

Ethiopia
Interim Poverty Reduction Strategy Paper 2000/01- 2002/03

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A. INTRODUCTION

This interim PRSP aims to present a broad picture of the poverty reduction strategy that Ethiopia has pursued in recent years and intends to elaborate in its preparation of a full fledged PRSP in the coming months. Coupled with the adjustment policies that have been taken, in cooperation with the Bretton Wood Institutions, since 1991 with the establishment of the transitional government under EPRDF, Ethiopia has been following a long-term strategy of Agricultural-Development-Led Industrialization (ADLI) adopted in the mid-1990s. As ADLI envisages a growth process that is inherently poverty reducing, it is possible to assess the nexus between, on one side, policies, and programmes, and on the other side, reduction of poverty. The link between these two will be indicated generally in this interim document, by looking at the performance of the economy in the 1990s, and explored further in the final PRSP.

Looking forward, the strategy to reduce poverty in Ethiopia and attain, at least, the targets now internationally accepted for the reduction of poverty by the year 2015 will be discussed. It will draw on the strategy of ADLI, decentralization and empowerment, judiciary and civil service reform, and institutional capacity building. Subsequently, sector programmes, policy matrix and financial programme for the period 2000/01 – 2002/03 will be presented. Lastly, the process for the preparation of the final PRSP will be outlined.

B. POVERTY IN ETHIOPIA

Ethiopia is among the bottom of the least-developed countries. Its per capita income is among the lowest of the least-developed countries, and its reliance on agriculture among the highest in the group. Poverty in Ethiopia is widespread and multi-faceted. Measured mainly in terms of food consumption, set at a minimum nutrition requirement of 2,200 calories per adult per day, and also including non-food consumption requirements, an estimate of 1995/96 shows that 45.5 percent of the population were below the poverty line. Poverty was prevalent both in rural and urban areas, with a coverage of 47 and 33 percent of the respective population. Since the rural areas account for about 85 percent of the country's population, poverty is primarily a rural phenomenon. The urban areas account for only 15 percent of the total population, but also have a high rate of incidence of poverty. Here the root cause is under-and un-employment, which is generally felt to be quite high, though data are lacking.

Socio-economic indicators also reflect poverty to be widespread in the country. In 1994, life expectancy at birth was 50.6 years of age, infant mortality rate and child mortality rates were 118 and 173 per 1000 respectively, and maternal mortality rate was 700 per 100,000. Illiteracy rate in 1995 was about 77 percent for females and 55 percent for males, and gross enrolment ratio at the primary level of education was 23 percent in 1993.

While the magnitude of poverty is immense, there is an indication of a significant decline during the 1990s. A panel data based on a survey of six below average villages at two different periods in 1989 and 1994/95 show a decline of absolute poverty measured in terms of food consumption from 61.3 percent to 45.9 percent. Although some of this decline could be the result of better climatic conditions in 1994/95, the data provides a strong indication of improvement in the underlying conditions of poverty. Similarly there has been a steep improvement in primary education, with the gross enrolment ratio increasing from a peak level of 35 percent in 1987/88 to 45.8 percent in 1998/99. Incidentally, the enrolment ratio had severely fallen down during the end of the 1980s and the beginning of the 1990s, and stood at 19.7 percent in 1991/92 at the start of the transitional government.

Availability of data on poverty in Ethiopia is relatively satisfactory. A detailed survey of household income, consumption and expenditure (HHICE) conducted in 1995/96 has generated considerable amount of information on the status of poverty in the country. A wide-range of data on sources and levels of household income, pattern of expenditure, levels of consumption, assets of households and demographic characteristics have been collected. In general, the survey found that the per capita income was \$167, and that it was \$217 for the urban areas and \$159 for the rural areas. Significant variations were also shown among the different regions of the country. It was found that about 60 percent of the household income was spent on food, and that the average daily intake per adult was equivalent to 1,954 calories. Information generated from a health and nutrition survey in 1998 revealed that 52 percent of all children aged 3 – 59 months were stunted, and acute malnutrition or wasting ranged from 6 percent among children aged 3 – 5 months to 13 percent among those aged 12 – 23 months. Based on the 1995/96 HHICE survey data, a report on “Poverty Situation in Ethiopia” was produced by the government in March 1999.

Additional surveys have been conducted under the Welfare Monitoring System established by the government to monitor the impact of its development programmes on welfare. Three welfare monitoring surveys have been carried out respectively in 1996, 1997, and 1998. These are important sources of information on households' access to and use of education, health, clean water, and sanitation facilities, covering non-income dimensions of poverty in the country. Furthermore, another round of HHICE survey has been carried out in 1999/2000, and processing is expected to be completed by the end of this year.

C. ECONOMIC REFORM & ADLI STRATEGY

The decrease in poverty noted above is the twin result of economic reform and implementation of ADLI strategy, augmented with resource inflow through external assistance. While economic reform facilitated growth with stability, the strategy of ADLI brought about an agriculture-led growth.

Adjustment policies focused on liberalization of prices and markets, removal of subsidies, reduction of tariffs, and current account convertibility. These were buttressed with fiscal discipline and non-expansionary monetary policy. The relatively favourable policy environment created by the economic reform, coupled with macro-economic stability, invigorated the domestic private sector which was suppressed under the previous semi-socialist military regime. At the same time, the government shifted priority from urban to rural areas. The smallholder farming family was made the focus of economic development with a massive agricultural extension and credit scheme, and expansion of primary education, primary health care, rural water supply and rural roads.

A country-wide extension programme for areas with reliable rainfall based on diffusion of simple technologies consisting of fertilizers and improved seeds was started in 1994/95. Its coverage rose sharply from 32 thousand farmers in the first year to 2.8 million in the fifth year during 1998/99, which represents about 37 percent of the farming population. Application of inputs by the farmers within the extension programme is virtually 100 percent for fertilizers and only a small fraction for improved seed varieties. This has been made possible by an agricultural credit scheme with collateralization of group payment, and, as a make shift arrangement, bank loan underwriting by regional governments, and lending rates that are affordable by the borrower. In some areas, non-governmental micro-financing institutions have already replaced commercial banks as sources of credit, and the

underwriting by regional governments have ceased. Loan repayment record is quite good, having shown appreciable improvement in areas where it was below satisfactory. At present around 2.5 million farmers are served by the credit schemes.

The sharp increase in the productivity of crop production within the areas of reliable rainfall contributed towards making agriculture a leading sector in the economy. Notwithstanding the negative effect of adverse climatic changes on total crop output and prices, the upward trend of crop production which occurred in the 1990s together with the moderate expansion of money supply secured a relatively low rate of inflation for most of the period being considered. Parallel to this, the growth of exports, following the economic reform, coupled with the relatively moderate balance-of-payment support the country obtained, helped to maintain a relatively stable exchange rate regime, with a stable parallel market rate structure as well as real exchange rate. Equally important for the stability of the exchange rate system was the progressive manner in which the market was deregulated whilst being bounded by capital account control.

Macroeconomic indicators of the performance of the economy during the 1990s, give an overall picture of a declining trend of poverty. GDP grew at an annual average rate of 5.5 percent during 1992/93 – 1997/98, with sectoral growth rates of 3.4 for agriculture, 7.3 for industry and 7.7 for services. Within agriculture the most relevant sub-sector for poverty alleviation, that of crop production, had an annual growth rate of 4.9 percent during 1993 – 98. Inflation, another important variable affecting poverty, stood, generally at a low rate. As a consequence of the huge devaluation by 59 percent in October 1992, there was a relatively high rate of inflation of 10 percent in 1992/93, which fell down to 1.2 percent in 1993/94 and rose to 13.4 percent in 1994/95. During the two years of 1993 and 1994 there was also a relatively steep depreciation of the birr. In subsequent years, however, the inflation rate was minimal (less than 3 percent) or even negative.

At the same time, with the ending of the internal arm conflict in the country, public expenditure was re-oriented towards social and economic development. Importantly, the share of government recurrent expenditure on education was raised from 11.9 percent in 1989/90 to 17.9 percent in 1996/97, and that of health from 3.5 percent to 5.8 percent. Moreover, emphasis was placed on primary education and health care, to help tackle poverty at its root.

