



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

Annual Progress Report 2006/07

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List of Acronyms

AAU	Addis Ababa University
ABECs	Alternative Basic Education Centers
ADLI	Agricultural Development Led Industrialization
AfDB	African Development Bank
AGOA	African Growth Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
ANC	Antenatal Care
APR	Annual Progressive Report
ART	Anti Retroviral Treatment
AWD	Acute Watery Diarrhea
BCG	Bacille Calmette Guérin
BPR	Business Process Re-engineering
CCSLMD	Centre for Civil Service Leadership and Management Development
CEM	Country Economic Memorandum
CTACM	Centre for Tax and Customs Management
CFC	Cloro Floro Carbon
CoM	Council of Ministers
CPR	Contraceptive Prevalence Rate
CRC	Citizens Report Card
CSA	Central Statistics Agency
CSI	Civil Service Institution
CSO	Civil Society Organizations
CSRP	Civil Service Reform Program
DAs	Development Agents
DHS	Demographic and Health Survey
DED	District Engineering Divisions
DOTs	Directly Observed Treatment Short Course
DPPA	Disaster Prevention and Preparedness Agency
DPT3	Diphtheria Pertusis and Tetanus
DTIS	Diagnostic Trade Integration Study
EASE	Ethiopian Agricultural Sample Enumeration
EBA	Everything But Arms
ECA	United Nations Economic Commission for Africa
ECSC	Ethiopian Civil Service college
EIAR	Ethiopian Institute of Agricultural Research
ENI	Ethiopian Nutrition Institute
ERA	Ethiopian Road Authority
ESDP	Education Sector Development Programme
ETC	Ethiopian Telecommunication Corporation
FDI	Foreign Direct Investment
FCSA	Federal Civil Service Agency
FTCs	Farmers Training Centers
GDP	Gross Domestic Product

GER	Gross Enrolment Rate
GoE	Government of Ethiopia
HC	Health Center
HEP	Health Extension Package
HEW	Health Extension Worker
HEWP	Health Extension Worker Programme
HHM	HSDP Harmonization Manual
HICES	Household Income Consumption Expenditure Survey
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HMIS	Health Management Information System
HO	Health Officer
HPN	Health, Population and Nutrition
HSDP	Health Sector Development Program
IADG	Internationally Agreed Development Goals
ICT	Information Communication Technology
ICTA	Information Communication Technology Agency
IDGs	International Development Goals
IHDP	Integrated Housing Development Program
IMF	International Monetary Fund
IT	Information Technology
TIN	Taxpayer Identification Number
Kcal	Kilo Calorie
LAN	Local Area Network
LDCs	Least Developed Countries
LTO	Large Taxpayers Office
M&E	Monitoring and Evaluation
MD	Millennium Declaration
MDGs	Millennium Development Goals
MEFF	Macro Economic Fiscal Framework
MFI	Micro Finance Institution
MoARD	Ministry of Agriculture and Rural development
MoFA	Ministry of Federal Affair
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MOU	Memorandum Of Understanding
MoWR	Ministry of Water Resources
MSEs	Micro Small-scale Enterprises
NAP	National Action Plan
NBE	National Bank of Ethiopia
NDPF	National Development Policy Framework
NGO	Non Governmental Organization
NSSD	National Strategy for Statistical Development
ODA	Official Development Assistance

OECD-DAC	Organization for Economic Cooperation and Development-Development Assistance Committee
OPD	Out-patient visit
PASDEP	A Plan to Accelerate Sustained Development to End Poverty
PBS	Protection of Basic Services
PIS	Persecution Information System
PLWHA	People Living With HIV/AIDS
PPA	Participatory Poverty Assessment
PPMS	Performance Planning and Management System
PPP	Purchasing Power Parity
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSDIP	Public Service Delivery Improvement Policy
PTA	Parents teacher association
REP	Rural Electrification Programme
RSDP	Road Sector Development Programme
RRA	Regional Road Authority
SDPRP	Sustainable Development and Poverty Reduction Programme
SIGTAS	Standard Integrated Government Tax Administration System
SNNPR	Southern Nations Nationalities People's Region
SSA	Sub-Saharan Africa
TB	Tuberculosis
ToT	Training of Trainers
TVET	Technical Vocational Education and Training
UEAP	Universal Electrification Access Programme
UN	United Nations
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
UNO	United Nations Organization
USD	United States Dollars
VAT	Value Added Tax
VCT	Voluntary Counseling and Testing
WAN	Wide Area Network
WB	World Bank
WFP	World Food Program
WMS	Welfare Monitoring Survey
WMSC	Welfare Monitoring Steering Committee
WMSP	Welfare Monitoring System Program
WMTC	Welfare Monitoring Technical Committee
WMU	Welfare Monitoring Unit
WTO	World Trade Organization

Introduction

Ethiopia's Development Plan entitled **A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)** is a five-year (2005/06-2009/10) strategic framework that guides overall development activities in the country. Following a thorough review through extensive discussions at all levels with relevant stakeholders including development partners; it was finally approved by the House of People's Representatives in May 2006. The PASDEP has already entered in its third year of implementation. Annual Progress Review (APR) reports informed by the existing Monitoring and Evaluation system are to be prepared to assess progress towards the set targets in the Five Year development plan (PASDEP) and by extension Ethiopia's MDGs Plan (2005/06-2014/15). Accordingly, the review on the first year of PASDEP implementation (APR 2006) was already issued in December 2007. This APR (APR 2007) outlines developments during the second year of PASDEP implementation (2006/07).

It is worth noting from the outset the role and purpose of this APR and the ones to be forthcoming. The APR is not meant to be a comprehensive policy document. Rather its intention from the outset is to report on implementation of the major policy directions laid out in the PASDEP. It, thus, concentrates mostly on outcomes and progress against actions planned for 2006/07 in the PASDEP. Inevitably, however policies do evolve, and the report does highlight any major new initiatives, as well as reflecting on lessons learned as a result of the experience of the past years.

