor programmes to PASDEP, thereby extending to all donors the mapping of EU programmes carried out by the EU Presidency with EC support in March 2007. This mapping will flag how donor work in each sector fits with the national development strategy, which donors have too many sectors and which sectors have too many donors.

Step 2: Agreement on roles and criteria for lead, active and silent donors. Awareness-raising to donors' HQs of the process and its fit with international commitments and request for endorsement.

Step 3: Agreement on the roles each donor should play. Donors asked via questionnaire whether they want to lead, be active, be silent, or not be involved in each sector. Agreed criteria for leading and limits on sectoral involvement to be stated on the questionnaire. The

Government will be kept informed of this process and asked if he has any particular preferences on which donor should lead in each sector.

Step 4: Review of results of donor and Government consultation and, where more than one lead donor is proposed, initiation of discussions to resolve this.

Step 5: Proposal of agreed division of labour to Government and request for one Government official to be nominated as the official interlocutor for each lead donor.

Step 6: Implementation: lead donors to assume leadership in their respective sectors. Each donor to do a simple plan showing when they will be phasing out of sectors / switching to silent partnerships. This will depend on programming cycles. Silent partnerships may need to be preceded by a ‘vetting’ of the procedures of the donors who will receive the money, as already done by the “*Nordic Plus* group.

This plan is based on the EU’s draft Code of Conduct for establishing division of labour as well as on-the-ground experience from other African countries. It is envisaged to complete the first five steps in approximately twelve months, assuming a consensus among donors can be achieved on the steps to be taken. The EC and the EU Member States will drive the process forward through their posts on the DAG Executive Committee and DAG Thematic Working Groups.

IV.2. Overall strategic focus

The strategic focus of the Joint Response Strategy is to support the Government in achieving decisive progress in reaching the *Millennium Development Goals (MDGs)*, through faster and sustained economic growth, expenditure re-direction towards poverty-reducing programs, higher export and lower population growth, reduction of the infrastructure deficit, strengthening of the democratic process and of the position of women, and reversing environmental degradation. Achieving development results is a mutual commitment of the Government and the donor community. In as much as the Joint Response Strategy supports the implementation of PASDEP, the European Commission and the EU Member States will, jointly with other donors, monitor PASDEP’s implementation and participate in joint evaluations of its progress and its continued relevance on the basis of the PASDEP matrix.

The Joint Response Strategy reflects the EU Coherence for Development Commitments²⁶, in particular those relating to trade, environment, security, agriculture, food aid, migration and transport. Its design is also consistent with the EU Regional Political Partnership for Peace, Security and Development in the Horn of Africa²⁷, which aims to promote peace, stability and development in the Region.

The overall strategic focus does not pretend to be all inclusive for all EU Member State priorities, but aims to explain how the development programme of the EC and the EU Member States concerned are and will be co-ordinated with each other around joint funding instruments, joint dialogue and participation in the wider Development Assistance Group (DAG). The Joint Response sets out some concrete perspectives for the future on how the EC and the EU Member States will try to work increasingly closer together.

²⁶ Brussels, 12.4.2005; COM/2005)134 Final.

²⁷ Brussels, 20.10.2006, COM/2006) 601 Final.

The European Commission's contribution to the Joint Response Strategy is to support the Government's efforts to achieve decisive progress towards the MDGs through faster and sustained economic development, stressing regional integration and strengthening the democratic process. It is built around three focal sectors: (i) Transport and Regional Integration; (ii) Rural Development and Food Security, and; (iii) Macro-Economic Support and Governance. It is also proposed to include in the Non-Focal Sector a pioneering programme for the restoration and conservation of Ethiopia's cultural, biological and environmental heritage. In general terms, the proposed interventions have been designed to contribute to reducing regional income inequalities within Ethiopia, as well as to the achievement and maintenance of economic prosperity, food security, peace and political stability in the Horn of Africa, and are consistent with the approaches and measures included in the EC-ESA Regional Strategy Paper (RSP).

The three focal sectors and the non-focal sector are closely interlinked. In line with PASDEP, sustained economic growth requires structural transformation of the Ethiopian economy. While the share of agriculture in GDP has fallen below 50%, about 85% of Ethiopia's people still live in rural areas where they remain largely dependent on agriculture for their livelihood. In addition, close to 10 million people are chronically food insecure reflecting vulnerability of the rural population to climate shock and environmental adversity. Achievement of sustainable income growth and reduction in vulnerability in Ethiopia's rural areas will therefore have to start with addressing food security through productive safety net programmes as well as with reversing environmental degradation. The CSP includes strong provisions for this purpose. These programmes will definitely have to be supplemented by relieving production constraints in the agricultural sector. The CSP proposes to do this in various ways, inter alia through providing support for roads development²⁸, improving the functioning of agricultural markets and supporting the livestock sector which offers potential for export development in the Region. Reduction in rural non-monetary poverty remains a key priority of the Government and the CSP proposes to address this by means of support for the Protection of Services Programme or through general budget support, as the case may be.

An important element of the Government's strategy is to increase and diversify private sector based exports to finance imports needed for sustaining high economic growth rates and for maintaining macro-economic stability. The CSP proposes to discuss relevant policy matters in a dialogue with Government as part of the substantial provision of DBS or PBS financial support. The Strategy also proposes direct support for private sector development as well for the preservation of Ethiopia's cultural and biological heritage, both of key importance for employment creation, foreign exchange generation and economic growth. Further trade development is essential, and success in the Government's strategy is very much predicated by reducing the costs of exports and imports. Supply-side constraints will have to be addressed in the context of the EPA negotiations and of the process that eventually leads to Ethiopia's accession to the WTO. Enhanced Regional Integration is an important stepping stone in Ethiopia's integration process into the world economy. Improving connectivity to neighbouring countries through investments in infrastructure is therefore essential for the strengthening of export development and regional integration. Thus, the CSP supports the development of the Addis-Djibouti transport corridor through the ongoing Ethiopia-Djibouti railways project and inter-country road construction.

²⁸ Recent studies identified positive impact of roads on crop income, consumption and poverty in Ethiopia's rural areas. Better road conditions also facilitate delivery of social sector services.

PASDEP recognises that high economic growth cannot be achieved in the absence of accountability for macro-economic management. It therefore aims at participation by Ethiopia's people in the design of development policies and in the implementation of key development programmes, as well as enhancing the dialogue between Government and civil society, to achieve a consensus on the need for common sacrifice and effort towards reaching the MDG targets. For this reason the CSP proposes to address capacity building in democratic institutions, to strengthening civil society and, very significant from the point of view of inducing more effective people's participation in the development process, the achievement of gender equality. The latter will also help with strengthening food security by reducing population growth in rural areas.

For Austria, the Joint Response will:

- ***Continue to build on the gains made*** in food security and health. Austria will focus on contributing to rural development and improving food security in North Gonder, in the Amhara Regional State, and on developing a functioning basic health care system in the Somali Regional State.
- ***Austria is preparing a new Country Strategy concentrating on two sectors.***

For the Czech Republic, the Joint Response will:

- ***Continue to build on the gains made*** in education and humanitarian assistance.

For Finland the Joint Response will:

- ***Continue to build on gains made*** in water and sanitation as well in education.

For France, the Joint Response will:

- ***Continue to build on the gains made*** in democratic governance, particularly in the justice sector.
- ***Capture its own focus*** on water and sanitation, urban development, governance and civil society, higher education and research, and the French language and cultural diversity.

For Germany, the Joint Response will:

- ***Continue to build on the gains made*** in the focal sectors as agreed upon with the Government of Ethiopia in March 2005 and June 2006 to concentrate the efforts and to remain focussed on private sector development and vocational training/higher education (Engineering Capacity Building Programme), urban development, management of natural resources, as well as the protection of basic services.

For Greece, the Joint Response will:

- ***Continue to build on the gains made*** in education, health and rural development (agricultural projects).

For Hungary, the Joint Response will:

- ***Continue to build on the gains made*** in hydro-geological studies, the design and implementation of a potable water supply scheme and pressurized irrigation system.
- ***Capture its own focus*** on water management and the environment.

For Ireland (Irish Aid), the Joint Response will:

- ***Continue to build on the gains made*** in food security and social protection by further investment in the Productive Safety Nets Programme (PSNP) and deeper engagement in enhanced food security measures; strengthen the role of civil society and support jointly with other donors, good governance measures that focus on strengthening institutions; deepen partnerships with the regional governments in Tigray and in the SNNPR by means regional block grants and build synergies with the instrument on the protection of basic services. Resources may be pooled with the Netherlands and Sweden in the health sector.
- ***In the medium term*** Irish Aid will concentrate on deepening the poverty focus of its programme, by further investment in human development (health and education) and by promoting the cross cutting issues of gender equality, HIV/AIDS prevention and mitigation, environmental sustainability and good governance.

For Italy (IDC), the Joint Response will:

- ***Continue to build on the gains made*** in hydro-energy, private sector development (privatisation, leather and textiles), rural development and food security as well as governance, health and education.
- ***Capture its own focus*** on private sector development, rural development and food security, water and sanitation as well as health and education (new strategy is under negotiation with the Government).

For the Netherlands, the Joint Response will:

- ***Continue to build on the gains made*** in private sector development, rural development (water, environment) and the protection of basic services (health and education).
- ***Capture its own focus*** on private sector development and trade, rural development (environment), governance and the protection of basic services.

For Spain, the Joint Response will:

- ***Continue to build on the gains made*** in its support to NGOs in the fields of gender, health and education.

For Sweden the Joint Response will:

- ***Continue to build on the gains made*** in democracy and human rights, private sector development, integrated rural development, food security, as well as social development (health and education and HIV/AIDS). Assessments are ongoing regarding the possibilities of joining other donors in their support of the Protection of Basic Services (PBS) programme.
- ***In the medium-term*** focus its support on three sectors in connection with a possible new Country Strategy for Ethiopia.

And for the United Kingdom (DfID), the Joint Response will:

- ***Continue to build on the gains made*** in the previous focal sectors of food security and the protection of basic services (governance, health and education). The DFID will also remain committed to its work in the area of reproductive health.
- ***The DFID is preparing a new Country Strategy***, which is expected to focus on following five overarching objectives to support PASDEP: (i) supporting development of a capable, accountable and responsive state; (ii) promoting better service delivery and human development; (iii) Promoting pro-poor growth; (iv) reducing the vulnerability of the very poorest, and; (v) working with others for more effective development in Ethiopia.

Bulgaria and Romania do not currently have development cooperation programmes in Ethiopia but are however fully committed to the current joint strategy and look forward to delivering their own contributions in due course.

For both the EC and the EU Member States the Joint Response will:

- ***Ensure that cross-cutting issues such as human rights, gender equality, the rights of children, environmental sustainability and HIV/AIDS*** are either addressed by direct interventions or mainstreamed into other programmes. They may also be funded under the EC's thematic and global programmes which likewise provide funding for action on health, food security, water, energy, and trade and private-sector development.
- ***Ensure that Science & Technology innovations and Research capacity building*** are taking into consideration in all relevant interventions, particularly in the agricultural sector. Important in this context is the coherence and complementarity between the 7th Research Framework Programme (2007-2013), the Programme for Science & Technology Innovations and Capacity Building (PSTICB) in ACP countries and the EC/EU funded programmes carried out by the Consultative Group on International Agricultural Research (CGIAR). Synergies and complementarity between all the research activities in the different support programmes will be ensured

The development programmes of the EC and the EU Member States concerned are and will be co-ordinated with each other around joint funding instruments, joint dialogue and participation in the wider Development Assistance Group (DAG). The Joint Response sets out some concrete perspectives for the future on how the EC and the EU Member States will try to work increasingly closer together.

The European Investment Bank will continue to operate in all sectors of Ethiopia's economy, notably by promoting the development of key infrastructure projects and supporting investments undertaken by private small and medium-sized enterprises through its partnership with the local banking sector. Thus, the following main areas of possible intervention have been identified:

- (i) financing infrastructure projects in the Power, Water and Sewerage, Transport and Telecommunications sectors, where the emphasis will be to help increase the efficiency of public utilities and to encourage possible private sector participation;
- (ii) close cooperation with the financial sector so as to (a) contribute to its modernization by putting at its disposal appropriate financial instruments and (b) to increase the offering of long-term funding for investment promoted by SMEs;
- (iii) direct funding of large individual (private) projects where the Bank can contribute value added in the technical and/or financial structuring of the investment.

So far, all EIB loans have been granted to the Government of Ethiopia for on lending to promoters. The Bank intends to continue to support new investments in all basic infrastructure sectors. Nevertheless, under the Cotonou Agreement, the Bank has the specific mandate to finance the private sector as well as the commercially-run public sector at market rates. In order for Ethiopia to get the full benefit from the financing under the Cotonou Agreement, contacts with the Ethiopian authorities were started with a view to agree on the principle of direct lending to the local private promoters.

The EIB aims to play a catalytic role by mobilizing local and foreign resources, and in addition to complementarities with the European Commission grant aid, will seek synergies with the operations and instruments of the EU Member States' bilateral institutions and of multilateral institutions operating in Ethiopia.

IV.3. EC Focal sectors

IV.3.1. Focal sector I: Transport and regional integration

Ethiopia's economic growth potential will only be exploited to the full when considered part of broader economic reform programmes to make Ethiopia's economy more competitive and integrated in both the regional as well as the global economy. Support in this area thus contributes to the economic development of both Ethiopia and the region, and fits within the context of promoting Peace and Security in the Horn of Africa. Reducing the country's infrastructure deficit is one of the pillars of PASDEP for the purpose of facilitating rural growth and access, internal connectivity and enhanced export performance.

Support will consist of two concrete intervention areas: (i) Infrastructure development aimed at strengthening both intra-regional as well as interconnection with the regional market of the Horn of Africa; and (i) Capacity building for Private Sector Development and Trade in the context of the EC-ESA Economic Partnership Agreement (EPA) currently under negotiation and Ethiopia's WTO accession process.

IV.3.1.1. Transport

With mountainous terrain and a very low density road network²⁹, most communities in Ethiopia remain isolated, and transport costs are very high³⁰. This constrains economic development and poverty reduction. In addition, the country is landlocked, making efficient transport corridors to foreign ports essential. Road infrastructure has a crucial role to play in improving access of the poor to social services and in enhancing food security, the latter by making it easier to transport food to areas where there are shortages. For these reasons PASDEP identifies transport as a priority sector and aims at creating and maintaining an efficient road network that will improve accessibility, mobility, connectivity and regional integration. This high priority also pertains to the continuation of the ongoing rehabilitation of the Ethiopia-Djibouti Railway system and to the giving out of the operation and maintenance of the system to a private concessionaire. This will enable the bi-national railway to lift eventually 1.5 millions tonnes of freight between Addis Ababa and Djibouti and permit significant savings in the cost of transporting exports and imports.

The high priority which the Government gives to improving transport infrastructure is reflected in the Road Sector Development Programme for 1997-2007 (RSDP). The objectives of the ongoing RSDP II (2003-2007) include: (i) increasing the “good condition” of roads from 30% to 45%; ii) increasing road density from 27km/1000km² to 34km/1000km² by 2007; (iii) performing adequate maintenance on much of the road network; (iv) providing road infrastructure to rural areas; (v) developing an efficient and self-sustaining construction industry; and (vi) improving the management of the road sector.

A recent review of 9 years of RSDP implementation which took place by end-2006 singled out the following main achievements under RSDP II: (i) asphalt roads in good condition rose from 43 to 60%; (ii) gravel roads in the same condition increased from 31 to 45%; (iii) rural roads in good condition grew by 4% while (iv) the road density/1000km² rose from 30 km to 35 km. Overall, ERA consistently met or surpassed set targets. These accomplishments point to a significant improvement in ERA’s implementation capacity. Over the past four years also some 33 000 km of community roads were built, over four times the target of 7500 km. ERA’s improved capacities have had a positive impact, although further capacity building and institutional strengthening is needed.

The RSDP also aims at (i) ensuring adequate maintenance of the road network; (ii) developing an efficient and self-sustaining construction industry and (iii) improving the management of the roads sector. The retrospective of 2006 also showed that ERA, as well as Regional Road Authorities, carried out well-planned maintenance programmes. While the Road Fund Administration did not collect sufficient funds in 2006 to cover the maintenance needs of Ethiopia’s road network, collections were in excess of what public and private

²⁹ after controlling for population density, the share of arable land and the share of irrigated land, Ethiopia’s road density is only a quarter of the expected levels for its income; cf. World Bank Country Economic Memorandum 2004.

³⁰ estimated by the Diagnostic Trade Integration Study (2003), at 30% of the goods’ value, double that in other Sub-Saharan countries.

maintenance operations could absorb³¹, underscoring weak capacities in the sector and the need for further capacity building. During the past four years, ERA's institutional capacity also improved, but only modest progress was made in road safety and axle load control. While participation by local contractors/consultants increased significantly - mostly in Government contracts - the involvement of local firms in larger contracts remains marginal.

Several EC initiatives for the transport sector came to fruition in 2006, including the innovative €155 million Transport Sector Policy Support Programme (SPSP) for which a first disbursement of €50 million was made in December 2006. Reflecting the EC's deepening focus on sector policy and programme issues, good progress was made in 2006 towards the formulation of a National Transport Master Plan for Ethiopia, including a long-term (2007-2027) investment programme. The latter will review the adequacy of the follow-on RSDP which ERA prepared for the period mid-2007-2012, thus overlapping 3 years with PASDEP. It reflects PASDEP's guidance that its main objective should remain the restoration and expansion of the road network, but with an increased focus on lower category roads, i.e. regional roads.