The previous two years of 1998/99 and 1999/2000 were exceptional years due to conflict with Eritrea. Defense expenditures rose sharply from below 3 percent of GDP in previous years to an average of 10.7 percent during these years. Consequently the gap on the fiscal and balance of payments fronts widened markedly with deficits of 8.8 and 8.7 percent of GDP respectively, and money supply increased at an average rate of 10.4 percent. The external imbalance was additionally aggravated by adverse terms of trade following the fall in coffee prices and the rise in prices of petroleum, while economic growth was further hampered by crop harvest failures due to drought which led to threat of famine. During these two years the growth rate of GDP declined to 5.6 percent, far less than what was initially feared, but the rate of inflation increased to 4.3 percent by 1999/2000 (as per Addis Ababa retail price), and the birr depreciated by 16.5 percent within the two years.

Looking at the nexus between policies and programmes, on the one hand, and poverty, on the other, the main factors, as of recent years excepting the last two, appear to revolve around broad-based growth process and macro-economic stability. Making smallholder agriculture an important source of growth for a least-developed country such as Ethiopia, clearly maximizes the inclusiveness of the growth process as it captures the rural population. This necessitates possession of assets of land, skill and capital by the smallholder. Following the removal of the monarchy and the dissolution of feudalism in Ethiopia, there is no landlessness as all farmers have landholdings. Acquisition of skills is made possible through extension, and capital through credit. Furthermore the labour asset of the farmer is augmented with primary education and primary health care. Macro-economic stability enters the nexus in two ways. Broadly by affecting growth through savings and investment, and narrowly by affecting the interest rate and access to credit by the farmer.

A high rate of interest regime pre-empts a broad-based growth process involving smallholder farmers. It appears that fiscal discipline, non-expansionary monetary policy, sequentially ordered deregulation of financial markets, and exchange market liberalization limited to the current account in combination have closed the possibility of the emergence of a high interest rate regime in Ethiopia. This underscores the importance of ensuring coherence between economic reform and ADLI strategy for the realization of poverty reducing growth.

D. POVERTY REDUCTION STRATEGY

The initiative of PRSP taken by the Bretton Wood Institutions implies for Ethiopia both continuity and sharpening of the focus on poverty of the previous years. Reduction of poverty will continue to be the core of the agenda of the country's development, which consists of four building blocks, namely, ADLI, judiciary and civil service reform, decentralization and empowerment, and capacity building in public and private sectors. The main contents of these building blocks, their inter-relations and how they may in combination lead to poverty reduction over the long term is examined here briefly.

1. Content

a) ADLI

ADLI is not simply about agricultural development, though this is meant to constitute the first stage of the economic development of the country. It is also about industrialization as the final goal of the country. Agriculture and industry are brought into a single framework of development, wherein the development of agriculture is viewed as an important vehicle for industrialization by providing a market base and not simply as a source of raw material and capital accumulation. There is thus a move away from the classical processes of growth viewed historically.

During the first stage of ADLI, agriculture is envisaged to play a leading role in the growth of the economy. But the extremely small ratio of urbanization of the country could well raise market outlet as a critical issue due to inadequacy of domestic demand, thereby making exports a necessity. This implies that agriculture has to be made internationally competitive, and that part of its production has to be oriented towards exports. Existing policies do permit such an outcome, as there are no agricultural subsidies, and the tariff on imports of grains, in particular, stands at a reasonable low level of 10 percent, having been reduced from a higher level some years back.

To start with, however, agricultural growth should improve the conditions of food security in the country. There are indications that excepting conditions of drought, even the present extension programme could have sufficed to bring about a satisfactory level of national food security. But droughts occur far too often to make this a possibility. Irrigation would have to be introduced in a significant way for a sustainable attainment of food security at

the national level. Still further, food insecurity at the household level could persist despite growth of food and cash crops at national level, unless it is resolved on its own. For this as well the solution would have to come predominantly from within agriculture. The medium- to long-term target is to reduce the absolute size of the food insecure rural population substantially as to exit from food aid, and rely on fiscal transfer of resources to support a residual of relatively small numbers of food-deficit households. In the past two years, regional governments have identified various projects to tackle the problem of food insecurity which arise either from extreme smallness of landholdings or drought proneness in dry-land agriculture depending on local conditions. External assistance has begun in a limited fashion, and international organization have yet to play a significant role by compiling and disseminating information on globally available technology of products and process in dry-land agriculture. Moreover external assistance will be needed for voluntary resettlement from the highlands to lowlands under irrigation schemes. The problem of food security and agricultural growth in the nomadic areas is being conceived in terms of the development of the pastoral economy in its entirety. Appropriate entry points for evolving a cumulative process of growth are being considered, though there is recognition of the complexity of the matter. For the country as a whole, tackling food insecurity at the household level is, arguably, the most effective and direct way of poverty reduction being envisaged by the government, and, no doubt, among the most important programmes.

During this transition, there will be continued reliance on food aid. There are two main issue in this regard; ensuring a timely intervention to avoid death for lack of food, and using the resources of food aid to build the potential of agriculture and rural infrastructure. The concept of linking relief with development has been applied since the late 1980s. Various activities of environmental protection such as soil and water conservation, terracing and afforestation carried out over the years have shown positive results, and will be improved and continued in the future. Emergency capabilities have also been strengthened in the past few years by reorganizing the Disaster Prevention and Preparedness Commission (DPPC), and establishing a Food Security Reserve Administration (FSRA). Monitoring, surveillance, early warning, and strategic food reserves capabilities will continue to be augmented to better deal with emergency situations of famine.

For agriculture to continue serving as an engine of growth in the coming years, through the domestic economy and international trade, there has to be progress in terms of commercialization, with more intensive farming, increasing proportion of marketable output and correspondingly decreasing ratio of production for own consumption. Aside from deepening technological improvements, it will mean greater market interaction on the part of the farmer. Thus research and extension will be enhanced, application of inputs will be increased and diversified, new products will be introduced, irrigation will be expanded, service cooperatives will be encouraged, contractual production cum trading between farmers and traders will be fostered, production of tools and equipment for agricultural use will be promoted, and rural roads will be constructed. At the same time commercial farming will receive more emphasis and support. Leasing of land held by the government will be encouraged by specifying the conditions of lease to facilitate the collateralization of land, and foster land use based on environmental protection. Additionally, the possibility of establishing an agricultural products exchange market will be studied, and, if found feasible, implemented.

Extension of credit to the small farmer will gain in importance with commercialization of agriculture, and give impetus to the establishment of rural banks. The first step is to carry forward the transition from loans underwritten by the regional governments to loans extended by micro-financing institutions entirely on their own. There are now four micro-financing institutions serving farmers in four regions, one each, which account together for over 90 percent of the country's crop output. Compared to the total number of 2.5 million farmers who received loans in 1999, micro-financing institutions provided loans for agriculture and other purposes to about half a million clients. Considering, that these institutions are of recent origin, less than seven years for the oldest and not more than four years for the other three, the progress made so far is remarkable. In addition, there are 13 micro-financing institutions reaching a small fraction of the above four. In the medium-term future, it is expected the micro-financing institutions will be the dominant source of credit supply to smallholder farmers, and that the existing make shift arrangement of loan underwriting by the regional governments will be substantially phased out from the four regions. It may, on the other hand, be started in the other remaining regions. The second step consists of graduating from a micro-financing institution to a rural bank, the essential dividing line being growth of deposits, and minimization of the reliance on equity capital for the extension of credit as is presently the case. Deposit mobilization by the micro-

financing institutions will increase in step with the growth of income and savings of farmers. Thus the shift towards the formation of rural banks is dependent on the development of smallholder agriculture.

Industrialization is the other arm of ADLI strategy, which is inter-woven with the development of the private sector. In the medium term (i.e. five-year period), the share of industry in the GDP is envisaged to increase significantly. Partly, this growth of industry will come from existing investment projects in utilities and manufacturing. More importantly, industrial investment is expected to increase. There are three types of measures that will be undertaken to encourage private investment. First, to make the existing policies work better, by removing regulatory impediments and improving implementation capacities on the side of government. Existing regulations will be examined with a view to identifying those that should be abolished, modified and retained. As to problems of bureaucracy, it is foreseen to be tackled through civil service reform and capacity building measures. Second, to encourage public-private sector partnership through establishment of platforms of dialogue. Already, a forum for consultation has been established for exporters, and similar forums are envisioned in the medium term for different groups of the private sector at various levels of government. Third, to make the business environment and the incentive structure attractive for manufacturing in particular, as it is relatively disadvantaged compared to other activities due to relative lack of experience in this line of business, and the possibility of higher risk exposure and higher enforcement of taxes.