Achieving and sustaining broad based growth through transforming the agriculture sector and encouraging private initiatives founded on small enterprise development and job creation is considered central in the Government's poverty eradication effort. Within the PASDEP framework, agriculture led growth and accelerating private sector growth are taken as an important pillar strategies to tackle the poverty and food insecurity challenges of rural areas and unemployment problems of the cities and towns. The Government has embarked on an aggressive program to accelerate progress as rapidly as possible -including a big push on education to create human capacity, expanding infrastructure to enhance competitive advantage of domestic export-oriented firms, opening the economy, building institutions, and decentralizing Government. At the same time, it is trying to manage this in the context of continuing food security pressures, and a volatile external and regional environment. The ultimate goal of PASDEP is to ensure human development among the poor generally and among women in particular as financing and capacity allows. The principles underlying the PASDEP are that all sectors broadly contribute for the reduction and ultimate eradication of poverty, in effect giving particular attention for the agriculture and rural development. Accordingly, there has been a change in poverty level in the country since the implementation of the plan and promising progresses have been registered towards achieving the MDGs.

As noted in the SDPRP and now PASDEP, the poverty reduction effort of the Government of Ethiopia has taken a longer-term view with the MDGs in perspective and PASDEP has been conceived as the medium term plan to attain at least the MDGs. The PASDEP is a medium-term plan that serves as a vehicle towards achieving Ethiopia's MDGs Plan and by extension Ethiopia's vision of being a middle income country in 20 years time. Achieving the MDGs being the minimum that Ethiopia should aspire given its past huge developmental deficits, growth

acceleration over and above 7% per annum (which is the minimum requirement to meet the MDGs for African countries) is of the essence. The last four years ending in 2006/07 registered an annual average real GDP growth rate of nearly 12%. This period has also witnessed the beginnings of two peculiar changes in the economic landscape of this country: a shift to a higher growth path and more diversified sources of growth. In the past (up until 2002/03), growth has been volatile due to terms of trade effects and weather induced fluctuations in the agriculture sector. However, this time growth is very much sustained and complemented by strong performance in the construction, manufacturing, trade and tourism, banking and insurance, real estate, etc. The construction sector has been spurred by the much needed public sector investment in infrastructure (roads, rural infrastructure development including food security, telecom, power, irrigation, etc) as well as private sector expansion.

The long journey towards achieving socio-economic transformation has already commenced with the launching and implementation of the SDPRP and now the PASDEP. Ethiopia's entry in to a new Millennium, which is currently being widely celebrated through out the country has also heralded a new phase of economic development. The spirit of the New Millennium seems to have created additional impetus in Ethiopia's development effort. There seems to emerge an "I can do" attitude across all sections of society (farmers, women, youth, etc) which is the greatest asset and value to attain the MDGs and ultimately to eradicate poverty.

In this context, His Excellency Prime Minister Melese Zenawi, in his speech delivered on the occasion of the Ethiopian Millennium has this to say:

"...in the last few years of the departing Millennium we have begun to fight back the darkness of poverty and backwardness with success. Our economy has been growing at over 10 % per annum and on current trend we should achieve our objective of becoming a middle income country in about 20 years. In spite of lingering challenges, we have made enormous strides in establishing a democratic system in our country a system that is rooted in our reality and one that is central to our future. After centuries of repeatedly aroused and dashed hopes, this generation of Ethiopians is turning a new page. A glorious new page of our history where poverty will merely be a footnote in our long history which is being written with the sweat and toil of millions of farmers and pastoralists, businessmen both small and big and workers and the intelligentsia. Glorious new page of our history where our diversity becomes a source of strength through tolerance and democracy rather than a source of problems, through the patient and methodical efforts of all our nationalities, followers of all the great religions of our country, men and women, young and old."

This shows how committed the Government has been and is for full scale implementation of the PASDEP and the MDGs to change the lives of its people in a meaningful manner. But still the Government is in no way oblivious of the challenges (particularly financing for development) which it has experienced during the first two years of implementing the PASDEP. The point being made here is that the PASDEP in the remaining three years would be implemented in the spirit just described by the Prime Minister if primarily the Ethiopian people join their hands in the fight against our number one enemy-poverty.

This Report, which of course is similar with the one preceding it in both style and format of presentation, documents the salient outcomes and developments specific to the year under review. In broad terms, the major achievements, outputs, challenges and outstanding issues during the second year of the PASDEP implementation are reported in a succinct manner across macro economic themes, sectors, as well as cross-cutting issues.

The Report is structured as follows. The first Chapter attempts to bring upfront and summarize major achievements and key challenges observed at macro economy and sectoral levels. Chapter II which is the kernel of this Report, provides useful information on the determinants of poverty and welfare as well as its dynamics and their policy implication drawn from a disaggregated analysis based on the 2004/05 HICES and WMS data sets. The added value of this Chapter from the corresponding Chapter in APR 2006 is its focus on detailed and disaggregated analysis on the determinants and dynamics of poverty. The earlier version was based on basic aggregate poverty measures: head count, poverty gap and squared poverty gap indices. The next Chapter, Chapter III, outlines developments in the macro economy during the year under review. Chapter IV provides a review on performance in financing the PASDEP. Chapter V provides an overview of sectoral performances during the year under review. Chapter VI documents developments in the Monitoring and Evaluation (M &E) System of the PASDEP and hence the MDGs. The last Chapter, Chapter VII, concludes by outlining the challenges & opportunities for accelerated implementation of PASDEP during the remaining years of the PASDEP and beyond.

Chapter I

Highlights of Major Achievements and Challenges

This Chapter highlights the major achievements and key challenges observed at both macro economy and sector levels. Accordingly, major highlights of achievements and challenges discussed in this report are summarized in Matrix Table 1.1 below. It is primarily aimed at bringing upfront the most salient aspects of the Report. This is done to serve as a summary of the major outcomes discussed throughout the Report. This would enable readers grasp the salient aspects of the Report while the details on the achievements and challenges are presented in the corresponding chapters and sections of this Report.