The diagnostic work carried out for the SPSP indicated the merit of contracting a larger share of road maintenance out to private contractors, for which capacity building was seen as essential. In 2006 the Ministries of Works, Urban Development and Capacity Building developed a Construction Sector Capacity Building Programme which should help in increasing work that can be let to local contractors. ERA also completed a reform study to help decentralise and commercialise its activities. This should help in coordinating the activities of ERA and the Regional Road Authorities. As regards roads safety, an Interim Roads Safety Board was established and ERA prepared guidelines for a Road Safety Audit. The recommendations of the EC-funded Study on Road Transport Regulations will be addressed in the National Transport Master Plan Study. Lastly, as regards the need for improved resource mobilisation and road financing, Government and ERA intend to address and implement the recommendations of the Road Financing Study and those coming from the Financial and Technical Auditing of the Road Fund.

The suggested EC intervention in the transport sector consists of two components (i) continued support to the Road Sector Development Programme (RSDP), preferably within the structure of a Sector Policy Support Programme (SPSP), through a Sector Budget Support (SBS) financing modality, and with a strong emphasis on rural roads and maintenance; (ii) infrastructure works for regional integration, focusing on enhanced connectivity with neighboring countries. The EC intervention will be carried out in close co-ordination with other donor agencies also active in this field such as the African Development Bank (AfDB), the World Bank and DFID.

IV.3.1.2. Private sector development and trade

PASDEP explicitly recognises the private sector as the engine of economic growth. Its strong focus on more business/market-oriented agriculture and export development will benefit from a comprehensive intervention to further build the capacity of private sector intermediary organizations and public service bodies set up to help reduce transaction costs for the private sector and the development of markets. Ethiopia is an important player in the Horn of Africa.

³¹ but it should be noted that the Fund also avails budget for periodic maintenance and road safety programmes. At the current pump price of Birr 79 (€0.60 equivalent) per liter of petrol – even though increased twice in 2006 –, there should be scope for further price adjustments to finance these programmes.

Enhanced Regional Integration is, thus, an important stepping stone in Ethiopia's integration process into the world economy. Regional integration is also essential for peace and security.

The rationale for supporting Private Sector Development & Trade is to assist Government in its efforts to create jobs, accelerate trade and facilitate Ethiopia's integration into the regional and world economy. The proposed intervention will focus on capacity building and institutional support to private sector intermediary organisations and public service bodies and has to be seen in the context of an effective implementation of the EPA currently under negotiation and accession to the WTO. The German Co-operation and the EC will complement their interventions. Italy (IDC) [and the United Kingdom] will concentrate on the value chain approach, while the Netherlands and Sweden (SIDA) will continue with further capacity building for the private sector. The interventions in this area will also be co-ordinated with the wider donor community, in particular the World Bank, UNDP/UNIDO and USAID.

IV.3.2. Focal sector II: Rural development and food security

The EC proposes to support this area in three concrete ways: (i) Support for the Productive Safety Nets Programme (PSNP); (ii) Support to agricultural markets and livestock development, and; (iii) Management of natural resources, including restoration and preservation of degrading environmental conditions in rural Ethiopia. Linked to these proposed interventions is the support given by a number of EU Member States as regards rural-urban linkages, rural electrification as well as water and sanitation.

IV.3.2.1. Support for the Productive Safety Nets Programme (PSNP)

The PSNP is to become more directed towards and linked with programmes to achieve food security, while it could also have a potential on reversing land degradation and building other community assets including livestock. The PSNP is an important multi-donor funded programme, extending support to more than 10% of the Ethiopian population with a present annual budget of € 220 million. It has the objective to provide predictable transfers to the food insecure population in order to reduce the food gap, to prevent further asset depletion at the household level and to create/preserve assets at the community level. Overtime, the joint donor group together with Government are expected to work towards refining the programme's design and improve the implementation modalities so as to allow the PSNP to become a more effective protection and risk management mechanism. The EC, Ireland (Irish Aid), Sweden (SIDA) and the United Kingdom (DfID) will continue to support implementation of the PSNP, together with other donor agencies such as [the AfDB and] the World Bank.

IV.3.2.2. Support to agricultural markets and livestock development

Providing support for private sector-based trade in inputs and the marketing of agricultural produce, as well as support for Livestock Development which could include strengthening marketing arrangements in both highlands and pastoral areas. Support could help towards ensuring political stability in the border areas where nomadic pastoralists do not easily respect formal borders when searching for limited grazing potential. The source for the interventions to be supported by this programme is PASDEP. The approach for this intervention will be agreed in close co-ordination between the EC, Austria, Germany, [Italy (IDC),] the Netherlands, Sweden (SIDA) and the United Kingdom (DfID), and in consultation with the AfDB, the World Bank, UNDP and USAID.

IV.3.2.3. Management of natural resources

PASDEP takes the view that high population density in large areas of the country has had negative impact on agricultural production and environmental security. In addition, climate change is believed to be one of the causes of environmental and socio-economic problems in Ethiopia, including weather variability, loss of pasture lands, droughts, floods and, thus, food insecurity. The Joint Response Strategy proposes to assist the Government with developing a national strategy to enhance coping mechanisms to deal with the adverse effects of high population density and climate change.

In line with PASDEP guidelines and recognising that development strategies should be tailored according to the different agro-ecological zones and livelihoods prevailing in the country, the Joint Response Strategy proposes to focus on assisting the Government in addressing the following challenges: (i) Accompanying growth in the densely populated areas of the highlands; (ii) Mitigating the influence of the management of natural resources on the (re)settlement process and optimising its development potential in the western areas of Tigray, Amhara, Oromyia and SNNPR, and; (iii) Improving the livelihood of pastoralists. Assistance in this field will be delivered in coordination with Austria, Germany, Hungary, the Netherlands, Sweden (SIDA) and the United Kingdom (DfID).

IV.3.2.4. Rural-urban linkages and urban development

PASDEP recognises the need for intensified efforts to promote urban development as a requirement to complement efforts of rural development. The high urbanisation rate is seen as a potential way to reduce population pressure in rural areas and to stimulate accelerated economic and social development in both, urban and rural areas.

In line with PASDEP, rural–urban linkages will have to be strengthened and urban development be promoted. The Joint Response Strategy proposes to assist Government in: (i) implementation of the urban development agenda of PASDEP; (ii) the improvement of Good Urban Governance, and; (iii) develop strategies of intensifying rural–urban Linkages. Concentration will be in the regions of Tigray, Amhara, Oromiya and SNNPR. Assistance in this field will bring together the EC, Germany and other development partners such as the AfDB and the World Bank. As regards urban governance, key Government objectives will be supported, including the design of an improved legal framework and justice system in urban, areas, as well as the strengthening of urban land development and administration, and of urban finance and financial management.

IV.3.2.5. Rural electrification (Energy)

Currently, about 15% of Ethiopia’s population lives in areas that are electrified, with only 6% directly connected. The objective of Government under the Universal Electricity Access Program is to increase the 15% figure to 50% over the next 5 to 10 years. It is expected that the provision of electricity for productive purposes and social services will have a significant impact on improving the social and economic well being of the rural population. The EIB, Italy and Austria have supported or are supporting the development of hydro-power in Ethiopia through the provision of strategic advice, as well as by providing financial assistance

for policy formulation, capacity building and system expansion. Beyond the use of hydro-power, the Government and these EU donors are also encouraging the development of small localised off-grid power sources such as photo-voltaic solar and mini-hydro.

IV.3.3. Focal sector III: Macro-economic support and governance

PASDEP aims at enhancing devolution, empowerment and capacity building in executive bodies and democratic institutions. PASDEP recognises that both the effectiveness of economic management and the quality of political governance will have a direct impact on development results. High economic growth cannot be achieved in the absence of accountability for macro-economic management. PASDEP also aims at participation by Ethiopia's people in the design of development policies and in the implementation of key development programmes, as well as enhancing the dialogue between Government and civil society, to achieve a consensus on the need for common sacrifice and effort towards reaching the MDGs targets.

In this connection and in line with the Cotonou Agreement, the EC resources allocated to Ethiopia will be based on an evaluation of the Government's performance in economic management and governance, against commitments made by the Government in the PASDEP policy matrix. The EC's conclusions regarding performance in the governance area will have direct impact on the release of resources to Ethiopia from the Incentive Tranche. The thrust of this focal sector will be directed to two components: (i) strengthening socio-economic governance, and (ii) strengthening democratic governance.

IV.3.3.1. Strengthening socio-economic governance

The macro-economic and/or socio-economic support programme will underpin the Government's effort to maintain a conducive macro-economic environment for economic growth and poverty reduction, building on the experience gained under the General Budget Support (GBS) and the Protection of Basic Services (PBS) programmes. The recently-completed PASDEP identifies high aid requirements to meet MDGs, but is not explicit about aid instruments to be adopted, thus lacking precise guidance for donors. In the course of 2007 this issue will be addressed by Government and donors. A priori, for the EC, GBS is the preferred modality for predictable socio-economic support subject to eligibility conditions being fulfilled. The opportunity of actually using GBS during the implementation of the response strategy, however, depends upon the quality of partnership. The key factor for the assessment of the latter will be the monitoring of performance in the governance area against Government's commitments laid down in the Policy Matrix on Democratization and Good Governance which forms part of PASDEP. The PASDEP overall Policy Matrix will also be the basis for monitoring macro-economic performance. The monitoring process is facilitated by the Government's agreement to involve the IMF in the bi-annual PBS Joint Review and Implementation Support (JRIS) missions. An important development is that Government and the IMF have resumed their policy dialogue in the context of the annual Article IV consultations process. Should the inclusion of GBS in the response strategy not be opportune on governance grounds, a continuation of the Protection of Basic Services (PBS) programme would be considered. Overall, whether through GBS or PBS, attempts will be made to enhance interregional equity. Socio-economic support will also include capacity building for strengthening economic management, including decentralisation and social accountability.

Decisions on whether to include general budget support in implementation of the response strategy or whether to come to a combination of GBS and Protection of Basic Services will be subject to consultations between the Government and the PBS financing partners - EC, Austria, Germany, Ireland (Irish Aid), the Netherlands, , the United Kingdom (DfID), Canada (CIDA), AfDB and the World Bank.

IV.3.3.2. Strengthening democratic governance

The Joint Response Strategy intends to support implementation of the PASDEP chapter on governance, including its Policy Matrix on democratisation and good governance, by helping to create an open, democratic and participatory society. The proposed interventions in this field build on the broad commitment of the wider donor community and will contribute to the governance agenda in Ethiopia through three activity windows:

(i) Capacity- building in key democratic institutions and the judiciary.

This will comprise contributing to joint donor strategies and instruments with a view to:

- enhancing the functioning of such key institutions as the Federal and Regional Parliaments, the Human Rights Commission and the Ombudsman;
- strengthening democratic electoral processes, including support to NEBE, and to civil society activities in such areas as awareness raising, voter education and domestic election observation;
- fostering the realisation of fundamental freedoms most crucial in a democratisation process, such as freedom of expression and information, through creating an enabling environment for the media sector to flourish, including establishing a Press Council;
- contributing to the implementation of the Justice Sector Reform programme being set up in Ethiopia, with particular focus on improving the operation of the Judiciary.

The implementation modality for this intervention is to be jointly identified by the EC, Ireland, the Netherlands and the United Kingdom (DfID) – and other interested donors - and could take the form of Sector Budget Support (SBS) and/or a Pool Fund construction under the management of UNDP, or follow a coordinated project approach. The choice of instrument will take into consideration the progress made under the Public Sector Capacity Building Programme (PSCAP), a broad programme addressing capacity constraints horizontally, across the public sector, and to which several donor agencies - including the EC and DfID – contribute through a World Bank Trust Fund arrangement.

(ii) Enhanced participation of NSAs in policy dialogue and development, to further strengthen their capacity in advocacy and service delivery, and to promote their full recognition as development partners. The institutional support already being provided to NSAs is part of the EC and EU Member States' broader strategy towards improved governance in Ethiopia. Further support for NSAs will focus on confidence building measures to enhance and stabilise the dialogue mechanisms between State and Non-State Actors, not only on issues of direct interest to these groups' activities, but on the development process generally, to which they contribute substantially. This support will be supplemented by capacity building programmes for NSA in various areas, including advocacy and scaling-up of service delivery in social and economic sectors, recognising that the latter can not be handled by Government alone. The EC will continue to co-ordinate with other donors' efforts in this field.

(iii) *Enhancing Gender Equality.* PASDEP and the National Action Plan for Gender Equality (NAP-GE) recognise that gender equality in Ethiopia is far from reality. A substantial and strategic contribution to women's rights enforcement and empowerment as well as Gender policies is foreseen, supporting both Government programmes and NSA activities. Enhanced efforts will be dedicated towards developing a robust gender mainstreaming strategy in partnership with EU Member States, which involves analytical work, identifying strategic entry points in a number of sectors and measuring results. In addition, a specific programme is proposed to boost progress in the areas of gender equality, promotion and enforcement of women's rights. This programme could include reproductive health in the context of improved women's access to education and health. Supporting women's income-generating activities is also foreseen. Overall, the proposed intervention will be designed to optimise the contribution towards gender equality supported by the EC Gender Budget Line and build upon the results of the ongoing support activities carried out by the EU Member States and the wider donor community in this field.

IV.4. Non-Focal sector

IV.4.1. Environmental, cultural and biological heritage conservation

The history of Ethiopia, known to many abroad as Abyssinia, is rich, ancient, and still in part unknown. Anthropologists believe that East Africa's Great Rift Valley is the site of the origin of humankind. It is in Ethiopia's Afar region where archeologists discovered the remains of "Lucy" who lived more than three million years ago, and her bones now rest in the Ethiopian National Museum. The first recorded account of the region dates back to almost 5,000 years ago during the time of the Egyptian pharaohs, when the ancient Egyptians sent expeditions down the Red Sea in quest of gold, ivory, incense, and slaves.

The country's rich history is woven with legends of King Solomon and the Queen of Sheba; the Ark of the Covenant that is said to rest in Axum; the great Axumite kingdom and the birth of Christianity; the rise of Islam; and the story of King Lalibela, who is believed to have constructed eleven rock-hewn churches, still standing today and considered the eighth wonder of the world. Thus, Ethiopia has a unique historical record and world-renowned monuments, as well as an incredible record of hominid fossils and stone tools that is of increasing interest to both scientists and tourists alike. Ethiopia also possesses one of the world's largest biodiversity, dramatic scenery, distinctive cultural attractions and potential for wildlife development.

However, Ethiopia has not been able to maintain its historical, cultural and biological heritage, which also means that it has not been able to fully exploit what is an important potential in tourism. The latter is a key priority of PASDEP. The EC has already made a beginning with the preservation and conservation of Lalibela churches and with the safeguarding of religious treasures of the Orthodox Church. Under this Joint Response Strategy further unique cultural heritage sites will be restored.

Another area of Government's concern is the National Parks where there is considerable potential and need for protecting and encouraging growth of much-depleted wildlife populations. Support would also be provided to assist Government in developing a supportive policy environment, institutional structure and promotion services through the Ethiopian

Ministry of Culture and Tourism and building regional bodies responsible for restoring and preserving cultural heritage sites, as well as to restore and conserve National Parks and wildlife populations. The implementation modality for this intervention is to be jointly identified by the EC, Germany (GTZ) and the Netherlands, in close co-ordination with the World Bank and UNESCO.

IV.4.2. De-mining action

In Ethiopia landmines litter the countryside and kill and maim both people and animals. The problem is especially grave in the Northern districts bordering Eritrea. The existence of landmines and their explosive threat also render vast areas of agricultural and grazing land unusable. In 2002-2003, the EC funded a UNDP-executed nationwide Landmine Impact Survey (LIS) and is about to engage in a de-mining project in Tigray and Afar regions. EC engagement in this project will replace the role previously played by the World Bank which has been funding UNDP's and the Ethiopian Mine Action Office (EMAO)'s de-mining activities. Current EC funds will cover costs until end-2008, it is expected that a second phase is needed. EC support under the Joint Response Strategy will be used to continue financing UNDP/EMAO operations, but will be considered in the context of the African Union (AU)'s participation in the area of de-mining.

IV.4.3. EC Technical Cooperation Facility (TCF)

This EC intervention concerns a continuation of the existing TCF and provides for a special reservation of funds for analytical work. The TCF also covers a reserve for insurance against possible claims and to cover cost increases and contingencies.

IV.5. Joint implementation methods

The implementation of this Joint Response Strategy will be guided by the Paris Declaration and the principles of ownership, alignment and mutual accountability. Implementing the strategy in the most and effective manner will require a range of delivery mechanisms commensurate with the country-specific situation of Ethiopia. This will help to create a programme portfolio containing modalities that can easily be expanded into flexible and efficient joint instruments having a high impact as well as bilateral programmes and projects with a specific added-value.

Aid delivery modalities to be adopted jointly in Ethiopia will be identified jointly in the context of a DAG/GoE review of Ethiopia's overall and sector external financing needs as indicated in PASDEP. They could include:

- ***Budget Support:*** Budget Support is the preferred implementation modality where conditions allow it. In the specific case of macro-economic support, the opportunity of actually using General Budget Support (GBS) during the implementation response strategy, however, will also depend on the quality of partnership as explained above. The EC, Austria, Germany (KfW), Ireland (Irish Aid), the Netherlands and the United Kingdom (DfID) remain committed to the protection of basic services.
- ***Sector-Wide Approach (SWAP):*** The EC has developed a Sector Policy Support Programme (SPSP) in the road transport sector and will also seek such approach for

rural development and in the justice sector if the fiduciary environment is appropriate. The United Kingdom (DfID) is considering an SPSP for improving access to water and sanitation, and essential infrastructure for growth.