Lastly, the relationship between ADLI and export-orientation may be briefly stated. First, ADLI underlines the potential scope of the domestic market and the important role it could play for growth of both agriculture and industry, particularly considering the size of the country's population. Second, the strategy of ADLI gives recognition to the critical role of exports both in terms of growth of income and foreign exchange. Third, as ADLI strategy is located within the context of progressive integration into the global economy, export-orientation and ADLI are viewed as mutually reinforcing. The importance attached to exports is clearly reflected in the formulation of an export strategy in 1998, the creation of a forum between exporters and government, and establishment of an export promotion agency in the same year.

b) Judiciary and Civil service Reform

Ethiopia has undertaken most of the economic policy reforms necessary for the establishment of a market economy and attainment of macro-economic stability. The policy measures that remain in this regard are relatively few and minor. Far greater in importance are second generation reforms. Judiciary and civil service reform falls outside the economic domain as it relates to the political transformation being undertaken under the process of democratization initiated in the 1990s. Fortunately, it meets a key purpose of second generation reforms for achieving economic development in the country. The same is true of decentralization and empowerment, discussed below, which is the third building block of strategy for poverty reduction. In a way, these coincidences underline the significance of conducting economic and political transformations simultaneously.

There are five major components of the civil service reform. First, the expenditure management and control component includes reform of procurement, auditing and internal controls. Second, the human resource management component seeks to reform performance appraisal and job classifications, and improve the incentive system. Third, the service delivery component is designed to improve the quality of services provided by the public sector employees, including the establishment of a complaint handling mechanism. Fourth, the top management systems component is meant to improve the selection and performance of senior government officials. Fifth, the ethics component which will aim to introduce code of conduct and prevent corruption. The judicial reform will on the other hand overhaul the legislative framework to reflect the 1994 constitution and strengthen the judiciary.

These reforms will make a qualitative change in governance, transparency and accountability within the public sector. Reforming the judiciary will strengthen enforcement of contracts and property rights, while the civil service reform will reduce transaction costs and non-commercial risks. All these will play an important role in the development of the private sector, and also facilitate the development of social capital.

c) Decentralization and Empowerment

Decentralization is an outcome of the adoption of a federal system of government in Ethiopia. With the devolution of power to the regional governments, implementation of economic policies and development programmes have, to a large measure, been shifted

from the center to the regions. The application of fiscal federalism ensures a single system of taxation, allows some revenue collection by the regions and some revenue sharing with the federal government while putting the majority of the revenue under the central authority, provides budgetary subvention to the regions, and grants the regions full autonomy in budgetary expenditures. Consequently, considerable space has been created for effective decentralization and empowerment, which in turn creates room for tackling poverty directly at the grass root level.

In a relatively big underdeveloped country such as Ethiopia, with no major concentration of population in one or two cities, as, for instance, in Europe, regionalization is an effective means of bringing decision-making processes closer to the people. Federalism will be enriched further by decentralization within the federal states to the district level, in the medium-to long-term period. Already, in a relatively short period of nearly a decade the electorate, politicians, civil servants, and associations of the civil society have all gone through a steep learning curve, about the workings of democracy, and valuable experience has been gained on federalism as well. Some steps have also been undertaken to introduce a few districts to appropriation and expenditure of budgets. This is obviously a difficult process, not least because of lack of trained manpower at the district level.

Fiscal decentralization to the district level will provide a base for a meaningful participation by the people in local development programmes. Typically this will entail primary education, primary health care, rural water supply, rural roads and agricultural extension. Other activities such as small-scale irrigation, market infrastructures, and cottage industries could also be included depending on financing, capacity building and private investment. As the district forms the unit base for representation in the federal and regional assemblies, with a population of 100,000 it is a suitable point of merger between political empowerment and economic development at the grass root level. Gender equality will continue to be emphasised in the process of decentralization and empowerment.

Another major area of empowerment has been the institutionalized incorporation of women in the development process. In expression of commitment to the cause of women, the Transitional Government of Ethiopia [TGE] issued a National Policy on Ethiopian Women [NPEW] in 1993. This has been reinforced by other subsequent sectoral [education, health, social welfare, population, environment] and regional policies. Interfacing the provisions

of conventions and declarations by the UN and other international organizations about women, the Ethiopian constitution of 1995 has entrenched their rights.

To this end, structures have been set up at the national level - Women's Affairs Office in the office of the Prime Minister, gender focal points at Departmental level in 17 Ministries and Commissions and Women Affairs Bureaus at regional and zonal levels in the whole country. These have operational links with NGOs and other traditional institutions set up by women. A strategic framework, based on the National Policy and the Beijing Platform for Action in promoting gender issues, has been designed and agreed upon between government, NGOs dealing with women and other similar community based organizations.. The focus areas for women organizations are mainstreaming gender in all spheres of the development agenda, carrying out advocacy, capacity building and setting up Women Organizations and Networking.

Recently, the Women Development Initiative Project [WDIP], which is executed by the Women Affairs Office in the Office of the Prime Minister, has been launched. It consists of the Grassroots Initiative Fund [GIF] and Institutional Strengthening and Information Education Component [IEC]. The GIF operates as a financing window providing women groups with technical assistance, training and grant to collectively undertake a productive activities. Under the institutional strengthening component, the project is assisting capacity building, training and the management of information systems. IEC is to finance education on social and legal issues pertaining to women.

d) Capacity Building

A strategy for capacity building and programme framework has been prepared by the government in December 1998. It is hoped that external assistance will be obtained and that it will be mostly implemented within the medium-term. The strategy and programme framework of capacity building that has been formulated is designed to feed into ADLI, judiciary and civil service reform, and decentralization and empowerment. Thus it fits properly the country's poverty reduction strategy being conceived of.

Capacity building is taken to comprise the development of human resources, building and strengthening of institutions, and establishment of effective working practices in combination. It is intended to be undertaken in relation to smallholder agriculture, the

private sector, and the public sector, including the judiciary. Training of farmers, supporting micro-financing institutions, and strengthening public and private sector organizations involved in the development of agriculture will be the main activities concerning smallholder agriculture. As to the public sector, capacity building will run parallel to the judiciary and civil service reform. Taxation will receive priority within the civil service. In view of the fact that capacity to build capacity is a key link in the chain of capacity building, tertiary education to increase the stock of trained manpower in general as well as to upgrade the manpower within the civil service will receive emphasis. The training needs of regional and district administrations will also receive special attention. Private sector will stand to benefit significantly from reforms and capacity building in the judiciary and the civil service. Furthermore, various activities will be undertaken that will impact favourably the development of the private sector, such as establishing industrial training institutes, strengthening the financial sector, supporting the development of chambers of commerce and industrial associations, and improving the setting of product standardization.

2. Inter-relations Among the Building Blocks and Their Effects on Poverty Reduction

Judicial and civil service reform, decentralization and empowerment, and capacity building will potentially bring together governance and institutional development, which will help make public and private sector organizations effective and efficient. In other words they will give rise to modern institutions, and, in G.Myrdal's sense, "a strong state". This will significantly enhance the prospect of ADLI in Ethiopia. Judicial and civil service reform will have the effect of encouraging private sector in particular, while decentralization and empowerment will mainly encourage the smallholder farmer. Making the judiciary transparent and accountable will greatly improve the enforcement of contracts and property rights, and thereby reduce non-commercial risks. Civil service reform will render far better the implementation of policies and regulations as well as delivery of services, which translates into reduction of transaction costs and removal of distortions of resource allocation. These are all important for the development of the private sector. Decentralization and empowerment will, on the other hand, engage district administration in developmental projects and allow inter-action with the rural population. Apart from

making felt needs better reflected, it will give rural communities valuable experience about development and how it can be brought about through their actions.

E. SECTOR DEVELOPMENT PROGRAMMES

Following the ADLI strategy several sector programmes and projects have been launched by the government in the second-half of the 1990s. These include multi-year sector development programmes of roads, education, health, energy as well as projects for agricultural and rural development. The goals and performance of these programmes and projects are briefly discussed below to indicate how the strategy has been pursued in those sectors where the government has an important role to play, and provide a context for the medium-term indicators and targets of poverty reduction set in section G.

a) Agriculture

Since the late 1960s, the approach to agricultural development in Ethiopia was that of area-based package programme with varying shades of integrated of rural development. In the 1990s this was abandoned in favour of country-wide programmes shorn of rural development and limited to agricultural and credit components. The first country-wide programme focused on food production in areas of relatively high potential with adequate and reliable rainfall to permit adoption of fertilizer. Considerable progress has been made so far in these areas with the diffusion of fertilizers and improved seeds and the provision of credit in smallholder agriculture.