Matrix Table 1.1: Highlights of Major Achievements and Challenges

No.	Sector/Theme	Major Achievements	Challenges
I	Growth-Poverty Linkages & Inequality		
1.1	Trends in Growth, Poverty and Well-Being	<ul style="list-style-type: none"> ➤ The magnitude of growth elasticity of poverty reduction has reached to -1.71 in 2005 from -1.3 in 2000; ➤ Poverty Head Count Index has declined to 38.7% in 2005 from 45.5% in 1996; ➤ Poverty Gap Index has declined to 8.3% in 2005 from 12.9% in 1996, with annual decline rate of 0.5%; ➤ Poverty Severity Index has also declined to 2.7% in 2005 from 5.1% in 1996; ➤ Income inequality has declined in rural areas(Gini 0.271 in 2000 and 0.260 in 2005) ; ➤ Lower poverty among rural female headed households(32.7%) than male headed households(40.6) in 2005; ➤ Stunting has declined to 47% in 2004 from 66% in 1996. 	<ul style="list-style-type: none"> ➤ Emerging income inequality in urban areas; ➤ Poverty is still high and severe.
II	Macro Economy		
2.1	Real Sector and Prices	The overall performance of the macro economy, as measured by real GDP growth rate, was very encouraging during the year under review. More specifically, the Ethiopian economy has witnessed an annual average real GDP growth rate of 11.8 % during the last four years ending 2006/07. There has been a shift in the growth path of the economy. Although growth has been still driven by the agricultural sector, it has been complemented by strong performance in Manufacturing and Construction as well as service sectors.	Maintaining inflation in single digit has become a challenge. It seems to have begun to stabilize in recent months. Inflation rate averaged 17.8% by the end of 2006/07. The average for the Month of December 2007 stood at 17.2%.
2.2	Public Finance	<ul style="list-style-type: none"> ➤ Prudent fiscal management and stable macro economy(fiscal deficit including grants narrowed from 4.6 % of GDP in 2005/06 to 3.6 % in 2006/07); 	Although tax revenue has been increasing rapidly on average by 20.7% per annum during 2003/04 to 2006/07, the revenue base has still

No.	Sector/Theme	Major Achievements	Challenges
		<ul style="list-style-type: none"> ➤ In 2006/07 Tax revenue reached 17.4 billion ETB (22.6% increase) while domestic revenue reached 21.8 billion ETB (11.6% increase) over 2005/06; ➤ In 2006/07, total Government revenue including grants reached Birr 29.4 billion ETB(26.3% increase over 2005/06) while total Government actual expenditure stood at Birr 35.6 billion(21.3% increase over 2005/06); ➤ Spending on poverty-oriented sectors as a ratio to total public spending increased by nearly 3 percentage points, from about 60% in 2005/06 to nearly 63% in 2006/07; ➤ Federal Transfers to Regions has increased from 7.6 Billion ETB in 2005/06 to 9.6 Billion ETB in 2006/07 (26.3% increase); 	<p>remained narrow. The increase in tax revenue is not still commensurate with the development finance needs of the country.</p>
2.3	External Sector and the BoP	<p>Merchandise exports registered substantial growth. Accordingly, during 2006/07 export earnings reached USD 1.2 billion (18.5% increase over its level in 2005/06) and the Balance of Payments showed quite a significant surplus of USD 85.1 million.</p>	<p>Although merchandise export has still been on the increase, trade deficit has been widening. Trade deficit by the end of 2006/07 narrowed to 20% of GDP from nearly 24% of GDP in 2005/06</p>
2.4	Monetary and Financial Sector	<ul style="list-style-type: none"> ➤ The number of Commercial Bank branches increased from 421(as at June 2006) to 487(as at June 2007); ➤ Thus, in 2006/07, altogether 66 new commercial banks started operation; ➤ The proportion of non-performing loans of commercial banks has declined to 10 % in 2006/07 from 14% in 2005/06; ➤ In 2006/07, the stock of total loans extended by Micro Finance Institutions (MFIs) has increased to Birr 2.74 billion from 1.96 Billion Birr in 2005/06; ➤ During 2006/07, disbursement of new loans in the order of Birr 15.5 billion (excluding central Government) was injected to the economy, reflecting a 25 % increase compared to 2005/06. Of the total disbursement, 59.3 % was provided by private banks. About 94% of the disbursement was extended to the private sector, indicating the prominent role played by commercial banks in supporting private investment and the Government's policy to encourage private sector development through financing. ➤ By the end of 2006/07, the total stock of outstanding credit of the banking system (excluding central Government) reached Birr 31.1 	<ul style="list-style-type: none"> ➤ Although the proportion of non-performing loans has remarkably declined from 14% in 2005/06 to 10% in 2006/07, commercial banks still continue to face the problem of excess liquidity; ➤ Continued expansion of financial services particularly in rural areas.

No.	Sector/Theme	Major Achievements	Challenges
		<p>billion, indicating an annual average growth rate of 16.3 %. Of the total outstanding credit, 88.8 % constituted claims on the private sector and the rest on public enterprises. Looking at outstanding credit by sector, 22.5 % of the outstanding credit was owed by industry, 20.9 % by external trade and 13.6 % by agriculture.</p> <ul style="list-style-type: none"> ➤ In 2006/07, the National Bank sold Treasury bills worth Birr 65.3 billion to mobilize the non-inflationary resources to cover Government budget deficit 	
2.5	External Finance(ODA) Flows	<ul style="list-style-type: none"> ➤ Although it still falls short of what has been planned in the PASDEP, ODA including Technical Assistance(TA) has increased from 1.05 billion USD in 2005/06 to a little over \$1.5 billion USD in 2006/07; ➤ In 2006/07, from the total ODA, 1.3 billion USD (81.1%) was accounted for by grants while 0.3 billion USD (18.9%) by loans. 	<ul style="list-style-type: none"> ➤ Unpredictability, lack of medium-term disbursement plans, and lack of commitment in harmonization and alignment among development partners; ➤ Low speed of disbursement
III	Sectors/Themes		
3.1	Agriculture and Food Security	<p>Improved crop production and productivity through the adoption of appropriate agricultural technologies and inputs; provision of updated marketing information and agricultural extension services. Besides, emphasis has been given for the pastoral and agro pastoral farming communities .As a result during 2006/07:</p> <ul style="list-style-type: none"> ➤ Total area cultivated under major crops during the Main (<i>Meher</i>) season increased to 10,576 thousand hectares(4 % increase over 2005/06); ➤ Total production of major crops by private peasant holdings during the main season increased to 149 million quintals (12% increase over 2005/06); ➤ Training on agriculture extension services have been provided to 4 million farmers against the planned target of 1 million farmers; ➤ Household package has been carried out and 337,634 farmers were trained against the planned target of 328,560 farmers; ➤ Modular training has been provided for 32,128(28,036 men and 4,092 women headed) households; ➤ Through Voluntary Resettlement Program, altogether 28,794 households were resettled in Amhara, Oromya & SNNP regional states. Performance against target was 48%, 43% and 88%, respectively; 	<ul style="list-style-type: none"> ➤ Scaling up the on-going effort to enable farmers produce market-oriented commodities and cover the majority of Ethiopian small holder farmers in rendering them entrepreneurial farmers; ➤ The supply of inputs particularly improved seeds has not kept pace with demand; ➤ The marketing system for both inputs and outputs needs to be further streamlined; ➤ The agro-processing export base needs to be further broadened and diversified; and ➤ Operational and logistical problems which were attributed for falling short of the planned target in some regions needs to be addressed.