- ***Multi-donor pool funds:*** The EC, Ireland (Irish Aid), the Netherlands and the United Kingdom (DfID) are currently funding the PBS programme through a World Bank Trust Fund arrangement, while donor support (EC, DfID) to the Productive Safety Nets Programme (PSNP) and the Public Sector Capacity Building Programme (PSCAP) is also channelled via the World Bank. Other World Bank and UN administered funding baskets will be used when appropriate.
- ***Bilateral programmes and projects:*** Both the EC and the EU Member States will continue their own programmes and projects when they are judged to be the most appropriate response to the level of need and recognising local capacity constraints.

IV.6. Risk assessment

Chronic food insecurity, malnutrition and famine remain major unresolved issues in Ethiopia. Over the past 30 years there has been a marked increase in the frequency of drought and famine in Ethiopia, and in the number of people affected.

Arresting – and possibly reversing - Ethiopia’s rising food insecurity is a key priority for Government and donors alike. Programmes identified in PASDEP – and supported by the Joint Response Strategy - to cope with chronic food insecurity reflect a four-pronged approach: (i) stimulating agriculture growth; (ii) addressing vulnerability through the Productive Safety Net Programme (PSNP) to cushion the rural poor against income and livelihood shocks that often come from the vagaries of weather and the progressive deterioration of the natural resource base in rural areas; (iii) reducing population density in rural areas, to be achieved through putting in place a rigorous action plan for family planning and reproductive health, as well as the promotion of gender equality. It also involves letting rural/urban migration take its course and developing promising urban centers to facilitate the productive absorption of rural migrants through skills development and other programmes; (iv) maintenance, restoration and enhancement of Ethiopia’s natural resource base; and (v) strengthening disaster preparedness.

Ethiopia’s growing population - 2 million plus annually - the dominance of rain-fed low-productivity agriculture and the slow growth in off-farm employment opportunities in rural areas all compound to increased vulnerability. The low productivity of land and the difficulty to build up an asset base are now being addressed by the Productive Safety Nets Programme (PSNP), promoted by the Government and supported by several donors including the EC. But most importantly, the rural areas are finding it difficult to cope with the increase in population density. This lends urgency to a strong expansion of donor support for the Government’s family planning programmes which aim at reducing the country’s fertility rate from 5.4 in 2004/05 to 4.0 in 2009/10.

Prudence requires that a recurrence of drought and famine should be expected in the coming five years, all the more so because of ongoing climate changes. Should this happen, famine in Ethiopia could possibly affect 15 to 20 million people which would strain the capacity of Government and donors to cope with such an eventuality. If so, progress towards higher

incomes and less poverty as foreseen under PASDEP for the people of Ethiopia could be seriously interrupted and could possibly be set back, despite the Government's programmes on disaster preparedness.

10TH EDF PROGRAMMING ORIENTATIONS

ANNEXE 1A – COUNTRY STRATEGY PAPER

PART 2: INDICATIVE PROGRAMME

1 Indicative Programme

1.1 Introduction

On the basis of the cooperation strategy presented in Part 1 and in accordance with Article 4 of Annex IV to the *Cotonou Agreement*, the Indicative Programme has been drawn up as a set of tables showing the framework for action in each sector, the financial programming timetable and a detailed chronogram of activities for all programmes listed over a rolling three-year period.

The amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sectors and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or ad hoc reviews. However, any adjustment resulting in a substantial change to the structure of the response strategy will require a formal decision in the form of an addendum to the strategy paper.

1.2 Financial instruments

The implementation of the EC's cooperation strategy with the Federal Democratic Republic of Ethiopia will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

1.2.1 10th EDF (A –envelope) € 644 million: this envelope will cover long-term programmable development operations under the strategy, in particular:

Transport and regional integration, € 250 million, which is 39% of the total, to be implemented in the form of a combination of sector budget support and the project approach.

Rural development and food security, € 130 million, which is 20% of the total, to be implemented in the form of a combination of sector budget support and the project approach.

Macro-economic support and governance, € 244 million, which is 38% of the total, to be implemented in a combination of modalities.

Other programmes, € 20 million, which is 3% of the total, to be implemented in the form of projects,

- of which:*
- Environmental, cultural and biological heritage conservation, €10 million*
 - De-mining action, €5 million*
 - Technical Cooperation Facility (TCF), € 5 million*

1.2.2 10th EDF (B -envelope)€ 30 million

This envelope will cover unforeseen needs, such as emergency assistance where such assistance which cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate the adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the *Cotonou Agreement*, this amount may, if necessary, be increased in the light of operational or ad hoc reviews.

1.2.3 Investment Facility

In addition to the above mentioned financial instruments, of which the A -envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the *Centre for the Development of Enterprise (CDE)* and the Centre for the Development of Agriculture (CDA).

1.2.4 10th EDF, Regional Indicative Programme (RIP), € XXX million

This allocation will cover long-term programmable development operations under the regional strategy for Eastern and Southern Africa (ESA). The allocation is not part of the Indicative Programme but will have synergies with the NIP. The extent will depend on the participation by the Federal Democratic Republic of Ethiopia in the programmes proposed under the regional framework.

1.2.5 Other financial instruments

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007-2013 subject to special procedure and availability of funds and out of the own resources of the EIB. Actions funded under the general budget include, among other, programmes funded under the Development Cooperation Instrument, such as the thematic programmes "investing in people", "non state actors in development", "migration and asylum", environment and sustainable management of natural resources" and "food security", as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

1.2.6 Monitoring and evaluation

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The results and impact of the Community's cooperation with Ethiopia implemented through the NIP and through other external actions funded by the general budget of

the European Community, will be assessed by means of an independent external evaluation. This country-level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

1.3 Focal sectors

The EC Response Strategy is to support the Government's efforts to achieve decisive progress in reaching MDGs through faster and sustained economic development, stressing regional integration and strengthening the democratic process. It is built around three focal sectors: (i) transport and regional integration; (ii) rural development and food security, and; (iii) macro-economic support and governance. It is also proposed to include in the Non-Focal Sector a pioneering programme for the restoration and conservation of Ethiopia's cultural, biological and environmental heritage. In general terms, the proposed interventions have been designed to contribute to reducing regional income inequalities within Ethiopia, as well as to the achievement and maintenance of economic prosperity, food security, peace and political stability in the Horn of Africa, and are consistent with the approaches and interventions included in the EC-ESA Regional Strategy Paper (RSP).

The three focal sectors and the non-focal sector are closely interlinked. In line with PASDEP, sustained economic growth requires structural transformation of the Ethiopian economy. While the share of agriculture in GDP has fallen below 50%, about 85% of Ethiopia's people still live in rural areas where they remain largely dependent on agriculture for their livelihood. In addition, close to 10 million people are chronically food insecure reflecting vulnerability of the rural population to climate shock and environmental adversity. Achievement of sustainable income growth and reduction in vulnerability in Ethiopia's rural areas will therefore have to start with addressing food security through productive safety net programmes as well as with reversing environmental degradation. The CSP includes strong provisions for this purpose. These programmes will definitely have to be supplemented by relieving production constraints in the agricultural sector. The CSP proposes to do this in various ways, inter alia by providing support for roads development¹, improving the functioning of agricultural markets and supporting the livestock sector which offers potential for export development in the Region. Reduction in rural non-monetary poverty remains a key priority of the Government and the CSP proposes to address this by means of support for the Protection of Basic Services Programme or through general budget support, as the case may be.

An important element of the Government's strategy is to increase and diversify private sector based exports to finance imports needed for sustaining high economic growth rates and for maintaining macro-economic stability. The CSP proposes to discuss relevant policy matters in a dialogue with Government as part of the substantial provision of DBS or PBS financial support. The Strategy also proposes direct support for private sector development as well for the preservation of Ethiopia's cultural and biological heritage, both of key importance for employment creation, foreign exchange generation and economic growth. Further trade development is essential, and success in the Government's strategy is very much predicated by reducing the costs of exports and imports. Supply-side constraints will have to be addressed in the context of the EPA negotiations and of the process that eventually leads to Ethiopia's accession to the WTO. Enhanced Regional Integration is an important stepping

¹ Recent studies identified positive impact of roads on crop income, consumption and poverty in Ethiopia's rural areas. Better road conditions also facilitate delivery of social sector services.

stone in Ethiopia's integration process into the world economy. Improving connectivity to neighbouring countries through investments in infrastructure is therefore essential for the strengthening of export development and regional integration. Accordingly, the CSP supports the development of the Addis-Djibouti transport corridor in the form of the ongoing Ethiopia-Djibouti railways project and inter-country road construction.

PASDEP recognises that high economic growth cannot be achieved in the absence of accountability for macro-economic management. It therefore aims at participation by Ethiopia's people in the design of development policies and in the implementation of key development programmes, as well as enhancing the dialogue between Government and civil society, to achieve a consensus on the need for common sacrifice and effort towards reaching the MDG targets. For this reason the CSP proposes to address capacity building in democratic institutions, to strengthening civil society and, very significant from the point of view of inducing more effective people's participation in the development process, the achievement of gender equality. The latter will also help to improve food security by reducing population growth in rural areas.

1.3.1 Focal Sector I: Transport and regional integration

The overall action in this focal sector reflects the recognition that Ethiopia's economic growth potential can only be exploited to the full when considered part of broader economic reform programmes to make Ethiopia's economy more competitive and integrated in both the regional as well as the global economy. The proposed intervention is intended to contribute to the economic development of both Ethiopia and the region, and fits within the context of promoting Peace and Security in the Horn of Africa. Road infrastructure also has a crucial role to play in improving access of the poor in Ethiopia to social services and in enhancing food security, the latter by making it easier to transport food to areas where there are shortages. For these reasons EC support will help the Government with creating and maintaining an efficient road network that will improve accessibility, mobility, connectivity and regional integration.

Support will consist of two concrete intervention areas: (i) infrastructure development aimed at strengthening both intra-regional as well as interconnection with the regional market of the Horn of Africa; and (ii) capacity building for -private sector development and trade in the context of the EC-ESA Economic Partnership Agreement (EPA) currently under negotiation and Ethiopia's WTO accession process.

1.3.1.1. Transport

The following specific objectives will be pursued:

- Improved access of the rural poor to social facilities and basic services;
- Better links between areas of production and consumption;
- Improved trans-border connectivity and access to port facilities in neighbouring countries;
- Increased mobility of people and flows of goods.

This will be achieved by expanding, improving and maintaining the roads network and providing a conducive regulatory framework for the sector within the structure of a sector wide approach (SWAP).

As an indicative amount, approximately € **220 million** will be set aside for this sector.

The foreseen interventions are:

1. Continued support for the country's Road Sector Development Programme (RSDP) preferably within the structure of a Sector Policy Support Programme (SPSP) through a Sector Budget Support (SBS) financing modality. This shall include institutional strengthening and capacity building for sector institutions. The feasibility of this intervention will be re-assessed at the identification stage with reference to the overall Budget Support eligibility criteria and progress in the sector policy commitments made by the Government. An amount of € 200 m is foreseen.
2. An amount of € 20 m is set aside to supplement regional projects. One possible project would be the rehabilitation and upgrading of a 387 km section of the Addis Ababa – Port of Djibouti corridor between the towns of Mieso and Guelile (via Dire Dawa). The GoE intends to secure funds from the ESA RIP and will also contribute to this from its own resources.

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field are:

- The Government/Ethiopia Roads Authority will continue implementing the RSDP in accordance with the provisions and timetable contained therein.
- The Road Fund (RF) will gradually increase collection of road user charges to a level that is sufficient to cover the entire maintenance costs. In the interim, the Government will supplement the financial resources to the RF in order to reduce the maintenance gap.
- Government/ sectoral institutions will encourage active involvement by the private sector and ensure a level-playing field. Efforts will be made to maximise generation of employment – including local labour – by adopting labour-intensive techniques and appropriate training and skills development programmes for construction and maintenance.

The main commitments by the Government to mainstream crosscutting issues are:

- Government/sectoral institutions will monitor involvement of women in road works and address issues such as job opportunities, workplace conditions, including adherence to Decent Work Principles included in ILO's Core Labour Standards, as well as HIV/AIDS.
- The Government will engage in meaningful dialogue with the EC and other sectoral stakeholders on issues such as (a) participation in sectoral activities, (b) transparency, (c) accounting and reporting and (d) procurement and other regulatory requirements.
- As and where appropriate, Government/sector institutions will carry out Environmental Impact Assessments and ensure protection of the environment for activities to be carried out in this sector.

When needed, the appropriate type of environmental assessment (Strategic Environmental Assessment or Environmental Impact Assessment) will be carried out.

1.3.1.2. *Private-sector development and trade*

The objective of support to Private Sector Development & Trade is to increase the level of competitiveness of Ethiopia's private sector and to assist the Government in its efforts to accelerate trade and facilitate the country's integration into the regional and world economy.

The high economic growth rates required to meet the MDGs will only be possible with a private sector that participates fully and actively in Ethiopia's development and that benefits optimally from the country's planned entry into the COMESA Free Trade Area, the upcoming Economic Partnership Agreement (EPA) with the European Union and its future membership of the World Trade Organisation (WTO).

The EC intervention in this area focuses on capacity building in support of an effective implementation of the EPA and smooth accession to the WTO.

An indicative amount of **€ 30 million** will be set aside for this intervention.

The proposed modality for implementation is co-financing of the Private Sector Development and Quality & Standards components of the Engineering Capacity Building Programme (ECBP) through an administrative agreement with the German Cooperation (GTZ).

The main actions to be implemented are:

1. capacity building and support to private sector intermediary organisations (Chambers of Commerce, sectoral associations, micro-finance institutions and women entrepreneurs associations) as well as small- and medium Enterprises (SMEs);
2. capacity building and institutional support to public service bodies (Ministry of Trade & Industry/Export Promotion Department, Ministry of Revenue, Customs Authority, Quality and Standards Authority).

The main policy measure to be taken by the Government as a contribution to implementation of the response strategy in this particular field is to encourage an effective dialogue with the private sector.

The intervention is to help to ensure that Ethiopia benefits effectively from the programmes and projects in support of regional economic integration proposed in the Regional Strategy Paper (RSP)/Regional Indicative Programme (RIP).

1.3.2 Focal sector II: Rural development and food security

The overall objective is sustainable reduction of vulnerability to food insecurity and poverty.

The following specific objectives have been identified:

- reduce the vulnerability and improve the food security of the chronically food-insecure;
- slow-down in growth of population density in rural areas;
- improve agricultural market integration and access to these markets;
- enhance the contribution by livestock to sustainable food security and poverty reduction;
- conserve natural resources and restore degrading environmental conditions in rural areas.

These five specific objectives will be achieved by means of three main actions with an indicative financial package of approximately **€ 130 million**:

- addressing vulnerability and risk through support to the Productive Safety Net Programme (PSNP) (€100 million);
- support to agricultural markets and livestock development (€ 20 million);
- management of natural resources (€ 10 million).

Linkages between the different activities within the sector and with other sectors are the key to the success of the approach. For example, cash transfers within the PSNP will stimulate the rural economy and help promote local trade, whilst the public works component, including construction of rural roads, will enhance private-sector development and improve the functioning of agricultural markets.

PASDEP foresees that rural development, food security, population density, risk and vulnerability as well as environmental degradation, should be addressed simultaneously. While rural development must focus on production and income growth, addressing food security, risk and vulnerability seeks to provide a stabilising platform from which people can gain access income-generating opportunities and contribute to growth. The PSNP is an important programme for addressing vulnerability and risk through cushioning the rural poor against income and livelihood shocks and this CSP proposes further support to the PSNP. It should be noted that addressing risk and vulnerability also requires attention for basic services and this will be addressed by the Protection of Basic Services (PBS) programme.

At present the Productive Safety Nets Programme is co-financed. As well as the Commission, the World Bank, CIDA, USAID, DfID, Irish Aid and WFP are supporting this programme. It certainly could be envisaged that, in co-ordination with the other PSNP donors, as much as € 50 million from the NIP foreseen for the PSNP could be transformed into Sector Budget Support. For rural development programmes and Natural Resource Management a project approach would continue to be the probable intervention instrument.

1.3.2.1. Support to the productive safety nets programme (PSNP)

An indicative amount of **€ 100 million** will be set aside for this intervention.

The PSNP is an important multi-donor funded programme extending support to more than 10% of the Ethiopian population with a present annual budget of € 220 million. It has the objective to provide predictable transfers to the food insecure population in order to reduce the food gap, to prevent further asset depletion at the household level and to create/preserve assets at the community level. Overtime, the joint donor group together with the GoE will

work to refine the programme's design and improve the implementation modalities so as to allow the PSNP to become a more effective protection and risk management mechanism. It works on cash first transfer as opposed to a food aid provision. In 2005, a significant number of beneficiaries – 3 million people - received cash transfers which represent 66% of the total transfer value as food aid was gradually reduced. It is intended that this percentage will increase over the coming years. To benefit from PNSP, 85% of the targeted population carry out public works at the local level. The core activities carried out to date are construction/rehabilitation of rural roads, and soil and water conservation. An Environmental and Social Management Framework (ESMF) developed and agreed upon by Government and donors ensures that public work activities are not negatively impacting on the environment.

The PSNP also has the potential to evolve into a comprehensive social protection strategy in the longer term. In particular, further dialogue could focus on making the PSNP evolve from a geographical focused programme into an entitlement based intervention that is part and parcel of the Government's social protection policy. Additionally, but outside the scope of the present Commission's intervention, the expansion of safety nets to the benefit of poor and vulnerable urban households could boost the effectiveness of Government's urban development policy.

1.3.2.2. *Support for agricultural markets and livestock development*

An indicative amount of **€ 20 million** will be set aside for this intervention.