The application of a new extension system which permits a fast diffusion of technology together with an innovative credit expansion scheme were the key factors for this success. As extension proceeded with direct application of new technology on individual farmers' plots with the active and leading role played by the farmers themselves, the system maximized both demonstrative and growth effects. At the start of the programme in 1994/95 there were only 32,000 farming families making use of 16,000 hectares of land. By 1999/2000 this coverage had remarkably expanded reaching 2.8 million farming families or 37 percent of the estimated 7.5 million farming families in the country.

The contribution of the extension programme to the country's agricultural production in terms of share of participating farmers' produce to the national major crops production has grown from 0.6% in 1994/95 to 49.2% in the year 1999/2000. This gain is mainly

attributed to a boost in productivity brought about by the program. Maize yield, for example, has grown from the average level of 1,200 kilograms per hectare in 1994/95 to 4,700 kilograms in the year 1999/2000. Similarly the current average yield records per hectare are 2,930 for wheat, 2,790 for millet, 1,430 for *teff*, and 2,180 kilograms for barley from the program inception levels of 860, 760, 700, and 840 kilograms, respectively. Similar gains should be expected to take place in the areas of relative high potential that have not yet been benefited from the diffusion of technology under the new extension system.

Since 1993 fertilizer import, distribution and marketing has also seen a major transition from one of state monopoly to a situation where the private sector plays a major role imports, and distribution of fertilizer. In line with the fertilizer policy there will be continued effort to strengthen the competitive marketing system particularly at the level of distribution to the farmer. Further progress in extending market based retail trade will be made within a context which assures a smooth and timely delivery of fertilizer to farmers to avoid a supply gap.

The second country-wide programme covers areas of dry land agriculture whose rainfall is limited and tends to be unevenly distributed. Here, progress has been mixed. Regarding environmental protection substantial improvement has been attained through different activities of soil and water conservation, terracing, and tree planting. These are activities carried out under food-for-work schemes. But in terms of output, improvement has been insignificant, not least because of lack of technology of production process and suitable products. Some attempt has been made to introduce irrigation with diversion of small rivers and building of small dams, and encourage the use of tie ridgers to introduce farming techniques that facilitate retention of water. The acquisition and adoption of suitable technological packages to moisture-deficit drought prone areas merges with the overall effort to address the country's food security problem at the rural household level, which remains as an outstanding task for the coming years.

The third country-wide programme covers livestock production initiated in 1999 . About three-fourth of the total livestock unit is found within smallholder agriculture and the rest in pastoral areas. Livestock are used by farmer and pastoralist alike for a variety of purposes comprising oxen for ploughing, manure for energy and fertilizer, livestock

products for own consumption and cash income, and livestock holding as assets. Overgrazing and increased competition from crop production have, over several decades, led to severe deterioration of natural pasture, bringing about animal feed deficit, and nutritional stress. The programme has three components of production of animal feed and forage, improvement of animal health, and betterment of livestock breed. It is envisaged to proceed by building capacities at the federal and regional levels of government so as to extend improved technologies, products and services to farmers. By its very nature livestock development tends to be more complex than improvement of crop production, in the entailment of skills, marketing, and risks on the part of the farmer. But, given that the initial conditions of the sub-sector are poor, significant growth could be expected in the medium term.

In addition to the above programmes, a food security strategy was adopted in 1996. It offers a broad framework to guide developmental interventions in drought-prone food-deficit areas. In addition to improving the production capacity, various interventions are envisaged to ensure more access and entitlement, improve nutritional status, and lay a strong basis for disaster prevention and management. Furthermore, special attention is increasingly being given to pastoral areas so as to improve the welfare of the pastoral people by increasing productivity and minimizing risk through infrastructure development, improved market access and other support services. Given the comparative advantage of such areas and traditions of pastoralists, interventions revolving around livestock are considered as appropriate point of entry, with due regard to risk management. The extent to which traditional institutions could be relied upon as vehicles for development would be explored further.

For the coming five years the aim is to strengthen and carry forward the existing programmes. In the relatively high potential areas, it is intended to increase productivity further by raising the training level of extension workers, increasing the supply of improved seed varieties, and improving the match between type of soil and fertilizer usage. In the food insecure localities, it is planned to raise the ability households to procure food through various means including agricultural and off-farm activities, as well as wage employment. In the four regions where the bulk of the vulnerable population reside, the regional administrations have identified various projects at district level to address the problems of food-deficit households. The time frame for the implementation of these projects is about

seven years, at the end of which it is aimed to enable the majority of these households attain food security on their own. External assistance will play a key role for the success of these projects. As concerns the livestock development programme, it is already converted into a five year project from 1999 to 2004.

b) Social Sectors

The creation of a healthy, literate and active labour force is clearly critical for the empowerment of society to carry out its economic activities and to effectively shoulder its political and social responsibilities. For this very reason, education and health are given top priority in the national strategy to eradicate poverty. The priority given to social development can be gauged by measures undertaken to formulate new policies and increased public budget to the social sectors. After coming to power in 1991, the government has reviewed the health and education sectors in particular, and, with external assistance, has launched sector wide development programmes in education and health.

i) Education

In conformity with ADLI, the Ethiopian Government adopted a new Education and Training Policy and Strategy (ETPS) in 1994. It focuses on expanding access to educational opportunities in a form that is directly relevant to the present and future of the economy. On the basis of this the education sector development programme has been developed and is under implementation.

The First Five-year Education Sector Development Programme (ESDP) envisaged expansion of primary enrollment from 3.34 million pupils in 1995/96 to 7 million by 2001/02, which would raise the participation rate from 22.1 percent in 1995/96 to a national average of 50 percent by the end of the programme period. However, after examining the participation rate in 1999, which had already reached 45.8 percent, the target has been moved further up to 60 percent. Girl's participation is expected to increase from 36 percent in 1995/96 to 45 percent by the end of the programme period.

Several hundred new primary schools will be constructed, the existing ones up-graded and old schools will be rehabilitated and refurbished. Sixteen new boarding schools will be established to cater for students coming from under-served nomadic regions. At the same time, thousands of primary school teachers will receive pre-service training and

professional up-grading courses to bring them up to the standard of the new primary school curriculum. To increase access to basic education especially in rural areas, non-formal and distance education programmes will be expanded and strengthened.

To produce the required qualified manpower needed in the various sectors of the economy; tertiary education will be expanded by the opening new training programmes. Furthermore, a clear policy framework has also been put in place to allow the active participation of the private sector, community and parents in financing and managing education.

ii) Health

The overall goals of the Health Sector Development Program (HSDP) is to improve the health of the Ethiopian people and to establish a firm institutional base needed to ensure the health sector's long-range goals. HSDP is intended to develop a health care delivery system which could provide: (a) comprehensive and integrated primary health care services based at the community level health facilities; (b) appropriate first referral and other hospital services; and (c) realistic and equitable solutions for the rehabilitation and expansion of basic infrastructure, the provision of standard equipment and supplies and the development and deployment of appropriate health manpower.

The goals of HSDP include providing training to about 19,040 and 2,410 health workers and medical doctors respectively and expanding of primary health care service coverage from the current 45 percent to 60 percent. In terms of budget provisions, the government has taken steps not only to increase the overall share of health in the budget but also to reallocate resources away from urban hospital-based curative services towards more preventive care, emphasizing the rural population. The overall focus has been on communicable diseases, common nutritional disorders, environmental health and hygiene.

c) HIV/AIDS

The preponderance of HIV/AIDS in Ethiopia is among the highest in the world, estimated as high as 10.6 percent of the adult population by the end of 1999. Given the country's relatively large population, the number of people living with HIV/AIDS (PLWHA) in Ethiopia is third largest in the world next to South Africa and India. About 90 percent of the reported AIDS cases comprise adults between the ages of 20 and 49, the most important group in terms of labour force and reproduction of family. In many urban areas, about half of the hospital beds are in fact now occupied by AIDS patient. The emergence

of HIV/AIDS crisis, despite the various efforts to arrest the expansion of the epidemic that have been undertaken in the past, led to the adoption of an HIV/AIDS policy by the government in 1998. Subsequently, a five-year strategic plan for the period 2000 – 2004 was formulated covering both federal and regional levels. Making use of these documents an HIV/AIDS project prepared for funding by the World Bank has been approved in August 2000. The project will be organized at national, regional and local levels, in which the interface between local administration and local community will have a critical role. It will focus on prevention, care and support, and extend over three years from 2001/2002 to 2003/2004.

d) Infrastructure

Infrastructure has a key role in Ethiopia's economic growth and poverty reduction. Sector programmes as well as individual projects have been adopted for the development of infrastructure facilities. A five year road sector development programme (RSDP, 1997 – 2002) is currently being implemented. It aims at upgrading the main roads of the country, linking Addis Ababa to several towns and to seaports of neighbouring countries. It is the first phase of a two-phased roads ten-year development programme expected to continue up to 2007. Along with upgrading and expansion of the road network, a road fund has been established so as to create a reliable source of financing for road maintenance.