No.	Sector/Theme	Major Achievements	Challenges
		<ul style="list-style-type: none"> ➤ It was planned to provide credit service for 320,974 households and 377,713 households (118 %) got access to credit to purchase different types of technology packages; ➤ 40,159 hectares of land was developed in modern irrigation and 494,393 hectares of land in traditional irrigation. ➤ Agriculture export has been promoted and promising results registered particularly in cut flower export. 	
3.2	Education	<p>During 2006/07:</p> <ul style="list-style-type: none"> ➤ The number of students in primary schools increased to 14 million taking the gross primary enrollment ratio (GPER) to 91.6% ; ➤ Net Primary Enrollment ratio for school age children (7-14) has increased to 78.6%; ➤ Gross first cycle secondary enrollment reached 36.2 %; ➤ TVET centers annual intake capacity increased to 73,969 (male 43,876 female 30,093) ; ➤ The annual intake capacity of higher education has increased to 48,053(male 34,511 and female 13,995) bringing the total number of students in universities to 180,000 in 2006/07. 	<ul style="list-style-type: none"> ➤ Still high dropout rates and high repetition rates in primary schools; ➤ Pupil-section and pupil-teacher ratio in secondary school has still remained to be high; ➤ Still low level of access to primary education in emerging regions; ➤ Still low level of higher education.
3.3	Health	<p>During the year under review (2006/07), remarkable achievements have been realized in the sector which enabled increasing access, coverage and improved health care, etc. Accordingly:</p> <ul style="list-style-type: none"> ➤ Total number of Health Extension Workers (HEWs) deployment so far reached 17,653 HEWs accounting for nearly 59% of the total national requirement of 30,000 HEWs; ➤ The coverage for DPT3, Measles, and fully immunized children showed consistent increase from 51%, 42%, and 30% in 2001/02 to 73%, 65%, and 53% respectively in 2006/07; ➤ In 2006/07, a total of 3287 students in the regular and accelerated health officers trained; ➤ A total of 3,723 health posts were constructed during the year under review; ➤ Owing to the rigorous prevention and control measures undertaken, no malaria epidemic occurred during the fiscal year under consideration; the proportion of households in malaria prone areas with access to malaria treated bed nets increased from 43 % in 2005/06 to 91.3% in 2006/07 ➤ The national TB treatment success rate has 	<ul style="list-style-type: none"> ➤ Inadequate institutionalization of HEP in the organizational structure of RHBs, Zonal Health Departments and Woreda Health Offices which is more prominent in the Newly Emerging Regions; ➤ Rising cost of construction materials that contribute to the delay in handover of the outsourced health centers; ➤ Occurrence of Acute Watery Diarrhea(AWD) epidemic for prolonged period; ➤ Under reporting of health services provided.

No.	Sector/Theme	Major Achievements	Challenges
		reached 85%, which is in line with the international standard.	
3.4	HIV/AIDS	<p>As a result of the Government's appropriate policy interventions and strategies to address the epidemic in a holistic manner, during the reporting period(2006/07):</p> <ul style="list-style-type: none"> ➤ The national single point HIV prevalence estimate was 2.1%. Disaggregated prevalence rate was 1.7% for males and 2.6% for females; while the urban and rural prevalence rates stood at 7.7% and 0.9, respectively; ➤ The number of VCT service providing centers increased to 1,898,191; ➤ The proportion of health facilities (hospitals, health centers, and private clinics) providing an ART service has increased to 271; ➤ The number of PLWHA ever started ART has increased to 97,299 in 2006/07. 	<ul style="list-style-type: none"> ➤ Still high HIV/AIDS prevalence rate in urban areas and among females
3.5	Road	<p>Stock of the road network, proportion of road network in good condition, and Road Density per 1000 km square has increased during the reporting period .More specifically:</p> <ul style="list-style-type: none"> ➤ In 2006/07, the total length of road network has reached 42,429 km indicating an achievement of 110% of the annual plan. The total length of road network stood at 39,477 km in 2005/06; ➤ At regional level, about 992 km of new rural roads added up to the network. With community contribution, 24,353 km of low-level rural roads were constructed in the different regions of the country and 24,353 km of low-level rural roads have been constructed and ➤ The proportion of area further than 5km away from all weather roads has been reduced to 68%. The average time taken to reach to all weather roads has also been reduced to 4.5 hours. 	<ul style="list-style-type: none"> ➤ Local contractors have had serious financial and managerial limitation. In particular, lack of construction plant/equipment, lack of skilled personnel, shortage of spare parts, lack of coordination and management, etc ➤ Delay in mobilizing necessary resources that essentially entail delay in commencement of permanent works and subsequent progress; ➤ Shortage of material supply (asphalt).
3.6	Water Resources, Water Supply, and Sanitation	<p>In all regions, in 2006/07, new water source verification studies, ground water studies and design have been carried out. Moreover, 4,298 different maintenance works and replacement of spare parts of rural water supply schemes have been undertaken. Besides, during the year under review(2006/07):</p> <ul style="list-style-type: none"> ➤ Access to clean water supply at national level reached 52.46% (i.e., 82.02% for urban and 46.39% for rural); ➤ Feasibility study and design of 10 medium and large scale irrigation development projects 	<ul style="list-style-type: none"> ➤ Low expected output/production level, population pressure, inadequate distribution system and high leakages, are the problems of urban water supply systems; ➤ Insufficient investments in water supply and sanitation development programs; ➤ Prolonged process in loan and grant program implementation; ➤ Institutional arrangements of