Achievement of increased agricultural production and incomes remains at the core of Government development policies. This is so because of the preponderance of agriculture in the overall economy and the number of people dependent on agriculture for their livelihoods. PASDEP reflects this priority. One recent development in agricultural policy involves the improvement of agriculture markets which is now at the centre of Government policy. In the first instance, the CSP will support the Government's new policy by engaging in a policy dialogue focusing on a mixture of reduction in interventionism and the provision of incentives to market players. This would be followed by support for the Government's programme aiming at improving market linkages through an improved regulatory framework and provision of entry incentives for the private sector.

As regards livestock development, the Government considers livestock development to be another area considered of importance for rural income growth and food security. Ethiopia has Africa's largest livestock population, and livestock and their products account for about 30% of agricultural GDP. Livestock productivity is low because of a high disease challenge, inferior nutrition and inadequate support services – including those of animal health and management. The programme proposed will address these issues, and will also facilitate regional trade integration by promoting exports of live animals and animal produce to other countries in the Horn of Africa. Plans are in place to upgrade the animal health service to enable Ethiopia to optimize the contribution that livestock can make to the national economy.

Support under the CSP will focus on policies and programmes that protect sources of livelihood while addressing sources of vulnerability. This will include: (i) provision of animal health services, inter alia to create disease free areas/corridors; (ii) better drought risk management/preparedness; (iii) conflict resolution mechanisms – mix of Government and traditional leaders; (iv) support for livestock marketing, and; (v) Support to achieve improved grazing methods.

1.3.2.3. *Management of natural resources*

An indicative amount of **€ 10 million** will be set aside for this field.

Throughout the country, both in the densely populated of the centre and in the less populated resettlement sites, current rates of degradation of the natural resource base need to be reversed.

The main measures proposed are:

1. to accompany the resettlement process in the high-potential areas by establishing participatory natural resource management systems between the local populations with forestry/pastoralist based livelihoods and the highland immigrants with crop agriculture based livelihoods. Three project support strategies could be envisaged: (i) the equivalent of a Natural Resource Management Fund (similar in design to the Civil Society Fund currently operating) is set up with the aim of delivering small grants to NGOs better equipped to operate in remote areas; (ii) the signing of Grant Agreements with relevant forestry / natural resources related institutions under the general umbrella of a Financing Agreement, or; (iii) participatory natural resource management projects run on a regional basis in partnership with the Forestry Departments of the MoARD;
2. to accompany growth in the densely populated areas of the highlands by strengthening water-use related activities (identification of suitable water harvesting schemes and management / maintenance capacity for small scale irrigation schemes which are known to have proliferated in the four main regions in the last decade). The main implementing instrument will be project support to be established in the form of a partnership with MoARD;
3. to promote conservation, use and national and international valorisation of Ethiopian's (agro)-biodiversity in all parts of the country.

The entire rural development strategy will benefit from the experience gained under the Protection of Basic Services programme which focuses on regions and woredas, create new dialogue structures with these lower administrative levels and bring new insights following the redesigned diagnostic reviews and analytical work.

1.3.3 Focal Sector III: macro-economic support and governance

1.3.3.1. *Strengthening socio-economic governance*

An indicative amount of **€ 195 million** will be set aside for this support.

The macro-economic and/or socio-economic support programme will underpin the Government's effort to maintain a conducive macro-economic environment for economic growth and poverty reduction, building on the experience gained under the General Budget Support (GBS) and the Protection of Basic Services (PBS) programmes. The recently-completed PASDEP identifies high aid requirements to meet MDGs, but is not explicit about

aid instruments to be adopted. In the course of 2007-2008 this issue will be addressed by Government and donors. A priori, for the EC and the Government of Ethiopia, GBS is the preferred modality for predictable socio-economic support subject to eligibility conditions to be fulfilled. The opportunity of actually using GBS during the implementation of the response strategy, however, also depends upon the quality of the partnership. Should any of these pre-conditions not be in place, a continuation of the Protection of Basic Services (PBS) programme would be considered. Overall, whether through GBS, PBS or a combination of these two instruments, attempts will be made to enhance interregional equity. Socio-economic support will also include capacity building for strengthening economic management, including decentralisation and social accountability.

The overall objective is to support Ethiopia's progress towards its Millennium Development Goals for economic growth and human development. The Community will support the implementation of PASDEP, either through General Budget Support (GBS) or through the Protection of Basic Services (PBS) programme. GBS is the preferred modality for predictable macro-economic support subject to eligibility conditions being fulfilled, notably if there is a stable macro-economic situation and if public finance accountability is ensured. The PASDEP overall Policy Matrix will be the basis for monitoring macro-economic performance. The monitoring process is facilitated by the fact that the Government and the IMF have resumed their policy dialogue in the context of the annual Article IV consultations process. Confidence in the monitoring process will be further enhanced by the Government's agreement to involve the IMF in the bi-annual PBS Joint Review and Implementation Support (JRIS) missions. The opportunity of actually using GBS during the implementation of the response strategy, however, also depends upon the quality of the partnership. The key factor for the assessment of the latter will be the monitoring of performance in the governance area against Government's commitments laid out in the Policy Matrix on Democratisation and Good Governance which forms part of PASDEP.

The EC support will be provided as a function of the progress made towards such key objectives as maintenance of macro-economic stability, achievement of public finance accountability and poverty reduction, the latter with a view to ensuring equitable access to social services. This support will be delivered in the form of a two - three-year programmes. Funds may be disbursed in several tranches. If no disbursement is made, the non-disbursed amount is de-committed, credited to the NIP, and may be reprogrammed either for GBS/PBS or for one of the other cooperation programmes under the NIP. Such decisions can be taken in the context of the annual review. In the light of changing needs, it may be decided to reallocate funds from other application points in the NIP to this type of support. Such a decision can be taken in the form of a specific agreement between the Chief Authorising Officer and the National Authorising Officer or within the context of an operational, mid-term, final or ad hoc review.

Decisions on whether to include General Budget Support in the implementation of the response strategy or whether to come to a combination of GBS and Protection of Basic Services will also be subject to consultations between the Government and the PBS financing partners - EC, Austria, Germany, Ireland (Irish Aid), the Netherlands, (possibly) Sweden (SIDA), the United Kingdom (DfID), Canada (CIDA), AfDB and the World Bank.

If by 31 December 2008 no decision has been taken on whether or not GBS should be included in the implementation of the response strategy, GBS funds could be re-allocated to the focal areas subject to agreement between the National Authorising Officer and the

Commission's departments Such agreement can be reached in the context of an ad hoc, mid-term or end-of term review. It is understood that agreement on reallocation of funds to the focal areas should take the form of an addendum to the CSP.

1.3.3.2. *Strengthening democratic governance*

An indicative amount of **€ 49 million** is set aside for the following actions:

- *Strengthening democratic institutions (€ 29 million), support to non State actors (€ 10 million) and promotion of gender equity (€10 million).*

The overall objectives of this support are: (i) to support the Government's commitments towards strengthening the democratisation process and improved democratic governance; (ii) to develop the dialogue between State and non State actors with a view to creating an open, democratic and participatory society; and (iii) to promote gender equality and women's empowerment and rights, contributing to the equitable, democratic and productive functioning of Ethiopia's society.

Given the broad commitment of the donor community, and the various forms of assistance available in this area², the CSP proposes to contribute to the governance agenda in Ethiopia in three areas of activity:

(i) Capacity- building in key democratic institutions and the judiciary

The objectives of the support proposed would be to facilitate: a) The effective functioning of key democratic institutions and; b) The achievement of a fair, efficient and accessible system of justice, delivered by competent, independent and accountable institutions.

- This would first of all be achieved through contributing to joint donor instruments (thus participating in harmonisation and enhancement of aid effectiveness) in support of the Federal and Regional Parliaments, the Human Rights Commission, the Ombudsman Office; through contributing to fostering the operation of electoral processes, including support to the National Election Board of Ethiopia (NEBE), and to civil society activities in areas such as awareness raising, voter education and domestic election observation; and through contributing to programmes in support of freedom of information including the establishment of a Press Council.
- This would secondly be achieved by supporting Ethiopia's Justice Sector Reform programme (possibly through the Government's Public Sector Capacity Building Programme (PSCAP), with particular focus on the Component aimed at improving operation of the Judiciary).

An indicative amount of **€ 29 million** will be set aside for this sector.

The main sectoral policy measures to be undertaken by Government as a contribution to the implementation of the response strategy are:

² Including the EC Budget Line in the area of Human Rights Promotion – EIDHR.

- implementation of the Government's commitments in the area of democratic governance, as laid out in the PASDEP Policy Matrix, consistent with relevant international, regional and constitutional commitments;
- active engagement and participation in dialogue with donors and Non-State Actors on Governance, to regularly assess implementation of the Governance commitments;
- the government's continued commitment to the process of reform of the justice sector, with definition of clear strategic orientations, action plans and lines of communication, with a view to determining appropriate entry points for donor engagement.

(ii) *Institutional Support to non-State actors (NSAs)*

- (i) the objective of this intervention is to support progress towards an equitable and democratic society, through enhancing civil society participation in the overall development process in Ethiopia. This would involve adaptation of Government policies and programmes, an enabling environment for civil society to operate, strengthening NSA capacities in advocacy and service delivery, and promoting recognition of the latter as development partners in full. Further support to NSAs will focus on enhancing and stabilising the dialogue mechanisms between Government and Non-State actors, not only on issues of direct interest to these groups' activities, but on the development process generally, to which they contribute substantially. This support will be supplemented by capacity building programmes for NSA in various areas including advocacy, policy dialogue and scaling-up of service delivery capacity in social and economic sectors.

This objective will be achieved by launching and implementing of a new phase of the Civil Society Fund, possibly by means joint interventions with other donors.

An indicative amount of **€ 10 million** will be set aside for this operation.

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy include:

- Government engagement in trust-building dialogue processes with broader base of stakeholders, with a view to reinforcing partnership between State and non-State actors.
- enactment and enforcement of measures needed to create an enabling environment for NSAs to operate in, including a new NGO law governing the operations of NSAs in Ethiopia.

(iii) *Promotion of gender equality*

The objectives of this intervention are to support the policies and actions of both Government (as included in PASDEP and the National Action Plan for Gender Equality) and Non-State Actors. It aims at strengthening the position of women in democratic decision-making, empowering women to participate in the productive operations of the Ethiopian economy, promoting women's rights and opportunities to access health facilities and services, access to

justice and education, and generally to ensure an equitable share to women in the benefits of social and economic progress. This will be best achieved through a dedicated, specific programme to boost progress in the area of gender equality and promotion and enforcement of women's rights and opportunities. A further intervention will include active gender mainstreaming within the CSP.

An indicative amount of € **10 million** will be set aside for this purpose.

The programme could be implemented by means of a Gender Fund, which would operate in close co-ordination and, possibly, as part of joint interventions with other donors.

The programme could include (but will not be limited to) the following actions:

1. support to gender targeted actions through “gender windows” among CSOs (including NGOs, CBOs, private sector and the media).
2. support for putting into operation the National Action Plan for Gender Equality for 2006-2010.
3. support for institutional capacity-building of Ministry of Women's Affairs and Bureaus of Women Affairs, as well as Women's Affairs Departments in sector Ministries;
4. support for improved enforcement of legislation on women rights, such as the Family Code, minimum marriage age, legislation against trafficking of women and child, through support to relevant initiatives by State and Non-State Actors.
5. support for Government institutions and NSAs for empowerment of women to regulate their fertility and to facilitate women's access to methods and facilities to do so;
6. enhancement of the capacities of women by making available revolving funds.

The main sectoral policy measures to be taken by the Government as a contribution to implementation of the response strategy are:

- active Government engagement towards enforcement measures of national and international legal provisions pertaining to women's rights;
- implementation of the National Action Plan for Gender Equality (NAP-GE-2006-2010), including definition of operational measures, prioritisation and budget allocations;
- institutional capacity strengthening for Women's Ministries, Bureaus and Departments in different sectors;
- government engagement in trust building dialogue with stakeholders on progress towards achieving gender equality;

- development and enforcement of measures needed to allow the expansion of NSAs operating in the field of service delivery and advocacy in gender, including fertility regulation.

Support for non-State Actors covers non-State actors eligible for funding as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the revised Agreement. Depending on their mandate, support for non-State actors may cover activities including, inter alia, capacity building, advocacy, research, awareness raising, monitoring and delivery of services to the population. In supporting non-State actors, the EC may make use of Article 15(4) which allows it to be the contracting authority.

1.4 Other programmes

An indicative amount of **€ 20 million** is set aside for the following actions:

Non-focal Sector: Environmental, cultural and biological heritage conservation (€ 10 million) de-mining action (€ 5 million) and Technical Co-operation Facility (€ 5 million).

1.4.1 Environmental, cultural and biological heritage conservation

Ethiopia has a unique historical record, world-renowned monuments, incredible stock of hominid fossils and stone tools, dramatic scenery, distinctive cultural attractions and potential for wildlife development. However, Ethiopia has not been able to maintain its cultural and biological heritage, which also means that it may not be able to fully exploit what could be an important potential in tourism. The EC has already made a beginning with the preservation and conservation of Lalibela churches, and under this CSP further unique cultural heritage sites will be restored. The precise intervention will be identified jointly with the Government.

Another area of concern to the is the national parks where there is considerable potential and need for protecting and encouraging growth of much-depleted wildlife populations. Possibilities to develop natural parks into tourist destinations with private sector partners will also be explored. Support would also be provided to assist the Government in developing a supportive policy environment, institutional structure and promotion services through the Ethiopian Ministry of Culture and Tourism and building regional bodies responsible for restoring and preserving cultural heritage sites , as well as to restore and preserve National Parks and wildlife populations.

An indicative amount of **€ 10 million** will be set aside for this programme.

1.4.2 De-mining action ()

In Ethiopia landmines litter the countryside and kill and maim both people and animals. The problem is especially grave in the northern districts bordering Eritrea. The existence of landmines and their explosive threat also render vast areas of agricultural and grazing land unusable. In 2002-2003 the EC funded a UNDP-executed nationwide Landmine Impact Survey (LIS) and is about to engage in a de-mining project in Tigray and Afar regions. EC engagement in this project will replace the role previously played by the World Bank which has been funding UNDP's and the Ethiopian Mine Action Office's de-mining activities. Current EC funds will cover costs until end-2008, it is expected that a second phase is needed. EU support under the CSP would be used to continue financing UNDP/EMAO operations, but

consideration is also given to the possibility of supporting the activities of the African Union (AU) in the area of de-mining.

An indicative amount of € **5 million** will be set aside for the de-mining action.

1.4.3 Technical Cooperation Facility (TCF)

This intervention concerns a continuation of the existing TCF and provides for a special reservation of funds for analytical work. The TCF also covers a reserve for insurance against possible claims and to cover cost increases and contingencies.

An indicative amount of € **5 million** will be set aside for the TCF.

1.5 Intervention framework

Model annexed.

1.6 Timetable of indicative commitments and disbursements

Model annexed.

1.7 Chronogram of activities

Model annexed.

1.6 Intervention Framework & Performance Indicators

Note: Government has prepared a comprehensive 50-pages' Policy Matrix for monitoring the implementation of PASDEP. The some 400 Indicators are time-bound for the period up to 2009/10 and form the subject of Annual Reviews. They cover extensively macro-economic, social and production sectors, as well as governance. Discussions are ongoing with Government on how donors can jointly use the Policy Matrix as basis for dialogue with Government on the progress in implementing PASDEP.

The Indicators presented below derive mostly from the Government's Policy Matrix.