Since the start of the RSDP, several activities related to rehabilitation and construction of new roads have been undertaken. Design works of 32 roads covering 7,305 kms long have been completed, and construction work of upgrading on 13 asphalt roads of 2,097 kms long is ongoing with a total outlay of about \$435mn. Major maintenance work has been carried out on main roads covering 1,714 kms. Regional governments have also been constructing and rehabilitating rural roads.

There is also a sector programme for the development of electricity which consists of construction of a hydro-electric plant, conversion of the public enterprise into a commercial entity, adjustment of tariffs to permit generation of profit, and opening the industry to foreign investment in the generation of power. The plant is expected to be completed in by 2002/03.

Other main areas of development have been in water supply and telecommunications. Several projects have been undertaken to increase urban water supply in the capital, Addis

Ababa, and several towns in different parts of the country. This has resulted in water supply coverage of 70 percent of the total urban population in the country in 1999/2000.

Perhaps more important in terms of poverty reduction is the supply of clean water in the rural areas. Here progress has been substantial, with the increase in the population coverage of water supply from 14.3 percent in 1994/95 to 24 percent in 1998/99. Regarding telecommunications, expansion and modernization has been carried out in recent years. Most notably, the number of telephone lines, which stood at 180,000 in 1994/95 has been increased to 530,480 in 1999/2000 under a plan which aims to bring the number of lines to 650,000 by 2000/01. Participation of foreign investment in the Ethiopian Telecommunication Corporation is envisaged in the near future, and for this purpose a foreign consulting firm (Price Waterhouse Coopers) has been hired and has started work since August 2000 to undertake a study and prepare a bid document.

e) ESRDF

The Ethiopian Social Rehabilitation and Development Fund (ESRDF) was established in February 1996 as a multi-sector poverty reduction programme. It operates on the principles of the social investment fund following a demand driven bottom-up approach. ESRDF aims to improve the well being of the poor by supporting community based projects which build and strengthen social and economic assets. Provision of training and material support is also another area of ESRDF's intervention, aiming to strengthen grassroots/local institutional capacity.

ESRDF's intervention is concentrated in areas like basic education, basic health, water supply and sanitation, small-scale irrigation and capacity building and training. Other activities such as agriculture, environment, income generating have been considered for support. Beneficiary communities are expected to participate not only in labour and material contributions, but also in decision making, cost sharing and over all ownership of the schemes. In the process of its interventions, ESRDF follows a decentralized management system whereby projects are initiated and implemented with the active community participation. Decision-making and supervision of the programme is the responsibility of the National Board and the Regional Steering Committee (RSC) at the federal and regional levels, respectively.

So far 1,740 projects have been completed under the Fund. These consist of 891 water supply, 386 education, 340 health and sanitation and 25 small-scale irrigation projects. Additionally, 98 projects in the areas of agriculture, environment, storage, income generating have been completed. Overall, these projects are expected to benefit more than 5 million poor people, mainly residing in the rural sector.

During the past four years, ESRDF has played a significant role in inculcating sense of ownership and empowering poor communities through direct participation in initiating projects and implementing them. Its training programs have created local capacity that would enable local communities assume leading role in development endeavours.

F. Macroeconomic setting for 2000/01 – 2002/03

Ethiopia finds itself in a post-conflict situation. There are emergency needs of rehabilitation, demobilization, and reconstruction as well as support for balance of payments. The challenge is to meet these emergency requirements while maintaining macroeconomic stability during the three year period of 2000/01 – 2002/03. Two factors are expected to make such an outcome possible; external resource inflow and capacity to increase the aggregate output level. Industrial output can be readily increased since there is a considerable amount of unused capacity in the manufacturing sector. Surveys conducted in recent years have revealed that both in public and private enterprises, the average level of unused capacity is more than one-third. As to agriculture, a bumper harvest is being forecasted based on the rainy season that is just ending. Thus there are favourable conditions which allow external resource inflows of relatively large magnitude without leading to internal imbalances. Nor will external resource inflows unduly raise the level of net foreign assets, as the country is experiencing exogenous shocks of adverse weather effect on coffee production in the southern part of the country and high prices of petroleum, while on the other hand imports are expected to increase substantially due to pent-up demand for both consumption and capital goods and the increase in petroleum prices.

To further reinforce macroeconomic stability in the coming years an ambitious programme to strengthen tax administration and revenue collection and introduce VAT is underway. This should result in a significant increase of tax revenue to meet government expenditures oriented towards poverty reduction, keeping, at the same time, government borrowing at a

minimal level. Crowding out of the private sector will not be a monetary policy problem. Furthermore, reduction in military expenditure will provide room for increasing expenditure oriented towards poverty reduction, such as the social sector. These expenditures will be duly costed to ensure consistency with resource availability. Furthermore, public expenditure management will be strengthened to facilitate the identification and tracking of poverty related expenditures.

While taking measures directed at stability, steps will also be taken to improve the financial and exchange markets. Financial sector development will forge ahead through building capacities in the banking sector, improving contestability of market by raising the capital level of the private banks and privatizing the second biggest bank, and strengthening prudential banking. With a view to developing securities market over the medium term, the excess reserves of the commercial banks will be sterilized through bonds issued by the government. On the side of foreign exchange market, measures will be taken to attain current account convertibility.

G. Poverty Reduction Programme Indicators and Targets

The PRSP framework entails the development of a system of monitoring outcomes and impacts of the poverty reduction strategy and programmes. Policy and programme intervention need to be evaluated using basic indicators selected in line with the development objectives and goals set for the country. In Ethiopia, most of the basic development goals and targets are already set in various sector development programmes. These and additional basic welfare indicators that will be used to monitor progress made in poverty reduction in the country are indicated in the table below, subject to review during the preparation of the final PRSP.

Components of Welfare	Intermediate/Outcome Indicators	International Development Goals	Current status in Ethiopia	Ethiopia's Targets
Poverty & Inequality	<ul style="list-style-type: none"> Poverty headcount (P_0) Poverty gap (P_1) Average income 	<ul style="list-style-type: none"> Reduce extreme poverty by half by 2015 Implementation of a national strategy for sustainable development by 2005 	$P_0 = 45.5$ Average Income = 137 USD = 1088 Birr	$P_0 = 40.0$ by 2003 $P_1 = 0.10$ by 2005 Average Income = 150 USD by 2003 = 1139.5 Birr “ “
Food Security	<ul style="list-style-type: none"> Percentage of farmers covered by extension program Yield for major food crops Agriculture share of total budget Food consumption variability 	<ul style="list-style-type: none"> Reverse trends in the loss of environmental resource by 2015 No target No target Reduce malnutrition among children by half by 2015 from the level in 1990 	<ul style="list-style-type: none"> Percentage of farmers covered by extension = 42.2% Average yield for major food crops = 15.8 (quintal/hectar) Agriculture share of total budget = 10.3 Food Pov. = 50.0%	<ul style="list-style-type: none"> Percentage of farmers covered by extension = 60.0% By 2002/3 Average yield for major food crops = 17.0 (quintal/hectar) by 2002/3 Agriculture share of total budget = 12.7 By 2002/3 Food Pov. = 47.0% by 2003
Health	<ul style="list-style-type: none"> Infant mortality rate Under 5 child mortality rate Maternal Mortality Rate Access to health services Immunization of children Health share of total budget 	<ul style="list-style-type: none"> Reduce infant and child mortality levels in 1990 by one-third by 2015 or to 50 and 70/1000 respectively, whichever is less Reduce maternal mortality level in 1990 by 3/4th by 2015 Universal access to reproductive health services by 2015 No target	IMR = 97/1000 CMR = 167/1000 MMR = 705/1000 Access to health service = 51% Immunization = 60% Health share of total budget = 5.2%	IMR = 95/1000 By 2002 = 50/1000 By 2017 CMR = 160/1000 By 2005 MMR = 500/1000 By 2002 = 300/1000 by 2017 Access to health services = 55% By 2002 = 90% By 2017 Immuniz = 70% By 2002 = 90% By 2017 Health share of total budget = 7.0%
Education	<ul style="list-style-type: none"> Gross enrolment ratio (primary) Repetition rates 	<ul style="list-style-type: none"> Universal access to primary education by 2015 No targets 	Gross Enrolment Ratio (primary) (GERP) = 45.8% Average grade 4-8	GERP = 50.0% By 2002 = 65.0% By 2005 Average grade 4-8 repetition