No.	Sector/Theme	Major Achievements	Challenges
		(ongoing), which can develop up to 403,250 hectares of land, have been carried out	<p>Water Sector management at all levels are not comprehensive and complete;</p> <ul style="list-style-type: none"> ➤ A very high cost of construction raw materials; ➤ Low implementation capacity including shortage of heavy machineries and equipment, lack of capable and efficient contractors and their poor managerial experiences, as well as shortage of skilled manpower, poor geological formations, have been the main challenges of irrigation development.
3.7	Power	<p>During 2006/07, through the Universal Electricity Access Program (UEAP), it was planned to connect 869 towns and villages located across the country and 758 of them were connected. This brings the number of towns and villages with access to electricity to 1,620. Accordingly, total electricity coverage of the country has increased to 22%. Further, some of the activities undertaken include:</p> <ul style="list-style-type: none"> ➤ Construction of the on-going five main hydro electric power generation stations with a total capacity of about 3,000 MW; ➤ New power transmission lines and substations are being built and strengthening of old ones is being carried out; ➤ A study to develop the geothermal resource is also being carried out. 	<ul style="list-style-type: none"> ➤ Shortage of construction materials like cement was found to be the cause for the delay in some EEPKO construction projects; ➤ Limited capacity of national contractors
3.8	Telecommunication	<p>The number of subscribes in regular fixed telephone lines, mobile phones and internet lines has increased and reached 890,741 , 1,208,498 and 31,400, respectively during year under review. Some of the achievements in 2006/07 include:</p> <ul style="list-style-type: none"> ➤ Population with access to telecommunication center/services (within 5 km radius) increased from 13% in 2004/05 to 44% in 2005/06 and further to 49.3% in 2006/07 ➤ The country's Telecom Penetration (Tele-density for fixed lines or number of telephone subscribers per 100 inhabitants) was increased from 0.99 in 2005/06 to 1.20 in 2006/07; ➤ The number of rural <i>kebeles</i> with basic telecom service reached 7,389; ➤ The number of <i>woreda</i>-net, School-net and Agri-net sites has reached to 513, 175 and 29, respectively; 	<ul style="list-style-type: none"> ➤ Although attempts are being made to improve access to services, there is still gap to be addressed, particularly in rural areas.

No.	Sector/Theme	Major Achievements	Challenges
		<ul style="list-style-type: none"> ➤ The total number of public telephone stations reached 936. 	
3.9	Tourism	<ul style="list-style-type: none"> ➤ International tourist arrivals totaled 227,000 during 2005/06, has increased to 290,000 in 2006/07 (28% increase over 2005/06); ➤ Community based tourism project for the <i>Konso</i> sub-region in the SNNPR was in progress during the year. 	Limited Finance to implement projects.
3.10	Mining	<p>Following the promotional work conducted, many local and foreign private investors have shown interest to participate in mineral and petroleum exploration activity. As a result in 2006/07:</p> <ul style="list-style-type: none"> ➤ 31 mining and petroleum exploration and development licenses have been given to local and foreign companies; ➤ 22 companies with paid up capital of \$24.3 million USD have taken 26 licenses to participate in mineral exploration and production; 	

No.	Sector/Theme	Major Achievements	Challenges
3.11	Trade and Industry Development	<p>During the reporting period, encouraging achievements have been registered in Trade and Industry sector. Accordingly:</p> <ul style="list-style-type: none"> ➤ During the past three years ending 2006/07, a total of 37 investment projects have already started production and the other 72 investments are on project level in the textile and apparel sub-sector ➤ Efforts were exerted to upgrade the capacity of tanneries to produce finished leather products for export; ➤ The foreign exchange earning from tanning industry stood at US\$89.5 Million USD; ➤ The existing three sugar factories (Finchaa, Wonji Shoa and Metehara) had a total production of sugar amounting to 296,581 tons while total foreign exchange earning from the 3 factories amounted to 17 million USD; ➤ In addition to expansion programs on the existing cement factories, 19 new investment projects have secured licenses; ➤ The total area covered by flower development reached 801.6 hectares and the revenue generated from export of flowers reached 63.6 million USD ➤ Between 1992 and 2007 the total investment capital (by both domestic and foreign firms) has substantially increased and reached Birr 311.23 billion creating job opportunities for 2 million and 1 million job seekers on permanent and temporary basis, respectively; ➤ During the last 12 years including 2006/07 (1994/95-2006/07) a total of 247 public enterprises, with a combined sales value of Birr 3.37 billion have been privatized; ➤ WTO accession process has continued. 	<ul style="list-style-type: none"> ➤ Constraints in the production of suitable types of cotton (quality) that hinders the competitiveness of garment industries in the international market and expansion of the textile industry; ➤ Lack of coordination, linkages and interdependence between different types of production stages of the garment industry such as spinning weaving, finishing, sewing and accessories are poor.

No.	Sector/Theme	Major Achievements	Challenges
3.12	Urban Development & Housing	<ul style="list-style-type: none"> ➤ Of the 2736 blocks planned for 2006/07, construction has been under way for 1616 blocks; ➤ In 2006/07, 2,032 Micro and Small Scale Enterprises participate in the housing development program across regions and Addis Ababa through production of construction materials and engaging in activities performed on construction sites; ➤ A total of 22, 273 Enterprises (excluding Addis Ababa) have been organized and 198,458 permanent and temporary job opportunities have been created in various sectors through the supports provided to micro and small businesses; ➤ Nearly 4,000 extension agents have been recruited and deployed in those one stop shop service centers that would provide efficient and effective services in a coordinated manner for MSEs; ➤ All regions have established and/or strengthened MSEs development offices at regional, zonal, woreda and township levels; ➤ More than 34,000 job opportunities were created for urban dwellers in all the regions of the country through the IHDP and a total of 35 housing development project offices were organized in 35 urban centers to strengthen institutional capacity for executing the IHDP; ➤ Infrastructure projects financed through the UDF have also been carried out in 11 towns; ➤ Preparation and implementation of the urban good governance package consisting of seven sub-programs: Land Administration System Reform, Infrastructure Supply Reform, Urban Finance and Financial Administration Reform, Organization and Human Resource Management Reform, Public Participation Reform, Urban Planning Reform and Urban Justice System Reform sub-programs has been undertaken; ➤ The draft Construction Industry Capacity Building Program has been prepared based on the draft policy and baseline study document. 	<ul style="list-style-type: none"> ➤ Lack of adequate and competent professionals particularly site engineers and foremen; ➤ Lack of coordination and integration among different actors (technical and vocational with MSEs, housing development with municipalities and city administrations; Federal institutions and housing development, etc); ➤ Escalation of construction cost; ➤ Limited capacity of micro finance institutions; ➤ High demand for low cost Housing; ➤ High demand for jobs.