1.6.1 Focal Sector I – Transport and regional integration

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objectives	<ul style="list-style-type: none"> Enhanced socio-economic development and improved livelihoods, particularly of the rural poor Favourable environment for private sector action and trade 	<ul style="list-style-type: none"> Rates of GDP and export growth Rate of Increase in per Capita National Income % of Population below Poverty Line Reduction in Under-5 Mortality Inflation Rate 	<ul style="list-style-type: none"> PASDEP Annual Progress Reviews (APRs) RSDP and IF/DTIS achievement reports MOFED: Annual Report on Macro-economic Development in Ethiopia IMF Article IV consultations Welfare Monitoring Survey 2007/8 	
Programme Purpose	<ul style="list-style-type: none"> Enhanced production, competitiveness and incomes Improved accessibility, mobility and connectivity at national and trans-national levels Improved regional integration and external trade Reduced costs for transporting people and goods 	<ul style="list-style-type: none"> Private sector contribution to investment, exports and economic growth (% of GDP) Rate of increase in exports to COMESA countries Percentage of population that lives 2 km of an all weather road Average travel time per 100 km Traffic/passenger volume on certain routes Transport cost per ton and km or person and kilo meter 	<ul style="list-style-type: none"> PASDEP Annual Progress Reviews (APRs) RSDP and IF/DTIS achievement reports MOFED: Annual Report on Macro-economic Development in Ethiopia Reports by independent sources and other donors/lenders that are part of the SWAp 	<ul style="list-style-type: none"> Continued Government commitment to PASDEP Continuation of macro-economic and political stability Effective public-private dialogue

Results	<ul style="list-style-type: none"> • Improved market access at national and trans-national level • Efficiency of roads network improved • Roads network adequately maintained • Private sector participation increased • Regulatory framework in place and applied 	<ul style="list-style-type: none"> • Road density in terms of kilo meter per km2 • Road density in terms of km per number of people • Percentage of roads in good condition • Percentage of private sector participation • Average truck overload 	<ul style="list-style-type: none"> • IF/DTIS Action Plan and WTO Roadmap monitoring reports • RSDP monitoring reports issued by ERA • Reports by independent sources and other donors/ lenders that are part of the SWAp • Project reports 	<ul style="list-style-type: none"> • Continued Government commitment to IF/DTIS, regional integration and WTO accession • No deterioration in Public Finance Management and expenditure • Government supplements Road Fund to reduce maintenance backlog until such time road user charges are sufficient to fully cover maintenance
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1.6.2 Focal Sector II – Rural development and food security

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	<ul style="list-style-type: none"> Sustainable reduction of vulnerability to food insecurity and poverty 	<ul style="list-style-type: none"> Growth in Agricultural GDP Reduction in the no. of people in need of food aid 	<ul style="list-style-type: none"> PASDEP Annual Progress Reviews (APRs) and MDGs Humanitarian needs assessment reports WMS and HICES Surveys 	
Programme Purpose	<ul style="list-style-type: none"> Improved trade and enhanced natural resource use and conservation 	<ul style="list-style-type: none"> Increase in agricultural production and exports Areas under PFM and increased NTFP production and trade 	<ul style="list-style-type: none"> PASDEP APR and MDG reports CSA and export data Diverse PSNP reports Natural resource management project reports 	<ul style="list-style-type: none"> Continuation of political and macro-economic stability Continued Government commitment to PASDEP Good governance to support programme implementation
Results	<ul style="list-style-type: none"> Enhanced livelihoods and asset build-up of PSNP beneficiaries and communities leading to graduation Agricultural markets function more efficiently due to proper policy provisions Enhanced contribution of the livestock sector to sustainable food security Improved participatory natural resource management in high potential resettlement areas Biodiversity / Forestry potential of Ethiopia preserved and developed Highland water potential strengthened and developed 	<ul style="list-style-type: none"> Contributions of donors to SNP and disbursement to beneficiaries Percentage of total transferred as cash Growth of live animal and meat exports, increased number of animal health service provisions, technicians and disease free areas Reduction in prevalence of conflicts in resettlement areas More Gos, NGOs and donors aware of unique biodiversity and ABS development potential for Ethiopia Number of ex-situ collection sites and collections increased National and Regional interventions on Invasive Alien Species harmonised and coherent Number of functional small scale irrigation schemes 	<ul style="list-style-type: none"> Audits and evaluations of the SNP Market surveys MoARD reports DPPA Donor / NGO reports, policies IBCR 	<ul style="list-style-type: none"> Donors remain committed to the PSNP Government remains committed to its policy of improving agricultural markets Security situation and working environment in resettlement areas remains stable enough to facilitate implementation GoE/donor attention not diverted Land is made available by GoE Severe and prolonged drought does not occur

* Abbreviations: (i) PNSP - Productive Safety Nets programme; (ii) MoArd - Ministry of Agriculture and Rural Development; (iii) DPPA - Disaster Prevention and Preparedness Agency; (iv) IBCR - Institute for Bio-diversity and Conservation Research; (v) PFM - Participatory Forest Management; (vi) NTFP - Non-Timber Forest Products

1.6.3 Focal Sector III – Macro-economic support and governance

	Intervention Logic	Objectively Verifiable Indicators	Sources of Verification	Assumptions
Overall Objective	<ul style="list-style-type: none"> Support progress towards PASDEP goals and MDGs for human development Strengthened governance of national and sub-national Governments and the empowerment of civil society 	<ul style="list-style-type: none"> Indicators stipulated in PASDEP Policy Matrix accounting for the macro-economic and fiscal framework, education, health and water supply Indicators in the Governance portion of the PASDEP Policy Matrix 	<ul style="list-style-type: none"> PASDEP Annual Progress Reviews (APRs) MOFED: Annual Report on Macro-economic Development Macro-Economic and Fiscal Framework (MEFF) IMF Article IV consultations and IMF participation in PBS JRIS WMS and HICES Surveys 	<ul style="list-style-type: none"> Improvement in the governance situation Continuation of political and macro-economic stability Continued Government commitment to PASDEP
Programme Purpose	<ul style="list-style-type: none"> Increased delivery of basic services in primary and secondary education, health, agriculture and natural resources and water Deepened transparency and accountability in service delivery Democratic institutions ensuring citizens' participation 	<ul style="list-style-type: none"> Additionality: National and sub-national spending on basic services increases Fiduciary responsibility reflecting accuracy and timeliness of fiscal reporting on the use of resources Increased participation of citizens in democratic processes 	<ul style="list-style-type: none"> Budget data (annual) and actual expenditures by functional and sectoral classification as well as broad economic use Annual inter-government allocations of block grants including basic services resources Government and NSA reports 	<ul style="list-style-type: none"> Improvement in the governance situation Regular and timely periodical Financial Monitoring Reports (FMRs) as provided by MoFED Ongoing Civil Service Reform Programme supported by PSCAP HRC and OO action plans in place
Results	<ul style="list-style-type: none"> Aggregate level of block grant transfers from Federal to regional Governments Citizens better informed on public budget processes Number of large-scale piloted social accountability mechanisms assessed Enhanced inclusive and pluralistic democratic processes Fairer, more efficient and accessible judicial system HRCs and OOs fully operational at federal and regional levels 	<ul style="list-style-type: none"> MEFF intermediate outcome indicators Assessment of 3 large-scale piloted social accountability mechanisms per year Fulfilment of parliamentary roles of representation and oversight Law reform process strengthened, improved case management HRC and OO institutions actually established, number of cases resolved – including on women and children's rights CSO M&E systems, quality and relevance of CSO input into policy dialogue 	<ul style="list-style-type: none"> JBAR Reviews, MoFED Financial Transparency and Accountability Perception (FTAP) survey, MoFED, MoCB Evaluations of social accountability mechanisms on quality and quantity of public services Government and CSO reports and data, TCF study, NAP-GE reports 	<ul style="list-style-type: none"> Improvement in the governance situation Government remains committed to improving the delivery of pro-poor services Regular and timely periodical Financial Monitoring Reports (FMRs) as provided by MoFED Continued capacity strengthening for social accountability and empowerment

1.7 Indicative timetable for commitments and disbursements

1.7.1 Indicative timetable of global commitments

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
1st FOCAL SECTOR – Transport and regional integration	250 M €		30	200	20		
- Road Sector Policy Support Programme (SPSP) II	200 M €			200			
- NIP Contribution to regional project(s)	20 M €				20		
- Private sector development and trade (Support for EPA)	30 M €		30				
2nd FOCAL SECTOR – Rural development and food security	130 M €			100	30		
- Productive Safety Nets Programme (PNSP)	100 M €			100			
- Agricultural markets and livestock development	20 M €				20		
- Management of Natural Resources	10 M €				10		
3rd FOCAL SECTOR – Macro-economic support and governance	244 M €		70	164		10	
- Socio-economic governance	195 M €		45	150			
- Democratic governance	49 M €		25	14		10	
NON FOCAL SECTORS	20 M €		10	5	5		
- Environmental, cultural and biological heritage Conservation	10 M €		5		5		
- De-mining action	5 M €		5				
- Technical Cooperation Facility	5 M €			5			
- Other							
Total Commitments:	644 M €		105	469	55	10	
Total Cumulative Commitments :	644 M €		110	579	634	644	644

1.7.2 Indicative timetable of disbursements

	Indicative allocation	2008		2009		2010→	
		1	2	1	2	1	2
1st FOCAL SECTOR – Transport and regional integration	250 M€			20	60	15	155
- Road Sector Policy Support Programme (SPSP) II	200 M€				60	1	139
- NIP Contribution to regional project(s)	20 M€					4	16
- Private sector development and trade (Support for EPA)	30 M€			20		10	
2nd FOCAL SECTOR – Rural development and food security	130 M€				45	37	48
- Productive Safety Nets Programme (PNSP)	100 M€				40	30	30
- Agricultural markets and livestock development	20 M €				3	5	12
- Management of natural resources	10 M €				2	2	6
3rd FOCAL SECTOR – Macro-economic support and governance	244 M€			60	57	53	74
- Socio-Economic governance	195 M€			45	45	45	60
- Democratic governance	49 M €			15	12	8	14
NON FOCAL SECTORS	20 M €			5	5	5	5
- Environmental, cultural and biological heritage conservation	10 M €			5		5	
- De-mining action	5 M €				3		2
- Technical Cooperation Facility	5 M €				2		3
- Other							
Total Disbursements:	644 M€			85	167	110	282
Total Cumulative Disbursements :	644 M€			85	252	362	644

1.8 Chronogram of activities

1st FOCAL AREA – Transport/ regional integration (250 M €)	Indicative allocation	2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Road SPSP II	200 M €			AF	FD								
- NIP Contribution to Regional Project(s)	20 M €						AF	FD					
- Private- sector development and trade (Support for EPA)	30 M €			AF	FD								
2nd FOCAL AREA – Rural development and food security (130 M €)		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- PSNP	100 M €			AF	FD								
- Agricultural markets & livestock	20 M €			AF	FD								
- Management of natural resources	10 M €			AF	FD								
3rd FOCAL AREA – Macro- economic/governance (244 M €)		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Socio economic governance	195 M €			AF	FD								
- Support for governance	29 M €			AF	FD		AF	FD					
- Institutional support for NSAs	10 M €						AF	FD					
- Support for fender	10 M €			AF	FD								
NON FOCAL AREAS (20 M €)		2008				2009				2010→			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- Environmental, cultural and biological heritage conservation	10 M €			AF	FD		AF	FD					
- De-mining action	5 M €			AF	FD								
- Technical Cooperation Facility	5 M €			AF	FD								
- Other													

FS: Feasibility Study

FP: Financing Proposal

FD: Financing Decision

□: Project Implementation

Annex I.A - Table of Macro-Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007
Basic data								
1 Population (in 1000)		64	66	68	70	72	74	76
- annual change in %		2.9	2.9	2.9	3.0	2.7	2.7	2.7
2a Nominal GDP (in millions €)			6230	5863	6378	7494	9035	10490
2b Nominal GDP per capita (€)			94	86	91	104	122	138
2c - annual change in %			-0.3	-8.5	5.8	14.3	17.3	13.1
3 Real GDP (annual change in %)			1.2	-1.7	13.1	13.4	10.3	10.0
4 Gross fixed capital formation (in % of GDP)			24	23	21	26	24	
International transactions								
5 Exports of goods and services (in % of GDP)		11.5	12.4	15.6	16.6	20.0	20.5	
- of which the most important: coffee (in % of GDP)	2	2	3	2	2	3	3	
6 Trade balance (in % of GDP)					21	24	25	
7 Current account balance (in % of GDP)				-10	-11	-16	-13	-11
Excluding Official Transactions								
Including Official Transactions				-2	-5	-9	-8	-4
8 Net inflows of foreign direct investment (in % of GDP)								
9 External debt (in % of GDP)				85	76	54	47	48
10 Service of external debt (in % of exports of goods and non-factor services) –				15	15	14	13	12
Before Debt Relief								
After Debt Relief				7	6	7	5	4
11 Foreign exchange reserves (in months of imports of goods and non-factor services)				3	4	3	3	3
Government								
12 Revenues (in % of GDP)				16	17	17	17	17
Grants (in % of GDP)				7	5	5	3	5
13 Expenditure (in % of GDP)				30	25	27	25	27
- of which: capital expenditure (in % of GDP)				9	10	12	12	14
14a Deficit (in % of GDP) including grants				-7	-3	-5	-5	-5
14b Deficit (in % of GDP) excluding grants								
15 Debt (in % of GDP)				124	121	97	80	78
- of which: external (in % of total public debt)				69	63	56	59	60
Other								
16 Consumer price inflation (annual average change in %)			24	12	13	6	6	6
17 Interest rate (for money, annual rate in %)			13	14	14			
18 Exchange rate (annual average of national currency per 1 €) US \$		8.3	8.5	8.6	8.7			
19 Unemployment (in % of labour force, ILO definition)				26				
20 Employment in agriculture (in % of total employment)				12				

Annex I.B - Indicators for the Millennium Development Goals (MDGs)

	Indicators	1990/ 1991	2000/ 2001	2004/ 2005	2005/ 2006	2006/ 2007	PASDEP Target 2009/ 2010	MDG 2015/ 2016
Impact	1. Proportion of Population below Poverty Line (%)		42	34	34		29	21
	2. Prevalence of underweight children (under – five years of age)		57		47			30
	3. Infant mortality rate				77		45	
Out- put	4. Net enrolment ratio in primary education (%)		29		37			
	5. Primary Completion Rate		25		40		63	100
	6. Ratio of girls to boys in:							
	➤ Primary education			80	84		97	100
	➤ Secondary education			52				
	➤ Tertiary education			80				
	7. Proportion of births attended by skilled health personnel (%)		9		11		32	75
	8. Proportion of 1 year old children receiving DPT3 vaccination (under 1)		38	61			80	100
	9. HIV prevalence among 15-24 year old pregnant women (%)		8	10			8.6	
	10. Proportion of population with sustainable access to an improved water source (%)		28		36			50

Source (s): PASDEP MoFED, MDG Needs Assessment for Ethiopia 2005, Demographic Health Survey (DHS) 2005

Annex 3 - PASDEP Donor Support Matrix

PASDEP PILLARS	EC	IDA	ADB	DFID	FRG	Austria	Netherl	Swe- den	Norway	Finland	Italy	Ire- land	Can- da	USAID	EC ESA RSP
1. Massive Push to Accelerate Growth and Mitigate Risk and Vulnerability	X	X	X	X	X	X	X	X			X	X	X	X	X
1.1 Agriculture/Rural Development	X	X	X		X	X	X	X			X	X	X	X	X
1.2 Managing Risk and Vulnerability, Food Security	X	X	X	X			X	X			X		X	X	X
1.3 Private Sector Development and Trade	X	X		X	X						X				X
2. Regionally Balanced Strategy					X										X
2.1 Strengthening Rural-Urban Linkages					X										
2.2. Special Effort for Pastoral Area	X														
2.3 Improve Regional Connectivity	X														X
3. Addressing Population Challenge and Gender	X	X	X	X				X							
3.1 Reproductive Health	X	X	X	X										X	
3.2. Unleashing Potential of Women	X	X						X							
4. Strengthening Infrastructure Backbone	X	X	X		X	X	X	X	X	X	X	X			X
4.1 Transport	X	X	X	X	X			X			X	X			X
4.2 Energy		X	X	X	X	X	X				X				
4.3 Water Supply and Sanitation			X	X	X		X	X	X	X	X				
5. Education and Training		X	X	X	X		X	X	X	X	X	X		X	
6. Address Health and HIV/AIDS		X	X		X	X	X	X				X		X	X

7. Restore Degrading Environment	X	X													X
8. Economic and Public Finance Management	X	X	X	X	X			X					X	X	
8.1. Civil Service Reform				X											
8.2 Strengthen Economic Governance	X	X	X	X	X			X					X		X
9. Strengthen Governance	X	X		X	X							X			X
9.1 Democratic Governance	X	X		X	X							X			
9.2 Justice Sector Reform	X			X											

Annex 4 – Country Migration Profile

1. Introduction

Ethiopia is a densely populated country with a population of some 75 million (2005) and a population growth rate of close to 3 percent per annum. About 85% of the population still lives in rural areas. Most Ethiopians live under harsh conditions. Income levels are very low. Some 47% of children aged 3 to 6 years suffer from chronic malnutrition. In 2005 the share of people living below the poverty line reached 34%, and per capita income was as low as US \$155. In the same year Ethiopia ranked among the bottom ten countries on UNDP's Human Development Index, and life expectancy stood at 53 years.

Over the past 40 years or so – when Ethiopia experienced droughts, famines, civil war, a war with Eritrea and the spread of HIV/AIDS - GDP growth reached 2.6 percent per annum only, just marginally more than the high long-term rate of population increase of 2.5 – 3 percent annum. This left virtually no room for per capita income growth and explains why Ethiopia remains one of the least developed nations in the world. Agricultural GDP over this 40 year period rose by 1.4 percent per annum, significantly below population growth, so that the living standard of Ethiopia's rural population actually went down. This has contributed to impoverishment and shows up in malnutrition, high infant and maternal mortality rates as well as in a life span of 53 years only. As elsewhere in the world, rural/urban migration is accelerating. However, in the absence of programmes for productive rural migrants' absorption, poverty and deprivation have become major problems in urban areas as well.

Problems of chronic food insecurity, malnutrition, famine, high population growth and environmental degradation have remained unresolved in Ethiopia. As a result, over the past 30 years there has been a marked increase in the frequency of drought and famine, and in the number of people affected. Famine also appears to be spreading geographically in Ethiopia. Future droughts could involve as many as 20 million people. These worrisome trends are attributed to rising population density, environmental degradation, declining productivity of land and the difficulty to save and build up an asset base.

Over the past few years a strong start was made in moving towards MDGs, especially in education, health, and water supply. The Government continues these efforts – both through intensified sectoral programmes in health, education, HIV/AIDS and water-sanitation, as well as via the accelerated growth focus – the latter needed both to generate the resources to finance scaling-up, and to speed up progress towards the income poverty goal. Reaching MDG targets in full is unlikely.

Helped by favorable weather conditions in both 2004 and 2005 good progress was made in accelerating economic growth and reducing non-monetary poverty: in 2004 growth reflected a rebounding from the effects of the drought. Economic growth was maintained at 8.9% in 2005, mostly reflecting double-digit agricultural growth. Higher growth helped Ethiopia to move forward on several MDG targets, particularly in education and health.

However, it is not at all clear whether the recent surge in economic growth reflects only a recovery from the drought of 2002/3 and good weather conditions in 2004 and 2005, or whether Ethiopia is moving up on a sustainable high growth path of 7%, which is the target rate for the PASDEP period 2007-2012. A key assumption is that agriculture would have to grow at a sustained rate of 7 percent per annum, compared to a trend rate of 1.4 percent in the past 40 years. This sheds doubt as to what could realistically be expected for the medium term. It also indicates that there are possibilities for net migration to become positive in future.