	<ul style="list-style-type: none"> Ratio of girls to boys students Number of primary schools Primary School Drop out rate Education share of total budget 	<ul style="list-style-type: none"> Ratio of Girls to Boys to be equal to 1:1 by 2005 No target No target No target 	<ul style="list-style-type: none"> repetition rate = 12.1% Ratio of Girls to Boy students = 37.8% Number of primary schools = 11,051 Primary School Drop out rate = 12% Education share of total budget = 12.5% 	<ul style="list-style-type: none"> Rate = 6.4% By 2002 Ratio of Girls to Boy students= 45% By 2002 Number of primary schools= 12595 By 2002 Primary School Drop out rate = 4.2% By 2002 Education share of total budget = 14.5% By 2002/3
Clean Water Supply	<ul style="list-style-type: none"> Access to clean water Clean water share of total budget 	<ul style="list-style-type: none"> Provide universal access to safe drinking water and to sanitary means of excreta disposal No target 	<ul style="list-style-type: none"> Proportion of people with access to clean water = 30.0% National = 70% Urban =28% Rural Share of total budget allocated to clean water= 	<ul style="list-style-type: none"> Proportion of people with access to clean water = 36.0% By 2002/3 = 36.0% National = 90.0% Urban = 40% Rural
Road	<ul style="list-style-type: none"> Road network coverage Road share of total budget 	<ul style="list-style-type: none"> No target No target 	<ul style="list-style-type: none"> Road density/1000km²=28 Time it takes to all weather Road = More than 6 hrs 	<ul style="list-style-type: none"> Road network coverage= 80.0% By 2007 Time it takes to all weather Road = More than 5 hrs.

H. Poverty reduction policy matrix

Aside from sector programmes and projects, the government will take policy measures to reduce poverty. The policy matrix below puts objective as the starting point. It is important to state clearly the objectives, which flow from the long-term targets and strategy for poverty reduction, so as to derive the policy measures consistently.

Poverty Reduction Policy Matrix 2000/01 – 2002/03

OBJECTIVES	POLICY MEASURES	IMPLEMENTATION SCHEDULE	
		2000/01	00/01-02/03*
<p>A. GDP Growth Rate</p> <p>1 Agriculture</p> <p>-smallholder</p> <p>-commercial farming.....</p>	<p>-Expand coverage of micro-financing institutions borrowers by 20 percent.....</p> <p>-Establish an institute for diploma-level training of extension agents.....</p> <p>-Remove any hindrances to the improved functioning of markets for agricultural inputs (fertilizer). Specific actions to be recommended through a study.</p> <p>-Secure external assistance for fertilizer imports.....</p> <p>-Expand road networks for accessing inputs and marketing outputs).....</p> <p>-Complete the weather insurance Scheme study and assess its feasibility and effectiveness(World Bank TA)</p> <p>-Complete divestiture programme of state farms [9] including one due for liquidation.....</p> <p>-Streamline land lease policy and legislation of agricultural and under the possession of both government and smallholders.....</p>	<p>.....</p> <p>2000/01</p> <p>2000/01</p> <p>2000/01</p> <p>On going</p> <p>Feb.2001</p> <p>.....</p> <p>.....</p>	<p>00/01-02/03</p> <p>00/01-01/02</p> <p>.....</p> <p>00/01-02/03</p> <p>00/01-01/02</p>
<p>1. Industry, Private Sector Development & Export Promotion</p>	<p>-Attain horizontal equity of taxation among medium-and large-scale firms across industry</p> <p>-Revise the existing law of chambers of commerce, and foster the establishment of industrial associations.....</p> <p>-To reduce the unweighted average nominal tariff to 17.5% in 2002/03:-</p> <p>-decide on a plan of action.....</p> <p>-implement plan.....</p> <p>-Promote public-private sector partnership in development through foras for the structured dialogue.....</p>	<p>2001 onwards</p> <p>.....</p> <p>May200</p> <p>.....</p> <p>.....</p>	<p>00/01-01/02</p> <p>01/03</p> <p>00/0-02/03</p>

* To be further refined in the final PRSP

	<p>-Establish permanent exhibition centres as a means of dissemination standard quality of products to be produced domestically; and give technical training.....</p> <p>-Strengthen the tertiary education in business and management, tailored to conditions in Ethiopia</p> <p>-Introduce modes of privatisation for selected enterprises so as to divest to entrepreneurs/managers who have limited funds only.....</p> <p>-Bring at least 80 enterprises to point of sale</p> <p>-Remove and amend regulatory impediments which hinder private sector development:- <ul style="list-style-type: none"> - identify regulations which need to be removed, modified or retained (World Bank TA)..... - implement study proposals..... </p> <p>-Improve the functioning of urban land lease market to increase the availability of land and facilitate the use of land as collateral.....</p> <p>-Implement bonded manufacturing ware-house system.....</p> <p>-Help coordination among different firms with a view to realize external benefits...</p> <p>-Improve and simplify duty drawback system</p> <p>-Enhance application of export credit guarantee scheme.....</p> <p>-Remove any hindrances of access to foreign collaboration and financing</p> <p>-Encourage linkages between buyers abroad and domestic suppliers; and solicit technical assistance for technology absorption when necessary.....</p>	<p>.....</p> <p>.....</p> <p>.....</p> <p>Dec. 2001</p> <p>Feb. 2001</p> <p>.....</p> <p>2000/01</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>01/02-02/03</p> <p>00/01-01/02</p> <p>00/01-01/02</p> <p></p> <p></p> <p>2000-2003</p> <p></p> <p></p> <p>00/-02/03</p> <p>00/01-01/02</p> <p>00/01-01/02</p> <p>00/01-01/02</p> <p>00/01-01/02</p> <p>00/01-02/03</p>
B. Reduce Food Insecure Rural Households	<p>-Prepare food security projects for the regions not yet covered.....</p> <p>-Implement regional projects including irrigation with a view to reducing the number of food insecure households by 10 percent....</p>	<p>.....</p> <p>.....</p>	<p>00/01-01/02</p> <p>00/01-02/03</p>
C. Strengthen Macro-economic Stability	<p>-Reduce military expenditure through demobilization.....</p> <p>-Seek external budgetary support for demobilization and reconstruction.....</p>	<p>2000/01</p> <p>2000/01</p>	

	-Seek BOP support.....	2000/01	01/02-02/03
D. Increase Public Expenditure on Poverty Reduction and Strengthen Expenditure Management	-Give priority to education, health, agriculture and roads in programming and budgeting.....	.....	00/01-02/03
	-Maintain consistency between current and capital expenditures.....	.....	01/02-02/03
	-Increase the share of public expenditure in education, health , agriculture and natural resources and roads to 14.7, 7,10.2 and 10.1, percent of total expenditure.....	2000/01	01/02-02/03
	-Introduce macroeconomic and fiscal framework (MEFF) in planning and budgeting.....	.....	01/02
	-Adhere to the Financial Calendar.....	.....	01/02
	-Define a time frame for introducing cost-centre budgeting.....	2000/01	
E. Reduce the prevalence of HIV/AIDS	-Establish HIV/AIDS councils at regional, zonal and district levels.....	.....	00/01-02/03
	-Define work programmes of district councils functioning.....	.....	00/01-02/03
	-Increase by 10% clinics providing voluntary counseling and testing services.....	.....	01-03
	-Increase the number of anti-AIDS clubs in high schools 20% per year.....	.....	00/01-02/03
F. Improve Tax Administration & Enhance Revenue	-Draft legislation to parliament that enforces powers of revenue agencies to collect tax arrears; assess & audit tax payers.....	end Nov.2000	
	-approval by parliament.....	beg. Jan. 2001	
	-Introduce TIN		
	-draft legislation to parliament.....	end Nov. 2000	
	-approval by parliament.....	beg. Jan. 2001	
	-Adopt TIN and computerize taxation at the federal and regional levels.....	.....	00/01-02/03
	-Expand coverage of tax assessment through statement of accounts in the category of unincorporated enterprises.....	.....	01/02-02/03
	-Establish tax reform implementation task force	April 2001	
-Establish a large taxpayers unit within FIRA.	July 2001		
-Presumptive taxation:			
-draft legislation.....	end Nov.2000		
-parliamentary approval.....	end. Jan.01		
-implement presumptive taxation.....	.....	01/02-02/03	