No.	Sector/Theme	Major Achievements	Challenges
3.13	Capacity Building and Good Governance	<ul style="list-style-type: none"> ➤ In 2006/07, the Ethiopian Civil Service College (ECSC) and the Ethiopian Management Institute (EMI) started the integrated and uniform implementation of the Civil Service Reform Program in general, and BPR in particular, in 15 selected Federal civil service institutions. Further, the study on upgrading the employee based performance system being piloted in selected Federal institutions to integrated PPMS comprising organizational, team and employee performance was completed incorporating other countries' experiences; <ul style="list-style-type: none"> • In 2006/07, a revised Federal Civil Servants Proclamation No.515/2007 was promulgated and better performance has been registered in CSRP popularization activities compared to previous years; • During the fiscal year under review(2006/07), the ECSC organized the Centre for Civil Service Leadership and Management Development (CCSLMD) as well as the Centre for Tax and Customs Management (CTACM); • In 2006/07, the CSIs have provided technical support to their regional counterparts; ➤ Under the Justice System Reform Program the following activities have been undertaken during the year under review: <ul style="list-style-type: none"> • In 2006/07, the Prosecution Information System (PIS) that was installed and tested in two prosecution offices in Addis Ababa have been further improved and preparation of bid documents finalized to implement the new information system at the Federal level; • The automated prison information system study which started in 2005/06 has been under implementation; • The study on the organizational structure of the Federal Prison Administration has been completed; • The implementation of court reform projects in all regional supreme and high courts have also been completed. ➤ During 2006/07, there has been improvements in Good Governance and the following activities have been undertaken: <ul style="list-style-type: none"> • Ground works necessary for e-litigation have been carried out; • All Federal courts have been connected by 	<ul style="list-style-type: none"> ➤ The serious CSRP implementation challenge still remains to be the continued failure of top and middle level management to embrace ownership and commitment of the reform; ➤ The limited growth in the capacities of CSIs in general, and change agents knowledge and skill in particular, has been identified as another area of challenge.

No.	Sector/Theme	Major Achievements	Challenges
		<p>Wide Area Network (WAN). This has enabled the courts to access the database any time as required;</p> <ul style="list-style-type: none"> • The e-litigation system has also been introduced during the reporting period so as to improve the performance of judges, professionals and other support staff of the courts. At all levels, training has been given in information technology, law & management area for 106 judges and support staff; • The study on judicial transparency and accountability has been completed and evaluated by the national steering committee and is being revised to further improve the content of the study. <p>➤ Under the Decentralization Program, the Federal system of Government has been further deepened to the district (<i>woreda</i>) level. In this regard:</p> <ul style="list-style-type: none"> • <i>Woreda</i> and <i>kebele</i> good governance package have been designed to attain the principles and elements of participatory process, consensus building, responsiveness, transparency, accountability, equity and inclusiveness, rule of law, efficiency, effectiveness and avoid bad or poor governance; • Systems and organizational structure for participation of membership-based civil society organization has been arranged and being implemented at <i>kebele</i> level in most of the regions; • Inspection team has been formed at <i>kebele</i> level to closely inspect actions, achievements and gaps on development, democratization and good governance; • An improved planning manual has been prepared in order to support <i>woredas</i> prioritize and follow up development and capacity building activities consistent with macro economic policies, strategies, regional and local conditions; • For strengthening and enhancing the capacities of rural <i>woredas</i> and <i>kebeles</i> in pastoral areas, studies have been carried out to define the gaps and provide the necessary working manuals. 	

No.	Sector/Theme	Major Achievements	Challenges
3.14	Gender and Development	<p>The Government of Ethiopia has taken steps to improve the condition of women in the country, including efforts to integrate and mainstream the gender dimensions in economic, social, and political decisions. Accordingly:</p> <ul style="list-style-type: none"> ➤ The number of women representative in the House of Peoples Representatives from both the ruling party and the opposition has reached 117; ➤ Food security program of the country has given more attention to women particularly for female headed household; ➤ Laws against gender based violence has been formulated in order to protect women from violence at work place; ➤ Gender issues have also been addressed in key related social development policy areas of the country including education policy, health policy and prevention of HIV/AIDS, Population etc and have served as entry points to mainstream gender issues, in this regard; <ul style="list-style-type: none"> • GPER for girls has increased to 85%; • Primary school Girls/Boys ratio(1-4) has reached 0.93 in 2006/07 from 0.87 in 2004/05; while in Secondary school(5-8) the same ratio has reached 0.78 in 2006/07 from 0.58 in 2004/05; • Improvement was achieved in maternal health showing an increase in ANC coverage to 52% from 50% in 2005/06; • Postnatal care coverage increased from 16% in 2005/06 to 19% in 2006/07. 	<ul style="list-style-type: none"> ➤ Still more needs to be done to empower women on the economic, social and political domain. Particularly, more needs to be done to ensure economic empowerment of women in rural and urban areas; ➤ The on-going women and youth packages are expected to alleviate poverty and contribute to empowerment of women.
IV	Monitoring and Evaluation System of PASDEP and MDGs	<ul style="list-style-type: none"> ➤ The upcoming Poverty Analysis Report (2004/05 HICES and WMS –based) provides information on the determinants of poverty and its dynamics over time, more robust outcomes on growth, poverty, and inequality that have interesting implications on Government’s pro-poor policy, more information on household vulnerability and shocks, disaggregated information on poverty and family characteristics, etc; ➤ Weak links of Sectoral Monitoring Systems are being strengthened(Development of an M&E System for Agriculture and Rural Economy and M&E System for Urban Development, Housing, and Construction); ➤ Conduct of the 2007 Population and Housing Census 	<ul style="list-style-type: none"> ➤ The need to re-orient surveys to capture the dynamism of sectors(particularly the rural economy) given the change the Ethiopian economy is experiencing;