2. Ethiopia migration patterns and trends within the country

Ethiopia is one of Africa's least urbanized countries. Urban population in 2005 is estimated to be approximately 15% or a total of 11.7 million people. These estimates are based on projections from the 1994 census base. Urban population growth rate is assumed to be in the range of 4.3% (PASDEP, 2006) which projects an increase of the total urban population to reach 17.8 million by 2015 and 22 million by 2020. However, alternative scenarios should not be discarded. With a growth rate scenario of 6% the urban population will be 26 million in 2015 and 35 million in 2020. Considering the recent trend in urban growth, most large and intermediate urban centres exhibited continued fast growth of population at an annual average rate of about 6% which has been by far greater than growth in the national population. Because of the combined effect of natural growth of the urban population and the inevitable rural-urban migration, urbanization is expected to continue to increase at a fast pace in the near future. Recent projections indicate that the populations of smaller and medium sized towns in the country will double every ten years. Thus, it can be expected that in Ethiopia the urbanisation process will continue at high speed throughout the first half of the 21st century. Thus, Government is developing strategies for productive migration absorption in the urban areas.

Urban poverty is presently estimated at 40 % of the total urban population, with high unemployment ranging between 26% and 40% in larger urban centres including Addis Ababa (PASDEP, 2006).

Without adequate and significantly increased investments in urban infrastructure and economic development the rapid increase of urban population will be beyond the capacity of urban centres and cities leading to deterioration of urban infrastructure and services and sharp increase of urban poverty and – in all likelihood - to international migration.. PASDEP addresses the issue of rapid urban growth through enhancing the productive absorption capacity of cities in terms of infrastructure, services, market, employment. However the requirements of funds for these activities may have to be underestimated.

Evenly distributed urban growth throughout the country is the Government's preferred scenario in order to enable linkage between urban centres and the surrounding rural territory and also to reduce population pressure on the very few big and intermediate urban centres. The attempt to make secondary cities more attractive and economically active is supported by the decentralized political system and the establishment of regional universities. The capitals of the 9 regional states show immense construction activities in the public but also in the private sector. Estimates

in some towns (Adama) calculate the population increases at a rate of approx. 8% per annum. New universities for approx. 10,000 students each are under construction in 13 regional capitals and major secondary towns.

It has been estimated that some 60% of migrants in the country were below the age of 30, largely looking for work and improved livelihoods in Ethiopia's cities. Another survey revealed that 70% of migrants are "illiterate". The illiteracy rate is 58% for male migrants and 80.5% for female migrants. Only 0.9 % of the migrants are educated above grade 12.⁷

Internally displaced persons (IDPs)

Internal displacement in Ethiopia is mainly caused by ethnic tensions and widespread resource shortages in a chronically food-insecure country. In the absence of a systematic approach to IDPs, estimates of displacement vary from 100,000 to 280,000, including some 60,000 drought IDPs.⁸ Conflict-induced displacement is the most significant form of internal displacement in Ethiopia. The Ethio-Eritrean war, which erupted in May 1998, accounted for the largest number of displaced people since the current government came to power in 1991. Over 350,000 people were displaced at the start of the war from areas along the common border of the Tigray and Afar regions. An additional 95,000 Ethiopians were deported from Eritrea, and as the conflict escalated, people living close to the border were evacuated.

Other conflict situations that have resulted in the displacement of people include: the displacement of thousands due to ethnic clashes in the southern region, 2002-2003; ethnic clashes and eruptions of violence, which repeatedly displaced people in Gambella, 2003-2006; conflicts in the Somali/Oromia Regions 2002-2005.⁹ Estimates of displacement fluctuate between 150,000 to 265,000, including some 60,000 drought IDPs. Estimates of the total number of conflict IDPs as of February 2006¹⁰ are as follows: Tigray - 62,000; Gambella - 50,000; Oromia/Somali border - 50,000; Oromia (Borena) - 43,000; Somali - 15,000; Afar (Bure conflict) -1,000.

Problems facing IDPs include lack of access to food, health and educational facilities, the presence of landmines, HIV/AIDS and competition over scarce resources with the local host population contributing to local tensions. There is no official definition for an IDP and official recognition of IDPs is politically sensitive. While the displaced in some regions, such as Tigray and parts of Gambella, are said to be integrated in the government's food-for-work programme or receive food aid, many displaced are currently not recognised as such, which puts them in danger of being excluded from national food distribution schemes and the required protection. The droughts regularly affecting the south and east of Ethiopia are currently diverting attention from the plight of IDPs.

4. International Migration

⁷ dto, pp 9

⁸ Internal Displacement Monitoring Report, April 2006

⁹ dto

¹⁰ United Nations Office for Coordination of Humanitarian Affairs (UN OCHA)

Net Immigration

Ethiopia's estimated current "net migration rate" in 2006 is about zero (0 migrants per 1,000 population) which indicates that the contribution of migration to changes in the level of population is virtually negligible. Inward migration largely consists of refugees. Outward migration included both voluntary and involuntary migration.

Refugees in Ethiopia

Refugees arrive in Ethiopia as a result of ongoing political and civil unrest in the region of the Horn of Africa as well as of natural disasters, mostly droughts. According to a UNHCR report of June, 2006 Ethiopia is hosting close to 100,000 refugees from Somalia, Sudan, Eritrea and other African countries. Over 70,000 of these refugees originate from neighbouring Sudan, and have lived in Ethiopia for over a decade (see annex 2: Refugees' Statistics in Ethiopia). As a result of the comprehensive peace agreement signed between the *Sudan Peoples Liberation Movement* (SPLM) and the Government of Sudan in early 2005, over 2,500 Sudanese refugees have been repatriated to their home areas in South Sudan. UNHCR is planning to facilitate the voluntary repatriation a total of 14,000 Sudanese refugees to their home country by the end of the year 2006.¹¹

The Ethiopian diaspora and migrant remittances

The Ethiopian Diaspora includes several hundred thousands of highly qualified Ethiopian professionals¹, spread all over the world with great concentrations in the USA, Germany, Canada and the U.K. They are a social, financial, intellectual and political capital, which constitutes a potential to help enhance Ethiopia's capacity for socio-economic development. Over the years, the Ethiopian diaspora has accumulated wealth of knowledge, skills, experience, exposure and financial resources in its host countries enabling it to provide opportunities for skills transfer, as well as investment and job creation in various sectors of the economy within Ethiopia.

A Table from the National Bank of Ethiopia indicates the importance of the increasing flow of remittances during the period from 1997/98-2004/05.

Table: Remittances flows (Million of Birr)

Year	individual transfers	% share in GDP	% share in private transfers
1998/1999	658	1.2	32
1999/2000	958	1.6	31
2000/2001	928	1.5	29
2001/2002	875	1.5	29
2002/2003	1,412	2.3	33
2003/2004	2,012	2.7	35
2004/2005	3,207	3.7	46

According to the draft paper presented to the 4th International Conference on the Ethiopian Economy, in 1998/99 the % share in GDP was 1.2%; in 2004/05 the %

¹¹ UNHCR global appeal, 2006, June 22, 2006;

¹ some estimates indicate that the Diaspora includes over a million Ethiopians

share increased to 3.65%. Simultaneously, the % share of individual transfers in all private transfers grew from 31.65% to 45% during the same period.¹⁵

Illegal migration and trafficking of human beings

Trafficking, particularly of women and young girls, is another significant form of forced migration in Ethiopia. Ethiopia is a source country for men, women, and children trafficked for forced labour and sexual exploitation. Young Ethiopian women are trafficked to Djibouti and the Middle East, particularly Lebanon, the United Arab Emirates, Saudi Arabia, and Bahrain for involuntary domestic labour. A small percentage is trafficked for sexual exploitation to Europe via Lebanon. Small numbers of men are trafficked to Saudi Arabia and the Gulf states for exploitation as low-skilled labourers. Both children and adults were trafficked internally from rural to urban areas for domestic labour and, to a lesser extent, for commercial sexual exploitation and forced labour, such as street vending. NGOs estimate that international trafficking annually involves between 20,000 and 25,000 victims.

Trafficked women and children travelling to destinations in the Middle East usually use direct air transport or pass first through neighbouring countries like Kenya, Djibouti and Sudan, where entry visa is not required for Ethiopians. Another route to the Middle East involves travel by land to Djibouti or Somalia and then by boat to Yemen. Some reports indicate that another land route through Kenya, with South Africa as the final destination, appears to be used by traffickers.

The *International Organization for Migration* (IOM) reported in 2004 that trafficking was "increasing at an alarming rate." A 2003 study by a foreign government on the problem of internal trafficking of women and children confirmed that the problem was pervasive. The overwhelming majority of respondents confirmed that traffickers, typically unorganized petty criminals, lured women and children from rural areas to Addis Ababa and other urban centres with false promises of employment. Of the 459 respondents, 46% were illiterate and 49% had completed no more than an eighth-grade education. Upon arrival at their new destinations, 54% worked as domestic servants, but that number dropped to 9% as the trafficked women and children took jobs in bars, became prostitutes, or begged on the street. There were no reports that government officials participated in, facilitated, or condoned trafficking.

Although illegal, the abduction of women and girls as a form of marriage is still a widespread practice in the Oromia, Amhara, and Southern Nations, Nationalities, and Peoples regions.

The Ethiopian government does not fully comply with the minimum standards for the elimination of trafficking. However, it is making significant efforts to do so. The Ethiopian Penal Code forbids trafficking of "women, infants, and young persons" through seduction, enticement, or any means to induce them into prostitution, even if they have consented. The Ethiopian Ministry of Labour and Social Affairs reviews contracts of prospective domestic workers planning to work overseas and rejects contracts that do not appear satisfactory. The Ministry also monitors the work of licensed private employment agencies sending workers to various Middle Eastern

¹⁵ Draft Submitted to the Ethiopian Economic Association for the Fourth International Conference on the Ethiopian Economy pp.8

countries. Training programs for police officers on the criminal aspects of trafficking is ongoing. In general, however, these institutions have limited resources and jurisdiction to protect or intervene in cases of prosecution of offending employers.

The federal police's *Women's Affairs Bureau*, in collaboration with the media, continues to implement a public awareness program on the dangers of migrating to Middle Eastern countries. There are some government initiatives to combat trafficking, including a *National Task Force* to combat trafficking in persons chaired by the Ministry of Justice and in which the Ministries of Labour and Social Affairs, Foreign Affairs and Information, Immigrations, the Federal and Addis Ababa police and IOM participate.

Annex 5 – Process of Developing and Implementing the Country Strategy Paper

Introduction

The Country Strategy Paper (CSP) 2008-2013 for Ethiopia was developed over a nine-months' period in 2006. It reflects the results of an extensive consultations' and participation process within the Commission (Delegation and Brussels), as well as with Government, Member States, other official donors and Non State Actors (NSAs). To ensure the widest possible involvement of the latter, several consultations were held with the Cotonou Task Force.

The preparation process was facilitated by the availability of the Government's Draft Plan for Accelerated and Sustained Development to End Poverty 2007-2012 (PASDEP), and of its several sector analysis chapters. In addition, the process could build on and take further the collaborative process of the Joint Annual Review 2005 by the Commission and Government which also involved consultations with Member States and NSAs.

Recognising that better aid effectiveness is essential to achieving economic growth and poverty eradication, the CSP preparation process has been characterised by coordination, harmonisation and alignment. Its design reflects better donor complementarity and strategy harmonisation, inter alia achieved through the joint preparation of a Country Diagnostic Survey¹ by staff of the Commission and several Member States. The latter provides an entry point for working towards joint multi-annual programming based on the Government's strategy, common implementation mechanisms, joint donor wide missions, and the use of co-financing arrangements.

A special objective of this Diagnostic Survey process was to enhance the prospects for moving forward from an "EC Strategy" to an "EU Strategy" for Ethiopia. It was intended that this would contribute towards a reduction in the transaction costs to both Government and donors. It was felt that stronger EU coordination could be facilitated by the articulation of the joint EU Diagnostic Survey which was prepared jointly by the EC with the participation of several Member States. This participation has included the drafting by staff of Member States of contributions to the Survey. There was also considerable participation by Member States in the form of information exchange and provision of comments.

Of special interest is that in the preparation of the current CSP, the Government has supported and participated in the dialogue with NSAs under the Cotonou Task Force framework in which the Commission also took part. This tripartite dialogue found its effect in the CSP, inter alia in the emphasis that was given in the CSP on the Government's and Commission's focus on regional integration and peace, governance, gender and environment. The Commission's special consultation with the Cotonou Task Force and with those service-delivering NSAs receiving financial support from the Commission also contributed to the design of the CSP and NIP: both prior and during this consultation the important role which NSA were already playing in the economic and social development of Ethiopia emerged strongly. But equally strong was the emergence of capacity and financial problems which NSA faced in scaling up their poverty-reducing programmes. This also had an impact on the CSP and NIP which foresees a larger NSA involvement in the Commission's programme for Ethiopia than hitherto has been the case.

¹ Poverty Reduction through Accelerated Economic Growth – Efforts of Ethiopia's Government and Donors; Country Diagnostic Survey. Addis Ababa, June 2006

Next Steps

All parties involved in the CSP preparation process have indicated their intention to jointly monitor the implementation of the CSP with a view to ensuring that its thrust remains coherent with the Government's evolving priorities and with Ethiopia's rising external financing requirements.

Overall, to achieve enhanced aid effectiveness, the EC intends to play a lead role in implementing the Paris Declaration commitments on improving aid delivery, and will capitalise on new Member States' experience to strengthen their role as donors. Following the Paris Declaration principles and commitments, the Commission did already play a key role in setting up an EU Steering Committee, chaired by the Presidency. Intensive work in 2005/6 led to the presentation of an EU Road Map which has guided the design of this CSP. Policy coherence for development is also expected to advance in a number of areas, the purpose of which is that all EU non-aid policies make a positive contribution to Ethiopia's efforts to attain the MDGs.

Achievement of the Millennium Development Goals involves strong efforts by Government, as well as equally important efforts by donors to enhance the effectiveness of their contributions. On the donor side it involves in particular scaling up its assistance and ensuring its effectiveness through better aid delivery and improved coordination and harmonisation. As regards the European Union, the extensive consultations process which has now been completed has clearly indicated the need for further work to ensure that assistance programmes of the Commission and Member States are mutually supportive and coherent with Government policies and programmes. To achieve the latter further joint analysis is planned to ensure that the Commission and Member States continue working on the basis of a jointly-agreed Country Diagnosis, including a joint appreciation of Ethiopia external assistance requirements. The latter is essential for EU aid to be scaled up and made increasingly effective to allow Ethiopia achieving the Millennium Development goals.

Annex 6a - Harmonisation and Donor Co-ordination in Ethiopia

1. Introduction

Ethiopia is a pioneer country in efforts towards donor harmonisation. For example, there is a Government-owned national development strategy in place – the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) - and donor coordination has been institutionalised in a ‘Development Assistance Group’. The following harmonisation structures exist today in Ethiopia:

- ***Development Assistance Group (DAG)***: the DAG brings together the majority of the donor community to discuss development policy and implementation and is chaired by the World Bank and UNDP. A rotating two person Executive Committee ensures oversight and gives strategic direction. Fourteen Technical Working Groups examine policy and coordination in specific sectors. A pooled fund is available to finance activities in broad support of PASDEP. EU donors represent more than half of DAG members and currently hold 2 out of the 5 seats in the DAG Executive Committee.
- ***Joint Government-Donor Harmonisation Task Force***: the Task Force, recently resurrected, aims to drive forward concrete harmonisation actions. It is currently concentrating on finalising the Joint Declaration on Harmonisation which was stalled following the political events of 2005.
- ***High Level Forum***: this is a government-donor forum chaired by the Minister of Finance and Economic Development and the co-chairs of the DAG. Its mandate is to discuss policy and oversee harmonisation and the implementation of the PASDEP.
- ***Ambassadors Donor Group***: this Group brings together Ambassadors to focus on political issues.
- ***Newai Group***: this Group brings together representatives of both donors and Government to discuss governance issues.

As recognised by the European Consensus on Development and the draft Code of Conduct on Division of Labour, EU harmonisation efforts should bring in other donors wherever possible. This is essential in Ethiopia where a well developed harmonisation structure already exists. A parallel ‘EU only’ track would only duplicate this in addition to lacking legitimacy vis-à-vis the Government and lacking support from EU Member States. Therefore, the EU seeks to act as a driver and ‘first mover’ of harmonisation in Ethiopia. The EC agreed a Roadmap for Harmonisation with all Member States in August 2006. An Action Plan has been agreed for 2007 and presented to EU Member States – see Annex 6b. Three particular key initiatives mentioned in the Action Plan are further explained below:

1. DAG reform

The EU is driving efforts to reform the DAG in order to make it more responsive, closer to Government and better able to play a true coordination role among donors.

The EC interviewed all EU Member States in early 2007 in addition to UNDP and World Bank representatives in order to assess where the DAG needs reforming. A list of reforms will be proposed to DAG Members in early April 2007 for immediate implementation – see Annex 6b. In addition the EC is seeking to better coordinate EU participation in the DAG, improving information flows between Member States and forming common policy positions.

2. Division of Labour

At the beginning of April 2007 a meeting will be held with EU Member States to further operationalise the commitments to joint programming and implementation set out in this Joint Response Strategy. As recognised in the European Consensus on Development, this needs to be a gradual process and one that includes other donors. The EC will therefore propose an Action Plan for division of labour for endorsement by EU Member States and subsequent presentation to DAG members as an EU proposal. This Action Plan is envisaged as follows:

Step 1: a comprehensive mapping of existing and planned donor programmes to PASDEP, thus extending to all donors the mapping of EU programmes carried out by the EU Presidency with EC support in March 2007. This mapping will flag how donor work in each sector fits to the national development strategy, which donors have too many sectors and which sectors have too many donors.