	<p>-5% withholding tax on imports (credited against income tax):</p> <ul style="list-style-type: none"> -draft legislation..... -parliamentary approval..... -effectiveness..... <p>-2% minimum tax on turnover of category A and B, and incorporated business:</p> <ul style="list-style-type: none"> -draft legislation..... -parliamentary approval..... -effectiveness..... <p>-Transitional computation rule for category C taxpayers:</p> <ul style="list-style-type: none"> -draft legislation..... -parliamentary approval..... -effectiveness..... <p>-Legislation for standard assessment:</p> <ul style="list-style-type: none"> -to be enacted..... -effectiveness..... <p>-5% withholding tax on payments to hard-to-tax payers:</p> <ul style="list-style-type: none"> -draft legislation..... -legislation approval..... -effectiveness..... <p>-Income tax codification and reform, subject to specification:</p> <ul style="list-style-type: none"> -draft legislation -parliamentary approval..... -effectiveness..... <p>-Tax incentive system:</p> <ul style="list-style-type: none"> -review the system..... -based on study, implement a more effective & efficient system..... <p>-Taxation of interest income on bank deposits:</p> <ul style="list-style-type: none"> -draft legislation..... -parliamentary approval..... -effectiveness..... <p>-Introduce VAT</p> <ul style="list-style-type: none"> -decide to proceed with VAT..... -establish a VAT project team..... -start implementation..... <p>-Eliminate the 10 percent import Duty surcharge.....</p>	<p>end Nov.2000 end Jan.2001 beg. Feb 2001</p> <p>end Nov.2000 end Jan. 2001 2000/01</p> <p>end Nov.2000 end Jan.2001 2000/01</p> <p>.....</p> <p>end Dec.2000 end May 2001 beg.Feb.2001</p> <p>end May.2001 end June 2001</p> <p>end June2001</p> <p>end Nov.2000 end Jan.2001</p> <p>beg.Feb.2001 end Nov.2000 end June 2001</p> <p>beg. Jan.2001</p>	<p>end Jan.2002 01/02-02/03</p> <p>beg 01/02</p> <p>end Dec. 2001</p> <p>beg. Jan. 2003</p>
G. Financial Sector Development	<p>-Follow-up the audit study of CBE with implementation of the appropriate recommendations</p> <p>-Put CBE into a management contract with a reputable foreign institution:</p> <ul style="list-style-type: none"> -issue tender for contract bids..... -institute management contract..... 	<p>Jan.2001 end. June2001</p>	<p>00/01-02/03</p>

	<ul style="list-style-type: none"> -Encourage private banks to upgrade their efficiency..... -Bring CBB to point of sale..... -Establish a credit rating system for medium and large borrower of banks -Reduce non-performing loans to less than 15 percent for all banks..... -Define, agree with the smaller banks, and supervise implementation of rehabilitation plans..... -Revise credit policy of DBE to de-limit the activities for which its loans are to be made available..... -Encourage establishment of specialized banks for small enterprises..... -Establish legal and institutional framework for long-term debt security market..... -Sterilize commercial banks' excess reserves: <ul style="list-style-type: none"> -select instruments..... -implement the scheme..... -Improve functioning of existing indirect monetary instruments, and introduce new ones: <ul style="list-style-type: none"> -develop a concept..... -decide on introduction of new instruments -introduce new instruments..... -Establish national payments system..... -Attain adequate capacity at NBE to regulate the financial sector and guide monetary and exchange rate policy..... 	<ul style="list-style-type: none"> 2000/01 2000-2001 Oct.2000 Nov.2000 Oct. 2000 Nov. 2000 end Jan.2001 	<ul style="list-style-type: none"> 00/01-02/03 Dec.2001 01/02-02/03 00/01-02/03 00/01-02/03 00/01-02/03 00/01-02/03 00/01-02/03 00/01-01/02 00/01-02/03
H. Improve the Foreign Exchange Market	<ul style="list-style-type: none"> -Eliminate the 100 percent advance deposit requirement on imports..... -Eliminate the non-uniform ceilings across banks on their authority to approve import permits..... -Eliminate remaining restrictions on availability of foreign exchange for current account transactions (the limit on holiday travel and restrictions on foreign exchange payments for education abroad by foreign residents)..... -Concurrently submit documentation to the IMF 	<ul style="list-style-type: none"> 15 Dec.2000 15 Dec.2000-11-07 end Jan.2001 	

	that would provide the basis for accepting Article VIII status..... -Accept Article VIII status (assuming a waiver on Dutch auction mechanism).....	end June 2001 end Jan.2001	
I. Justice System Reform	-Get the financing ready for a study on the reform of the justice system, and start the study as per the TOR already completed -Complete the study -Prepare draft proclamation of penal code and procedure code..... -Prepare draft proclamation of commercial code -Prepare a draft law on notary public..... -Prepare draft proclamation of the land of succession.....	July 2001 2000/01 2000/01	Dec. 02 01/02 01/02
J. Civil Service Reform	-Prepare operating systems and procedures for financial expenditure management and control regarding: -cash management..... -fees and charges..... -financial information system..... -internal auditing..... -external auditing..... -Regarding human resource management: -adoption of human resource information system:- -complete study..... -put into effect..... -complete job classification..... -make proposals to improve the existing conditions of service -design development and recommendation of an improved remuneration system -adoption of procedure for recruitment, selection, transfer and promotion:- -complete study..... -put into effect..... -prepare procedure guidelines for performance appraisal and time management -prepare human resource development plan for the civil service..... -prepare civil service law..... -Regarding service delivery	2000/01 2000/01 2000/01 2000/01 2000/01 2000/01 2000/01 	00/01-01/02 00/01-01/02 00/01-02/03 01/02-02/03 01/02 01/02 01/02-02/03 00/01-02/03 02/03

	<ul style="list-style-type: none"> -adoption of national policy of service delivery:- <ul style="list-style-type: none"> -complete formulation of policy..... -put into effect..... -adoption of complaint handling directives:- <ul style="list-style-type: none"> -prepare directives..... -put into effect..... -Regarding code of ethics: <ul style="list-style-type: none"> -complete preparation of code of ethics..... -establish an anti-corruption entity..... -Strengthen investigative capacity of the police and prosecutors to fight corruption:- <ul style="list-style-type: none"> -prepare procedures and guidelines..... -capacity development..... -initiate ethics education:- <ul style="list-style-type: none"> -complete preparation of materials..... -conduct training and create public awareness..... 	<p>2000/01</p> <p>2000/01</p> <p>2000/01</p> <p>2000/01</p> <p>2000/01</p>	<p>00/01-02/03</p> <p>00/01-02/03</p> <p>00/01-02/03</p> <p>01/02 onwards</p> <p>01/02-02/03</p>
J. Capacity Building	<ul style="list-style-type: none"> -Undertake in-service training within the public sector along with the civil service and judicial reform..... -Overhaul the training programme of vocational and technical training to fit development objectives..... -Develop agricultural training programmes for farmers with some years of schooling..... -Promote training for the private sector and local NGOs..... -Prepare policy and strategy for the development of information technology..... -Prepare a programme for the development of higher education taking into account the manpower needs of the country 	<p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>	<p>00/01-02/03</p> <p>00/01-01/02</p> <p>00/01-01/02</p> <p>01/02-02/03</p> <p>00/01-02/03</p> <p>00/01-02/03</p>
K. Decentralization	<ul style="list-style-type: none"> -Implement district level fiscal decentralization 		00/01-02/03 onwards