Table 1.2: Overview of Progress to Date on Key PASDEP Targets

Sector/Indicator	Base Line (Achievements by end of 2004/05)	2005/06	2006/07	PASDEP Target (2009/10)
Macro Economy				
GDP growth rate (%)	10.6	11.6	11.4	Period average of 7.3% per annum
Gross domestic investment as % of DGP	20.5	24.2	25	26.1
Gross domestic saving as % of GDP	3.7	3.7	5.6	13.1
Export of goods & services as % of GDP	15.8	13.8	12.8	19.7
Imports of goods & services as % of GDP	34.3	36.5	32.2	31.2
Domestic revenue as % of GDP	15.8	14.8	12.8	18.7
Tax revenue as % of GDP	12.5	10.8	10.2	17.0
Total expenditure as % of GDP	25.2	22.3	20.8	27.0
Total poverty-oriented expenditure as % of GDP	14.2	13.4	13.1	22.3
Capital expenditure as % of GDP	11.8	10.7	10.8	15.8
Poverty/Welfare				
Total poverty head count (%)	39	36.6	34.6	29
Food poverty head count (%)	38	35.6	33.5	28
Agriculture				
Growth of agricultural value added (%)	13.5	10.9	9.4	Period average of 6.2% per annum
% Share of agriculture & allied activities in GDP	47.4	47.0	46.3	43.9
Major crops production ('000 quintal)	119,127	133,818	149,404	382,000 ¹ (level by end of 2009/10)
Meat export (1,000 metric tons)	8	8	5.8	62 (level by end of 2009/10)
Industry				
Growth rate of industry value added (%)	9.4	10.2	11.0	Period average 11.5% per annum
Share of industry in GDP (%)	13.6	13.0	13.4	16.5
Human Development				
Education				
Gross primary enrolment (1 to 8) (%)	79.8	91.3	91.6	100
Primary school completion rate (%)	34	41.7	42.9	63
Ratio of girls to boys (in primary school)	0.87	0.89	0.93	0.97
Pupil: text book ratio	2 to 1	1.5 to 1	1.25 to 1	1:1
Pupil: class room ratio	1:69	1:70	1:64	1:50
Grade 1 drop out rate	22.40	20.6	21.8	6.3
Health				
Potential Health service coverage (%)	70	72	89	100
Infant mortality rate	77/1,000	123/1000	-	45/1,000
Maternal mortality rate	871/100,000	673/100000	-	600/100,000

¹ The Plan refers to production of major crops by all producing entities while performance refers to production by private small holder farmers during the main(*Meher*) season

Sector/Indicator	Base Line (Achievements by end of 2004/05)	2005/06	2006/07	PASDEP Target (2009/10)
CPR (%)	15	36	33	80
Adult incidence of HIV	0.68	0.35	0.26	0.52
DPT 3 vaccination coverage (%)	70	79	73	80
Share of births attended by skilled health personnel (%)	9	16	16	32
Infrastructure Development				
Roads				
Average Time taken to all-weather road (hours)	5.7	5.3	4.5	3.6
Road density (km/1,000 km ²)	34	35.9	38.6	54.1
Roads in acceptable condition (%)	64	69	71	84
Power				
Population with access to electricity (%)	16	17	22	50
Water Supply				
National Access to clean water supply	-	47.3	52.5	80
Rural Access to clean water supply	-	41.2	46.4	-
Urban Access to clean water supply	-	78.8	82.0	92.5
Telecommunication				
Telephone density /Mobile	0.58	1.15	1.57	8.1
Telephone density/fixed lines (per 100)	0.85	0.99	1.16	3.87
Percent of Population with access to telecom center/services (within 5 km radius) (%)	13	44	49.3	100
Number of <i>kebeles</i> with telephone access	3,000	4674	7389	15,000
Fixed telephone subscribers	620,000	740,257	890,741	3.23
Mobile Telephone subscribers	410,000	866,700	1,208,498	6,761,000
Internet service subscribers	17,375	25,724	31,400	193,100

Chapter II

Trends in Growth, Poverty, and Well-Being: Overview of Determinants of Poverty and its Dynamics

2.1. Background

The two main sources of quantitative information to update developments on poverty and welfare have been the Household Income Consumption and Expenditure (HICE) and Welfare Monitoring (WM) Surveys. The two surveys which have been conducted in tandem since 1996 are interrelated: the former provides update on the income dimension of poverty and the latter on the non-income dimension of poverty. Such a survey design enabled us to conduct analysis on the inter-linkages between the two dimensions of poverty such as quintile analysis.

The HICE Survey has been conducted mainly to provide data on the levels, distribution and pattern of household income and consumption expenditure. It provides basic data for the analysis of changes in material deprivation (poverty) of household over time for various socio-economic groups and geographical areas, etc. The WMS has been conducted mainly for the purpose of assessing non-income dimensions of poverty: access to education, health, access to infrastructure, access to clean water, and on the extent of vulnerability of households to various shocks and coping mechanisms.

The basic outcomes on poverty/welfare based on the analysis of the 2004/05 HICE survey data sets had been outlined in the Annual Progress Report on the first year of PASDEP implementation (APR 2006). This was done pending the outcome to be forthcoming based on the full-fledged poverty analysis work that utilize quantitative surveys hitherto conducted by the CSA: the 1995/96, 1999/00, and 2004/05 HICE and WM survey data sets triangulated with findings from qualitative surveys such as the 2004/05 Participatory Poverty Assessment(PPA). The number of sampled households increased successively since the first ever household survey of national scope conducted in 1995/96. It increased from 11,000 households in 1995/96 to 17,000 in 1999/00 and 21,000 in 2004/05. The number of households for the WMS also increased from 12,000 in 1995/96 to 26,000 in 2004/05.

Pooling information from the three consecutive surveys conducted during the decade (1995/96, 1999/00 and 2004/05) coupled with additional complementary qualitative information from the PPA survey has enabled to conduct analysis on the determinants and dynamics of poverty over the decade ending in 2005. Accordingly, this chapter captures useful information that helps inform policy on the following aspects: more robust outcomes on growth, poverty, and inequality that have interesting implications on Government's pro-poor policy, more information on household vulnerability and shocks, coping mechanisms, types and incidence of shocks, results on correlates of poverty and the role of shocks, disaggregated information on poverty and family characteristics, information on human development outcomes etc.

The outcomes of the poverty analysis work being reported in APR 2007 refer to the fiscal year 2004/05 which lags by two years given that the year under review is FY 2006/07. The socio-economic landscape of the country has witnessed significant developments during the last two years. The Ethiopian economy has registered impressive growth rate of over 10 % per annum over the last four years in a row while the PASDEP target was 7 % on average over the planning horizon. Overall real GDP growth rate for the first two years of the PASDEP (2005/06 through 2006/07) averaged 11.5 %. Although the major sources of growth in the economy has been agriculture, it has also been complemented by strong performance in manufacturing, construction, and service sectors (particularly trade and tourism, banking and insurance, real estate and as well as education and health). Small and medium enterprise development has also been enhanced during this period.