Step 2: agreement on roles and criteria for lead, active and silent donors. Awareness-raising to donors' HQs of the process and its fit with international commitments and request for endorsement.

Step 3: agreement on the roles each donor should play. Donors asked via questionnaire whether they want to lead, be active, be silent, or not be involved in each sector. Agreed criteria for leading and limits on sectoral involvement to be stated on the questionnaire. Government kept informed of this process and asked for any particular preferences on which donor should lead in each sector.

Step 4: review of results of donor and Government consultation and, where there is more than one lead donor proposed, initiation of discussions to resolve this.

Step 5: proposal of agreed division of labour to Government and request for one Government official to be nominated as the official interlocutor for each lead donor.

Step 6: implementation: lead donors to assume leadership in their respective sectors. Each donor to do a simple plan showing when they will be phasing out of sectors / switching to silent partnerships. This will depend on programming cycles. Silent partnerships may need to be preceded by a 'vetting' of the procedures of the donors who will receive the money, as already done by the 'Nordic Plus' group.

This plan is based on the EU's draft Code of Conduct for establishing division of labour as well as on-the-ground experience from other African countries. It is envisaged to complete the first five steps in approximately twelve months, assuming a consensus among donors can be achieved on the steps to be taken. The EC and the EU Member States will drive the process forward through their posts on the DAG Executive Committee and DAG Thematic Working Groups.

3. Management Information

There is currently a lack of adequate information on donor initiatives in Ethiopia. This limits aid effectiveness as opportunities for cooperation are missed and areas of overlap overlooked. It also removes the 'peer pressure' for reform, i.e. mutual accountability, that could operate if it were clear exactly which donors and initiatives were not fulfilling harmonisation commitments. Therefore an integrated Management Information System detailing all donors' projects and their fit to the Paris Commitments is needed. The Government is currently developing such a system, the 'Aid Management Platform' (AMP). The EC has recently met with the technicians implementing AMP and reviewed its operation - the system will report on details of all projects and programmes, areas of overlap, gaps with potential for coordination, fit of initiatives with the national development strategy, and donors' compliance with the Paris Commitments.

As it will be some months before the AMP is ready for donors to use, the EC is planning to gather the required information for the AMP from EU Member States now and put this online in an EU database. This will have exactly the same format as the AMP. To gather this information from EU Member States, the EC Delegation is currently recruiting technical assistance who will convert the existing EU database to the AMP format and then help export the data required from the EC's and EU Member States' existing in-house information systems. Once the AMP comes online, the information from the EU database will be copied across. Future updates of EU projects will be made in the AMP directly with the information required for the 'EU only' database obtained automatically from the AMP. In this way the EU will show its commitment to the Government's AMP and that it is 'ahead of the game', already having its project data online. EU Member States were consulted on this process in March 2007. The database structure will be completed in late March 2007 and EC and EU Member States data entry will take place in April 2007.

In addition the EC is also constructing a dedicated Aid Harmonisation Website which will be online by May 2007. This will detail agreements, commitments, co-operation mechanisms and harmonisation progress mapped against the Paris Commitments. It will also contain a partner search facility detailing projects / programmes being planned by the EC and EU Member States and showing requests for partners in programming, missions, financing etc. This will catalyse the formation of new joint ventures between members of the EU family.

EC-World Bank coordination in Ethiopia is the subject of a specific Memorandum of Understanding between the two institutions. For 2007, the following actions are planned:

- **Planning:** share drafts of new strategy papers and identify possible areas for cooperation at the implementation stage.
- **Analysis:** identify areas where joint analysis might be desirable, or division of labour. Ensure sharing of upcoming and past analysis papers. Jointly propose DAG Pool funded studies where appropriate.

- **Missions:** exchange mission calendars and plan joint missions.
- **DAG Reform:** cooperation on suggestions for DAG reform which are currently being pushed by the EC.
- **Public Financial Management and macro-economic issues:** continue cooperation under auspices of the Protection of Basic Services programme and the Public Expenditure and Financial Accountability framework.
- **PASDEP** (Ethiopia's PRSP): work together in the DAG to ensure that discussions on gathering information on PASDEP indicators are moved forward.
- **Trade:** exchange of briefings. Continue discussions with Government on WTO accession.
- **Governance:** examine how to streamline governance reporting between the World Bank, EC and EU Member States such as the Netherlands and the UK.
- **Infrastructure:** continue roads cooperation. Drive forward new DAG Thematic Working Group on infrastructure and work through it to look at cooperation in areas such as water and energy.
- **Protection of Basic Service and Productive Safety Nets programmes:** continue existing cooperation on implementation and consider possibilities for streamlining the management of the programmes and ensuring their integration with the DAG.
- **Public Sector Capacity Building Project:** finalise the EC's entry into the programme.
- **Troubleshooting:** ad-hoc meetings as necessary to troubleshoot practical cooperation problems.

Finally, in addition to leading regular EU Heads of Cooperation and Heads of Mission meetings and strong involvement in the overall DAG, the EC is also an active member of the Joint Government-Donor Harmonisation Task Force which was set up in 2002 to coordinate and facilitate the overall harmonisation agenda. The Task Force is in the process of finalising the Joint Declaration on Harmonisation, Alignment and Aid Effectiveness, which follows the structure, and extends the ambition, of the Paris Declaration. The EC plans to drive forward the finalisation of this Declaration by mid-2007.

Annex 6b: DAG Reform - Challenges and Solutions

Challenge	Rationale	Proposed Solutions
1. Improve TWG delivery	TWGs need more focus, accountability and concrete outputs.	<ul style="list-style-type: none"> ⊕ Menu of activities for TWGs to pick from and deliver on, e.g. exchange of documentation with production of lessons learned, mapping of projects and financing fit to PASDEP, organisation of joint missions (identification, monitoring, evaluation), proposition of division of labour in sector, reporting on PASDEP implementation in their sector, production of policy briefs (start with EU Diagnostic as basis to be updated each 6 months?), proposals for pool fund use. Chairs to agree outputs and dates for items chosen. ⊕ TWG chairs report to relevant DAG ExCom member on progress regularly.
2. Streamline meetings	TWG and sub-group meetings need to be rationalised in order to ease the excessive burden on DAG members.	<ul style="list-style-type: none"> ⊕ Organise TWGs around PASDEP. ⊕ More consultation by e-mail. ⊕ Ad-hoc meetings only for sub-groups – with clearly specified need and reporting to TWG. ⊕ Link groups for programmes like PBS, and PSCAP to relevant TWGs.
3. Foster information flows	Better links are needed between sub-groups and TWGs, TWGs and the DAG	<ul style="list-style-type: none"> ⊕ Sub-groups report to TWG on outputs after each of their meetings.

	<p>and the DAG and the HLF.</p> <p>The DAG website needs to be updated with events, lessons learned, ongoing initiatives etc.</p>	<ul style="list-style-type: none"> ⊕ Each Ex Com member responsible for certain TWGs and liaising with their chairs on progress. ⊕ TWG feedback on progress in writing to DAG every three months. ⊕ ExCom liaises with chairs on points to be raised at HLF. ⊕ DAG website improved – e.g. documents to be uploaded: deliverables of TWGs, progress, lessons learned reports, analysis documents, dates of meetings and missions. E-mail subscription for updates, FAQs section and site map all need fixing as currently not functioning.
4. Make the pool funds more efficient and effective	<p>Pool fund management needs to be streamlined and TWG ownership improved.</p>	<ul style="list-style-type: none"> ⊕ Present funds combined to one big fund with earmarked amounts for each TWG. ⊕ ExCom to provide menu of ideas for use of pool fund by TWG, e.g. mapping donor coordination and gaps, PASDEP financing requirements, division of labour, design of SWAP for sector. ⊕ TWG propose projects for pool fund financing to ExCom and monitor implementation. ⊕ Hire external TA to administer pool fund.
5. Forge better links with Government	<p>All TWGs need a dedicated Government interlocutor of sufficiently high level.</p>	<ul style="list-style-type: none"> ⊕ Ask MOFED to nominate one Government counterpart for each TWG.

6. Forge better links with civil society	DAG-civil society links need to be institutionalised.	⊕ Ask PANE and others to nominate one civil society counterpart for each TWG.
7. Ascertain the value-added of Champions	Clarity is needed on the role of TWG chairs vis-à-vis champions and where the latter can really add value.	⊕ Abolish champions and get chairs to fulfil their role better – steering and representing their TWGs.

EU Roadmap – Action Plan for 2007

1. EU Member State Coordination

1.1 Raise awareness of co-operation commitments and opportunities:

- ⊕ create a partner search facility on the Delegation's website detailing projects / programmes being planned by the EC and EU Member States and showing requests for partners in programming, missions, financing etc.
- ⊕ create a harmonisation section on the EC Delegation's website detailing agreements, commitments, co-operation mechanisms and harmonisation progress mapped against the Paris Commitments. This will help ensure local implementation of Brussels-based decisions.
- ⊕

1.2 Gain EU Member States' endorsement of the Joint Diagnostic and Joint Response Strategy:

- ⊕ special focus on new Member States, those about to launch development cooperation activities for the first time in Ethiopia and those currently involved in programming.

1.3 Produce publications from the Blue Book:

- ⊕ showing EU activities by sector, region, etc. as required.

1.4 Revitalise the EU Heads of Cooperation meeting:

- ⊕ ensure that this has a clear value-added agenda for EU action. This could include implementation and tracking of many of the proposed actions in this Workplan and following-up progress on the additional EU commitments under the Paris Declaration.

2. EC-World Bank Coordination

2.1 Consult with World Bank representatives:

- ⊕ ensure continuation of existing co-ordination,
- ⊕ discuss opportunities, challenges and priorities for the coming year,
- ⊕ explore potential for cooperation on infrastructure and joint audits.

2.2 Produce an EU-World Bank Action Plan for the coming year

2.3 Share information:

- ⊕ foster a better understanding of each others' procedures,
- ⊕ ensure World Bank-EC and World Bank-EU initiatives are included in the Blue Book.

3. DAG Reform

3.1 Consult with DAG Members, the DAG Secretariat and the Executive Committee:

- ⊕ to discuss opportunities, challenges and priorities for the coming year.

3.2 Make proposals, in cooperation with EU Member States, for DAG reform, e.g.:

- ⊕ rationalisation of Thematic Working Groups and better connections to the wider DAG and High Level Forum,
- ⊕ implementation of monitorable targets for DAG work,
- ⊕ better information sharing, particularly via the DAG web site and e-mail list,
- ⊕ increased participation of Government,
- ⊕ increased participation of civil society.

3.3 Work in cooperation with the DAG to explore new areas for joint donor initiatives:

- ⊕ explore the potential in roads and water programmes,
- ⊕ promote the production of common DAG position papers on key policy issues (PASDEP should be used as a framework).

3.4 Work with the Harmonisation Task Force:

<ul style="list-style-type: none"> ⊕ drive the finalisation of the Joint Declaration on Harmonisation, ⊕ propose new concrete deliverables for the Task Force's work.
3.5 Make proposals for the use of the DAG Pooled Fund: <ul style="list-style-type: none"> ⊕ aim for an EU consensus on proposals before marketing to other donors.
4. Division of Labour
4.1 Promote the formation of a DAG position on PASDEP division of labour: <ul style="list-style-type: none"> ⊕ map the current position in partnership with EU Member States and the DAG, ⊕ make proposals for division of labour in partnership with the DAG Executive Committee.
5. Management Information System
5.1 Make a proposal to the Government on the Aid Management Platform structure: <ul style="list-style-type: none"> ⊕ form an EU-endorsed position and then market this to the DAG as a whole for subsequent transmission to the Government.
5.2 Set up an online Blue Book containing for each Member State: <ul style="list-style-type: none"> ⊕ details of country strategy and fit with PASDEP, ⊕ details on all projects including co-ordination and assessment against the Paris Commitments indicators, ⊕ fit with Government and other donors' policies, ⊕ comprehensive search and reporting facility, ⊕ calendar showing programming cycle and planned missions. <p>This must have the same structure as that agreed with other donors and the Government for the Aid Management Platform.</p>

Notes:

1. Each planned action assumes the appropriate cooperation from EC services, EU Member States, other donors and the Government of Ethiopia.

2. The Action Plan will be implemented in a flexible and iterative way – what works will be pushed forward, what does not will be adjusted or resources re-allocated. New opportunities and challenges will be taken into account as and when they arrive which may lead to the contraction or expansion of some of the activities listed above.

Annex 7 – Country Position on Key International Conventions

I. Treaties, Ratifications and Reservations

1. Date of admission to UN

13 November 1945

2. Land and People

Ethiopia has not submitted a core document for use by the treaty bodies.

3. Economic, Social and Cultural Rights

Acceded: 11 June 1993

Ethiopia's initial report was due 30 June 1995.

4. Civil and Political Rights

Acceded: 11 June 1993

Ethiopia's initial report was due 10 September 1994.

5. Racial Discrimination

Acceded: 23 June 1976.

Ethiopia's seventh through 11th period reports (covering the period 1989/1997) have not been submitted; the 11th periodic report was due 23 July 1997.

6. Discrimination against Women

Signed: 8 July 1980; Ratified: 10 September 1981

Ethiopia's fourth and fifth periodic reports were due 22 April 1994 and 1998 respectively.

Reservations and Declarations: Paragraph 1 of article 29

7. Torture

Acceded: 14 March 1994

Ethiopia's initial report was due 12 April 1995

8. Rights of the Child

Acceded: 14 May 1991

II. Treaties

(Treaties, Conventions, Protocols, Charters)

	Treaties, Conventions, Protocols and Charters	Date of Adoption	Date Entry into Force	Date of last signature/ratification
1.	<u>Constitutive Act of the African Union</u> Lome, Togo 11 July 2000	11/07/2000	26/05/2001	07/07/2003
2.	<u>OAU Charter, Addis Ababa, 25 May 1963</u> Abrogated & replaced by the Constitutive Act			
3.	<u>General Convention on the Privileges and Immunities of the Organization of African Unity</u> Accra, Ghana, 25 October 1965	25/10/1965	25/10/1965	15/11/2005
4.	<u>Additional Protocol to the OAU General Convention on Privileges and immunities</u> Freetown, Sierra Leone, June 1980	June 1980		02/06/2003
5.	<u>Phyto-Sanitary Convention for Africa</u> Kinshasa, Democratic Republic of Congo, 13 September 1967	13/09/1967		03/08/2005
6.	<u>African Convention on the Conservation of Nature and Natural Resources</u> Algiers, Algeria, 15 September 1968	15/09/1968	16/06/1969	15/11/2005
7.	<u>African Civil Aviation Commission Constitution</u> Addis Ababa, Ethiopia, 17 January 1969	17/01/1969	15/03/1972	15/11/2005
8.	<u>AU Convention Governing the Specific Aspects of Refugee Problems in Africa.</u> Addis Ababa, Ethiopia, 10 September 1969	10/09/1969	20/06/1974	15/11/2005
9.	<u>Constitution of the Association of African Trade Promotion Organizations</u> Addis Ababa, Ethiopia, 18 January 1974	18/01/1974		15/11/2005
10.	<u>Inter-African Convention Establishing an African Technical Co-operation Programme</u> Kampala, Uganda, 18 August 1975	01/08/1975		15/11/2005

11.	<u>Convention for the Elimination of Mercenaries in Africa.</u> Libreville, Gabon, 3 July 1977	03/07/1977	22/04/1985	15/11/2005
12.	<u>Cultural Charter for Africa</u> Port Louis, Mauritius, 5 July 1976	05/07/1976	19/09/1990	19/09/1990
13.	<u>African Charter on Human and Peoples' Rights</u> Nairobi, Kenya, June 1981	June 1981	21/10/1986	30/08/2005
14.	<u>Agreement for the Establishment of the African Rehabilitation Institute (ARI)</u> Addis Ababa, Ethiopia, July 1985	17 July 1985	02/12/1991	15/11/2005
15	<u>Convention for the Establishment of the African Centre for Fertilizer Development</u> Addis Ababa, Ethiopia, July 1985	July 1985		15/11/2005
16	<u>African Charter on the Rights and Welfare of the Child</u> Addis Ababa, Ethiopia, July 1990	July 1990	29/11/1999	30/12/2005
17	<u>Bamako Convention on the Ban of the Import into Africa and the Control of Transboundary Movement and Management of Hazardous Wastes within Africa.</u> Bamako, Mali, 30 January 1991	January 1991	22/04/1998	03/08/2005
18	<u>Treaty Establishing the African Economic Community.</u> Abuja, Nigeria, 3 June 1991	03/06/1991	12/05/1994	19/02/2003
19	<u>African Maritime Transport Charter</u> Tunis, Tunisia, June 1994	11/06/1994		04 January 2006
20	<u>The African Nuclear-Weapon-Free Zone Treaty (Pelindaba Treaty)</u> Addis Ababa, Ethiopia, July 1995	July 1995		11/05/2005
21	<u>Protocol to the African Charter on Human And Peoples' Rights on the Establishment of an African Court on Human and Peoples' Rights</u> Ouagadougou, Burkina Faso, 10 June 1998	10/06/1998	25/01/2004	14/12/2005
22	<u>OAU Convention on the Prevention and Combating of Terrorism</u>	July 1999	06/12/2002	31/03/2005

	Algiers, Algeria, 14 July 1999			
23	<u>Protocol to the Treaty Establishing the African Economic Community Relating to the Pan-African Parliament</u> Sirte, Libya, 2 March 2001	02/03/2001	14/12/2003	07/12/2004
24	<u>The Convention of the African Energy Commission</u> Lusaka, Zambia, 11 July 2001	11/07/2001		15/11/2005
25	<u>Protocol Relating to the Establishment of the Peace and Security Council of the African Union</u> Durban, South Africa, 10 July 2002	09/10/2002	26/12/2003	07/11/2005
26	<u>African Convention on the Conservation of Nature and Natural Resources (Revised Version)</u> Maputo, Mozambique, 11 July 2003	July 2003		03/08/2005
27	<u>Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa</u> Maputo, Mozambique, 11 July 2003	July 2003	25/11/2005	14/12/2005
28	<u>Protocol of the Court of Justice of the African Union</u> Maputo, Mozambique, 11 July 2003	July 2003		03/08/2005
29	<u>Protocol on Amendments to the Constitutive Act of the African Union</u> Maputo, Mozambique, 11 July 2003	July 2003		03/08/2005
30	<u>African Union Convention on Preventing and Combating Corruption</u> Maputo, Mozambique, 11 July 2003	July 2003		30/12/2005
31	<u>Protocol to the OAU Convention on the Prevention and Combating of Terrorism</u> Addis Ababa, Ethiopia, 08 July 2004	July 2004		15/11/2005
32	<u>The African Union Non-Aggression and Common Defence Pact</u> Abuja, Nigeria, 31 January 2005	January 2005		15/11/2005

Annex 8 - Debt Sustainability Analysis

A Joint Fund-World Bank Debt Sustainability was carried out in early 2006 and was attached as Annex 1 to the IMF Staff Report for the 2005 Article IV Consultation.