Table 1. Ethiopia: Selected Economic and Financial Indicators, 1995/96-2002/03 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
	Actuals			Estimate		Program		
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices (at factor cost)	10.6	5.2	-1.4	6.2	4.6	7.8	7.0	6.4
GDP deflator (at factor cost)	0.9	3.2	10.7	1.6	0.4	3.2	5.8	3.2
Consumer prices (period average)	0.9	-6.4	3.6	3.9	4.2	5.2	4.9	2.1
External sector								
Exports, f.o.b. (in millions of U.S. dollars)	412	599	602	484	489	476	528	600
Coffee	273	355	420	281	253	209	234	270
Noncoffee	139	244	182	203	236	267	295	330
Imports, c.i.f. (in millions of U.S. dollars)	1,144	1,309	1,357	1,558	1,735	1,723	1,786	1,877
Export volume (noncoffee)	6.9	55.1	-22.1	25.6	33.5	9.0	8.1	9.2
Import volume	3.0	18.4	9.9	18.4	6.3	-3.5	4.8	4.9
Terms of trade (deterioration -)	-24.1	10.5	18.1	-14.9	-21.9	-11.8	5.1	6.5
Nominal effective exchange rate (end of period)	3.7	0.2	1.0	-9.1	1.5	...	...	...
Real effective exchange rate (end of period)	-8.2	1.2	-0.9	-1.0	-6.4	...	...	...
	(In percent of beginning stock of broad money, unless otherwise indicated)							
Money and credit								
Net foreign assets 2/	-1.5	-3.9	1.0	3.6	-8.1	7.9	7.7	4.8
Net domestic assets 2/	-7.8	7.3	11.7	2.3	22.1	4.6	5.5	5.8
Net claims on the government	2.3	-5.1	3.5	4.8	27.9	-0.9	-2.6	-2.1
Credit to the nongovernment sector	16.0	5.6	7.3	4.1	5.3	9.3	10.6	11.0
Broad money	11.6	3.4	12.7	5.9	14.0	12.5	13.2	10.6
Velocity (GDP/broad money)	2.4	2.5	2.4	2.5	2.3	2.3	2.3	2.3
Interest rates (one-year maturity; in percent)								
Treasury bill (91-day maturity)	3.8	3.8	3.1	4.5	3.1	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Financial balances								
Gross domestic saving	7.0	7.9	5.7	-0.1	-4.7	0.7	3.3	5.3
Gross domestic investment	16.9	17.0	15.1	14.8	12.3	17.0	19.2	20.0
Resource gap	-9.9	-9.1	-9.4	-14.9	-17.0	-16.4	-15.9	-14.7
External current account balance, including official transfers	1.1	-3.0	-1.6	-7.9	-7.5	-5.7	-6.1	-5.0
External current account balance, excluding official transfers	-5.4	-6.5	-5.6	-11.2	-11.4	-10.7	-10.2	-9.0
Government finances								
Revenue	18.4	18.2	18.0	17.9	18.4	18.8	19.0	19.0
External grants	2.9	3.6	2.8	3.6	2.7	6.0	4.6	4.1
Expenditure and net lending	26.9	24.2	25.2	30.0	33.4	31.2	29.0	28.2
Of which: current	14.7	13.8	15.7	20.9	26.8	21.5	18.9	17.4
Of which: capital	9.4	10.4	9.2	9.1	6.7	9.6	10.1	10.8
Fiscal balance, excluding grants (cash basis)	-8.5	-6.0	-7.2	-12.2	-15.1	-12.4	-10.0	-9.2
Fiscal balance, including grants (cash basis)	-5.6	-2.4	-4.3	-8.5	-12.4	-6.4	-5.4	-5.1
Special programs 3/	0.0	0.0	0.0	0.0	0.0	1.9	3.4	1.1
Fiscal balance, including grants and special programs	-5.6	-2.4	-4.3	-8.5	-12.4	-8.4	-8.8	-6.2
Total financing	5.6	2.4	4.3	8.5	12.4	8.4	8.8	6.2
External financing	3.8	1.8	1.7	2.8	1.7	7.1	8.5	6.0
Domestic financing (including residual)	1.8	-0.2	1.9	4.1	9.4	0.4	-0.3	-0.3
Privatization receipts	0.0	0.8	0.7	1.7	1.3	0.9	0.6	0.5
Domestic debt	32.2	28.6	29.0	31.2	42.2	38.0	33.4	30.2
External debt (including to Fund) 4/	151.0	79.9	78.4	82.8	86.5	88.8	92.2	89.5
Debt-service ratio 5/	36.8	84.1	57.7	63.3	53.4	22.4	18.9	16.8
Overall balance of payments (in millions U.S. dollars)	-36	-720	-507	-473	-626	-202	-221	-128
Gross official reserves (in millions of U.S. dollars)	888	583	412	434	349	435	633	770
(in months of imports of goods and nonfactor services)	7.7	4.4	3.0	2.8	2.0	2.6	3.6	4.1
GDP at current market prices (in millions of birr)	37,938	41,465	45,035	48,459	51,363	57,746	65,634	72,533
Exchange rate (birr per U.S. dollar; period average auction rate)	6.33	6.50	6.86	7.53	8.15	...	...	...

Source: Ethiopian authorities.

1/ Beginning 1997/98, all data pertain to the period July 8-July 7; prior to that, fiscal and monetary data cover the period July 8-July 7 and all other data the period July 1-June 30.

2/ Changes expressed in percent of broad money at beginning of period.

3/ Demobilization and reconstruction.

4/ Before 1999/2000, after debt relief; thereafter, before debt relief.

5/ Before debt relief, on an accrual basis; in percent of exports of goods and nonfactor services.

I. The Process of the Preparation of the PRSP

The preparatory process of the I-PRSP has been preceded by extensive debate on development strategy and policies partly conducted under the electoral process leading up to the May 2000 elections. EPRDF has discussed its programs as part of its election platform, through numerous public gatherings and meetings with the electorate across the country. As the party in government it carried out consultations with selected members of the civil service, elected officials, as well as professionals from the private sector and NGOs. Furthermore, the Inter-African Group, an independent NGO, organized public debates with opposition parties and independent candidates on a wide spectrum of issues including socio-economic development. Through all these process, the party that is now going to form the government, has had the occasion to obtain initial feedback from civil society at large. The second five-year program (SYFDP) has been formulated and adopted, reflecting these consultations.

At present the I-PRSP has been presented to donors to initiate the process of consultation on the full-PRSP. The process of preparing the full PRSP will build on these past and current participatory processes in Ethiopia. A draft PRSP will be prepared based on the SFYDP. A steering committee at the level of the federal government will oversee the process of preparation of this document by a technical committee. This will be done in consultation with domestic stakeholders and external partners. It will be disseminated as widely as possible, at the district, regional, and federal levels to further deepen consultations that have already taken place and to ensure that all key domestic stakeholders, and external partners have been consulted. Consultations and discussions will cover both contents of the strategy and implementation. The outcome of consultations will help to further refine priority actions for the PRSP including implementation and monitoring systems.

At the district level, the consultation will involve women groups, cooperatives, locally active NGOs, and district-level civil servants and elected officials. Regional level consultation will involve similar groups plus the private sector and urban communities. At the federal level the coverage will be further widened to include professional associations, trade unions, and other relevant bodies. There will also be a separate consultation with external development partners. Finally, the SFYDP and the PRSP will be submitted to the federal parliament and regional assemblies for approval. Preparation of the final PRSP is

expected to be finished within one year after the completion of I-PRSP. The process will be undertaken in three phases. First, the SFYP and I-PRSP documents will be widely distributed at district, regional and national levels within two months. Second, consultations will be held within a period of 3-4 months. Third, the final PRSP document will be prepared taking into account the feedbacks obtained from consultations both on the I-PRSP and SFYP and the draft PRSP.

Computation of basic poverty indicators requires data on nationally representative household income, expenditure, consumption and non-consumption welfare indicators such as health, education and demographic characteristics. So far, along these lines, two detailed HHICE surveys have been carried out. They comprise a wide range of household expenditures, consumption, demographic characteristics and asset base of households.

Based on the 1995/96 data set, an in-depth analysis of the “Poverty Situation in Ethiopia” was produced in 1999 which needs up-dating. Furthermore the Central Statistical Authority [CSA] is currently cleaning and processing the latest survey data set of 1999/2000 which is expected to be finalized towards the beginning of the coming year. This will generate data of poverty indicators such as per capita incomes, food poverty level, the poverty index, poverty gap and poverty severity measures at regional and national levels also disaggregated by urban and rural. The welfare component of the survey will provide information regarding school enrollment, literacy level, health situation, availability of clean water and type of sanitation use. Once the raw data set is readily available and a survey report is prepared by the CSA, it will form a baseline data for setting indicators of poverty and targets of poverty reduction for the period 2000/01 – 2002/03.

In addition to the above country-wide surveys, in collaboration with the World Bank, using a PRA method of analysis, a qualitative survey of poverty was undertaken in 1997. However this was limited in scope and coverage to only five areas. This may be updated and expanded in coverage if found necessary for the preparation of the final PRSP.