(Document SM/06/93, of March 6, 2006).

ANNEX 9 – LIST OF GOVERNMENT’S COMMITMENTS --- MARCH 7 2007

			2006/7	2007/8	2008/9	2009/10	Means/ Source of Verif
1.	Political democratic governance	(i) Human and Democratic Rights of citizens and peoples as enshrined in the Constitution and other laws of the land are promoted, protected, claimed and enforced					
	- Human rights	(i) Citizens awareness and understanding about their rights increase; enforcement of citizens rights increased	Basic international HR instruments to be translated into Amharic and Workshops organised	Continue activities of previous year	Continue activities of previous year	Continue activities of previous year	HRC Reports
		(ii) Citizens knowledge of the role of the Human Rights Commission (HRC) and the Ombudsman Office (OO) increased;	Brochures and leaflets prepared and advertisement played on radio and TV.	Continue activities of previous year	Continue activities of previous year	Continue activities of previous year	OO Reports
		(iii) Capacity and operation of the HRC and OO strengthened;	Technical Team of OO organised; Stakeholder relation guideline prepared; 4 Regional offices of HRC established	Regional offices of HRC established and work started; Monitoring guidelines and information system established for OO	All staff of OO Head Office and Regional offices in place; National Human Rights Action Plan published	National Human Rights Action Plan implemented; OO report to parliament and public submitted	OO and HRC Reports

	- Fundamental freedoms	<p>(i) Freedom of expression, improved access to information and its dissemination by the media is supported and protected by the legal framework;</p> <p>(ii) legal framework protects and supports independent, responsible, ethical and accountable public and private media (revised Press Law and Freedom of Information Law enacted, development and implementation of Code of Conduct by media professionals)</p> <p>(iii) improved access to reliable information (including increase in number and variety of public and private newspapers and public and commercial radio</p>	<p>Draft Press Law to be enriched from consultation and to be approved by Parliament</p> <p>Workshops will be conducted with journalists to develop code of conduct</p> <p>Continue Issue licenses to private newspapers and magazines, as well as to regional radio stations</p>	<p>Training will be provided to journalists for effective implementation of Press Law and to implement Code of Conduct</p> <p>Continue activities of previous year</p>	<p>Continue implementation of Press Law and Code of Conduct</p> <p>Continue activities of previous year</p>	<p>Evaluation of experience in previous years</p> <p>Continue activities of previous year and conduct evaluation</p>	<p>Report MOI</p> <p>Reports MOI</p>

		<p>broadcasters)</p> <p>(iv) increased access to internet (under PASDEP the number of subscribers will be increased from some 17 000 in 2004/5 to 193 000 by 2009/10)</p> <p>(v) Democratic participation of membership-based civil society</p> <p>(vi) Consultation with CSOs conducted in a structured manner on a regular basis at federal and regional levels</p>	<p>Completion of Manual and institutional arrangements for participation of CSO in council meetings</p> <p>Completion of laws and regulations for participation of CSOs at Federal and Regional levels in 4 regions</p>	<p>Review</p> <p>Establish Forum for Consultation and dialogue with CSOs</p>	<p>icipation of CSOs in all kebeles</p>	<p>Number on Internet Subscribers reaches 193 100</p> <p>Implementation Review</p>	<p>Ethionet</p> <p>gress Report of MOB</p> <p>gress Report MOCB</p>
R	- Electoral process	<p>(i) Democratic representation is improved:</p> <p>(ii) Free and fair elections conducted in accordance with the electoral law,</p>	<p>Prepare for woreda, kebele and city</p>	<p>Prepare and conduct woreda, kebele and</p>		<p>Prepare and conduct 4th National and</p>	<p>NEBE Reports</p>

		regulations and procedures of the National Elections Board of Ethiopia (NEBE);	council elections	city council elections		Regional Election	
		(iii) Voter education through NEBE and CSO to ensure greater understanding by citizens of electoral process and system	Prepare and conduct voter education in key regions	Prepare and provide voter education in Addis Ababa	Prepare and conduct voter education in Somalia region	Conduct voter education for 4 th National and Regional Election	NEBE Reports
		(iv) NEBE will be re-organised and its capacity strengthened	New organizational structure prepared, approved and implemented	Continue Capacity building	Continue capacity building	Continue Capacity Building	NEBE Reports
	Principles of constitutional democracy	(i) Strengthened law making process, oversight and public consultation mechanism of Parliament (House of people's representatives); training of HPR staff and MPs undertaken;	New Parliamentary working system and procedure completed	New law making procedure of Parliament implemented New parliamentary working system and procedure implemented	Consolidate new parliamentary working system and procedure	Continue Training of staff	Reports from HPR Secretariat; JSRP office
		(ii) improved oversight Function of the House of Federation; training of members and staff; improved facilities and	Working System and procedures of HoF redesigned	New organizational structure implemented New working system implemented	Training of staff	Training of staff	Reports from HOF Secretariat

		equipment (iii) secured efficiency, effectiveness, independence and accountability of the Judiciary (in particular of courts and judges)	Court reform projects implemented in 50% of all woreda courts in all regional states Result of completed study on judicial transparency and accountability discussed and approved by all stakeholders	Court reform projects implemented in 75% of all woreda courts in all regional states Implement system of transparency and accountability in conducting judicial business at all levels of courts	Court reform projects implemented in 100% of all woreda courts in all regional states Continue Implementation	Continue implementation	Report by Judiciary and JSRPO: Annual Report of Ministry of Justice
2.	Political governance - rule of law						
	- Judicial and law enforcement system	(i) Administration and operational system of law enforcement organs improved at federal and regional levels (prosecution, police, prisons); implementation of new information system; training of judges and prosecutors;	Prosecution Information System (PIS) in place in all Federal prosecution branch offices in Addis Ababa New organizational structure in place at the Federal Prison Administration	PIS rolled out to selected prosecution office of regional states	PIS rolled out in all regional offices		Reports of law enforcement organs

		strengthened forensic services					
		(ii) Transparency and accountability of the Judiciary improved (in conducting the judicial business); strengthened efficiency (measured by length of judicial process notably) (in particular through adequate training of professionals and equipment to improve case management)	Court Reform projects implemented in 50% of all woreda courts in all regional states E-litigation of civil cases introduced in the federal supreme court Study on judicial transparency and accountability discussed and approved by all levels of courts and stakeholders	Court Reform projects implemented in 75% of all woreda courts in all regional states E-litigation of civil cases introduced in the federal High court Implement system of transparency and accountability in conducting judicial business at all levels of courts	Court Reform projects implemented in 100% of all woreda courts in all regional states		Report by the Judiciary and JSRPI, Annual Report of Ministry of Justice
		(iii) improved publicly available information and data in the justice system (including increased dissemination and publication of laws, availability of data for research)	Start study for establishment of national justice information center	National Justice Information Center established	National Justice Center becomes operational		Annual Report of Ministry of Justice
3.	Control of corruption	(i) Continued efforts to fight against	Ethics and Anti-corruption policy	Implement ethics and anti-corruption	Provision of pilot anti-corruption training		FEAC Reports

		corruption through established efficient, independent and appropriately resourced Anti-Corruption bodies;	and training manual developed; Implement fully-fledged MIS Strengthen staff at FEAC and equip FEAC to enable effective fight against corruption	manual; Staff training	sessions and standard training program developed		
		(ii) Improve operational systems (in particular information systems) to combat corruption causes at all levels of government		Corruption Survey conducted, regulation and procedures on registration and declaration of assets and financial interests of officials developed, ethics coordination system developed, and Ethics Infrastructure Forum organized	FEAC performance indicators and baseline data (fore M&E) developed	Community trained and mobilised in the fight against corruption	FEAC Reports
4.	Government effectiveness	(i) Implementation of Civil service reform programme (ii) and of District Decentralisation Programme					
	- Institutional capacity	(i) Improved effectiveness, efficiency and accountability of the	Conduct Training Needs assessments in 9 Federal institutions	Implement full-fledge performance planning management system	Rolling out the developed systems in 11 additional federal	Review implementation of full-fledged PPMS	Reports by various Ministries

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		civil service, (services delivered efficiently and effectively at all levels of federal and regional Government)	Train key staff in 9 Ministries	(PPMS) in 9 Federal institutions	institutions; Institutions re-structured as needed	in 20 Ministries	
		(ii) District decentralisation - Improved capability and competence of woreda administration and municipalities, including improved local participation and democratic consultation (consultation with civil society; strengthened effective planning systems)	Completion of manual and institutional arrangements for participation of civil societies in council meeting in all kebeles in 4 regions Completion of laws and regulations/procedures for participation of civil society at federal and regional levels in the 4 regions under PSCAP	Implementation review Establish Forum for consultation and dialogue with CSOs	Completion of manual and institutional arrangements for participation of civil societies in council meeting in all kebeles in all regions		Progress report of MoCB MoCB benchmarking surveys
		(iii) Devolution of power to lower tiers of Government (including completed devolution of fiscal power to Woredas and municipalities; minimum service standards at woreda levels in place; woreda level decentralisation completed in regions including enactment and enforcement	Study on refinement of the division of functional assignment between woreda and region	Completion of legislative framework and capacity building for devolution of fiscal power	Application of legislative framework and capacity building for devolution of fiscal power		Progress Report of MoCB

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		of relevant legislation and capacity building initiatives)					
	Public finance management	<p>(i) Fiscal policy in the medium-term aimed at controlling expenditure to maintain deficit at sustainable level while increasing spending in poverty-targeted sectors.</p> <p>(ii) Budget Reform Program (BRP) progressively implemented</p> <p>(iii) Improved Cash Management System implemented</p> <p>(iv) Account Reform Program implemented</p> <p>(v) Integrated Budgetary and Expenditure System as well as IFMIS implemented</p> <p>(vi) Share of poverty-</p>	<p>Strengthen public expenditure management</p> <p>All regions and administrations will provide their budget using the new system</p> <p>Start implementation of the program</p> <p>All Regions and Administrations will implement the program</p> <p>Roll out the system to federal public bodies, all regions and all administrations</p> <p>72%</p>	<p>Continuation of strengthening expenditure management</p> <p>76%</p>	<p>Continuation of strengthening expenditure management</p> <p>79%</p>	<p>Continuation of strengthening expenditure management</p> <p>83%</p>	<p>Annual Reports of MOFED</p> <p>Annual Reports of MOFED</p>

		targeted expenditure in total Government expenditure to reach:					
5.	Economic governance	Achievement of Sustained, robust and pro-poor economic growth targeting the realization of the MDGs in Ethiopia:					
		(i) Reduce income poverty (Population below poverty line (%))	34	33	31	29	MOFED (HICES)
		(ii) Increase life expectancy of Ethiopians					
		- Reduce MMR	750	696	646	600	DHS, WMS
		- Reduce under-5 mortality	106	99	92	85	
		(iii) Achieve Sustained increase in GD, investment and exports:					
		- Growth in GDP (%)	6.8	7.1	6.5	6.7	National Accounts (MOFED),
		- GDI (% of GDP)	23	24.5	25.3	26.1	National Bank of Ethiopia
		- Share of Exports and NFS in GDP (%)	16.9	17.9	18.6	19.7	
		(iv) Achieve stable inflation (% per annum)	9.0	8.5	8.1	8.1	
		(v) Reduce Fertility to:	5.1	4.7	4.3	4.0	

ANNEX 9 – LIST OF GOVERNMENT’S COMMITMENTS --- MARCH 7 2007 – PART II

			2006/7	2007/8	2008/9	2009/10	Means/ Source of Verif.
	- Implement Private sector/market friendly policies	Strengthen participation of private sector in operations of economy, and trade through:					
		(ii) completion of privatisation process	16	27	40	55	Annual Reports MoTI
		- annual targets for privatisation (value of assets transferred to private operators %)					
		- completion of WTO accession procedures	Studies on customs evaluation, telecommunication and financial sectors	Prepare negotiation documents	Accession negotiation	Accession negotiation	Annual Reports MoTI
			Document on SPS and TBT (Accession 8) prepared	Document on TRIP (Accession 9) prepared			
		(v) improve land tenure security with more flexibility and transferable rights:					Annual Reports MoARD
		- Issue first level certificates (Million households)	1.4	1.2	1.7	1.4	
		- Issue second-level					

		certificates ('000 households)	185	175	263	227	NBE Annual Reports
		(vi) strengthening the financial sector					
		- increase contestability in banking system					
		- market share of private banks in deposits (%)	28.5	30.0	31.5	33.0	
		- market share of private banks in loans	28.7	30.2	31.7	33.2	
		- increased financing of private sector					
		- total credit outstanding to private sector as % of GDP	20.3	21.8	23.3	24.8	
		- modernise payment system in economy	Initiate operation of modern payments system				
	- Management of Natural Resources	(i) Environmental sustainability ensured through improved rural environment for gender equity and sustainable livelihood - Number of Woreda Environmental Plans	90	10		15	Reports EPA

		<p>(WEMP) prepared</p> <p>(ii) pollution prevention and waste management; prepare Federal Law and Strategy for Municipal Solid Waste Management (MSWM)</p> <p>(iii) National Chemical management strategy and Action Plan</p> <p>(iv) biodiversity conservation -No of species characterised and made available for research</p>	<p>To complete in 2006/7</p> <p>To complete in 2006/7</p> <p>2000</p>	2000			
6.	<p>Internal and External Security</p> <p>(i) Internal Stability/ Conflict</p>		<p>Concept Paper and TOR drafted to prepare National Policy Framework for</p>	<p>Conduct Stakeholders' Seminars</p>	<p>Policy/Strategy discussed with</p>		<p>MoFA, Regional Security Affairs, Regional Bureaus</p>

	External Threats and Global Security	Ethiopia to contribute to promotion of global and regional peace	conflict management Commence preparation to formulate a National Conflict Management Policy/Strategy	ft National Conflict Management Policy/Strategy and complete in consultation with stakeholders	Stakehold ers Ratification of Policy by Council of Ministers		
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		coverage ratio	81	87	93	100	
			8.6	8.4	8.4	8.4	
			26	34	45	60	
8.	International and Regional Context				Consolidate new parliamentary working system and procedure	Continue Training of staff	Reports from HPR Secretariat; JSRP office
					Training of staff	Training of staff	Reports from HOF Secretariat
						Continue implem	Report by Judiciary and JSRPO: Annual Report of Ministry of Justice

						entation	
2.							
8.	International and Regional Context	<p>Regional Integration</p> <p>Involvement in Regional Peer Review Mechanism</p> <p>Migration</p>	<p>Ethiopia participates in EPA negotiations and pursues WTO Accession</p> <p>Ethiopia chairs APRM</p> <p>National Task Force to combat trafficking has become operative</p>	<p>Ethiopia participates in EPA negotiations and pursues WTO Accession</p> <p>Ethiopia Peer Review (tentative)</p>	<p>Ethiopia participates in EPA negotiations and pursues WTO Accession</p>	<p>Ethiopia participates in EPA negotiations and pursues WTO Accession</p>	Reports MoFA
9.	Quality of Partnership	Political Dialogue	Ethiopia conducts regular Article 8 Dialogues with EU	Ethiopia conducts regular Article 8 Dialogues with EU	Ethiopia conducts regular Article 8	Ethiopia conducts regular	Reports MoFA

		<p>Programming Dialogue</p> <p>Non-State Actors</p> <p>JAR Process</p> <p>(Democratic participation of membership-based civil society</p> <p>Consultation with CSOs conducted in a structured manner on a regular basis at federal and regional levels</p>	<p>Ethiopia conducts inclusive dialogue with EC, member States and NSA</p> <p>Government and EU conducts dialogue with NSAs on JAR</p> <p>Completion of Manual and institutional arrangements for participation of CSO in council meetings</p> <p>Completion of laws and regulations for participation of CSOs at Federal and Regional levels in 4 regions</p>	<p>Ethiopia conducts inclusive dialogue with EC, member States and NSA</p> <p>Government and EU conducts dialogue with NSAs on JAR</p> <p>Establish Forum for Consultation and dialogue with CSOs</p>	<p>Dialogue s with EU</p> <p>Ethiopia conducts inclusive dialogue with EC, member States and NSA</p> <p>Government and EU conducts dialogue with NSAs on JAR</p> <p>icipation of CSOs in all kebeles</p>	<p>Article 8 Dialogues with EU</p> <p>Ethiopia conducts inclusive dialogues with EC, member States and NSA</p> <p>Reports of MoCB</p>	
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