The construction boom supported by significant push in private sector investment expansion and increased public investment in infrastructure (roads, rural development and food security including the productive safety net program, telecom, power, and irrigation, etc) has helped enhance income earning capacity of both the rural and urban poor. Improved infrastructure (roads) and rural connectivity (telecom) coupled with the development of cooperatives has also helped improve farmers' bargaining power in selling their produce at local markets. On farm and off-farm diversification has also helped farmers augment their income. Obviously, these new developments have not been fully captured in the outcomes of the analysis work based on the 2004/05 HICE and WM surveys data sets. The outcomes being reported needs to be seen in this perspective. The message being conveyed here is that poverty level would have been far lower than the trend estimate for 2006/07 had the analysis been conducted based on data sets referring to 2005/06 or 2006/07.

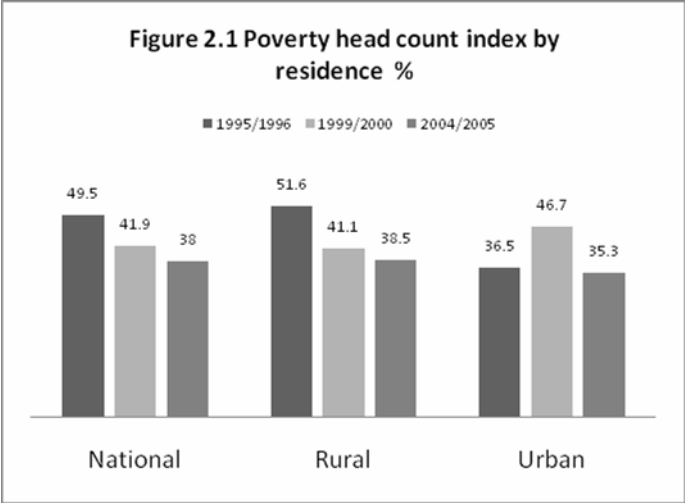
Accordingly, this section provides information on poverty and welfare at a more disaggregated level than the one reported in the previous annual progress review report (APR 2006). The outcomes reported in 2005/06 describe the poverty/welfare situation at aggregate level (poverty head count, poverty gap and poverty severity indices). The findings being reported here on the income dimensions of poverty include: Growth-poverty and inequality linkages, dynamics of poverty over the decade (1996 to 2005), household characteristics and their implication on poverty and welfare, poverty correlates(determinants of poverty), vulnerability to shocks and types of shocks and coping mechanisms. The findings on the non-income dimensions of poverty include nutritional status, access to education, and health.

2.2. The Income Dimension of Poverty

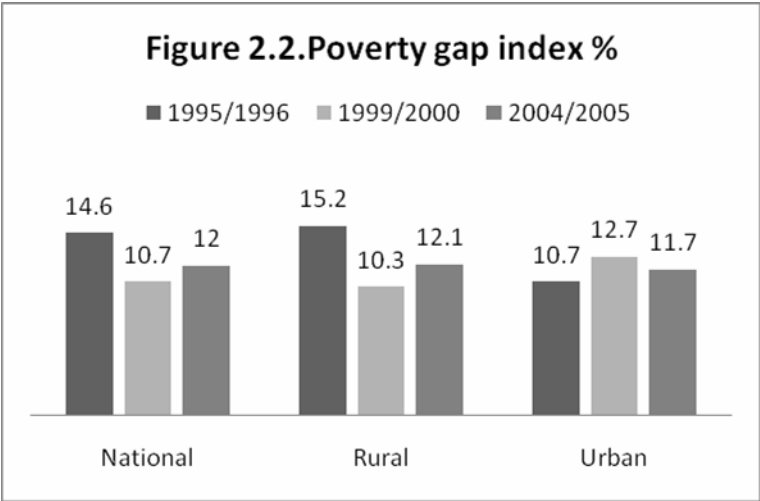
2.2.1 Growth, Poverty & Inequality: Linkages, Determinants, and Dynamics of Poverty

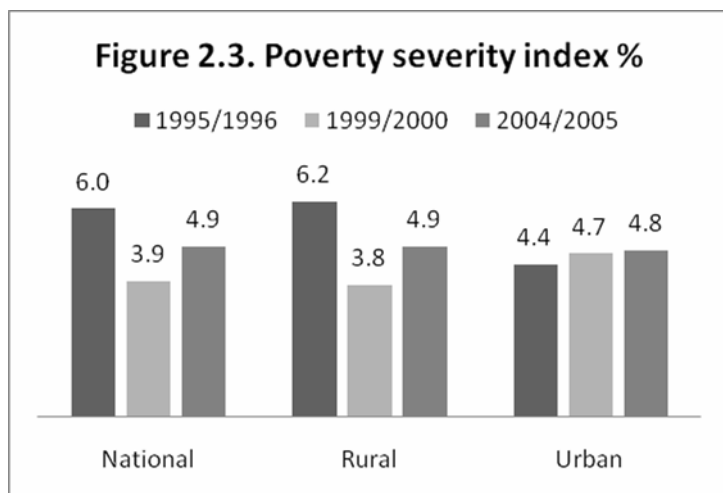
Based on real consumption expenditure per capita as a measure of welfare, considerable growth has been registered during the decade 1996 to 2005. Per capita adult equivalent real consumption expenditure has increased by 17.4 % over the decade which is equivalent to a 1.9 % annual average increase in per capita adult equivalent real consumption expenditure. Significant growth has been realized both in rural and urban areas. Growth has been more rapid in urban areas (33.5 %) than in rural areas (13.8 %) between 1996 and 2005.

National poverty measured by the headcount index has fallen by nearly 7 percentage points, from 45.5 % in 1996 to 38.7 % in 2005. Poverty gap index also declined by nearly 5 percentage points, from 12.9 % in 1995/96 to 8.3 % in 2004/05 (annual average decline of 0.5% per annum). The decline in poverty gap index is an indication that the gap between the average income of the poor (those below the poverty line) and that of the poverty line has narrowed by 5 percentage points. Poverty severity index also declined by 2.4 percentage points; from 5.1% in 1995/96 to 2.7% in 2004/05. Being the square of the poverty gap index, this aggregate measure gives more weight to those at the bottom of the distribution. This has narrowed by 2.4 percentage points during the decade (tantamount to an annual average decline of 47% over the decade).



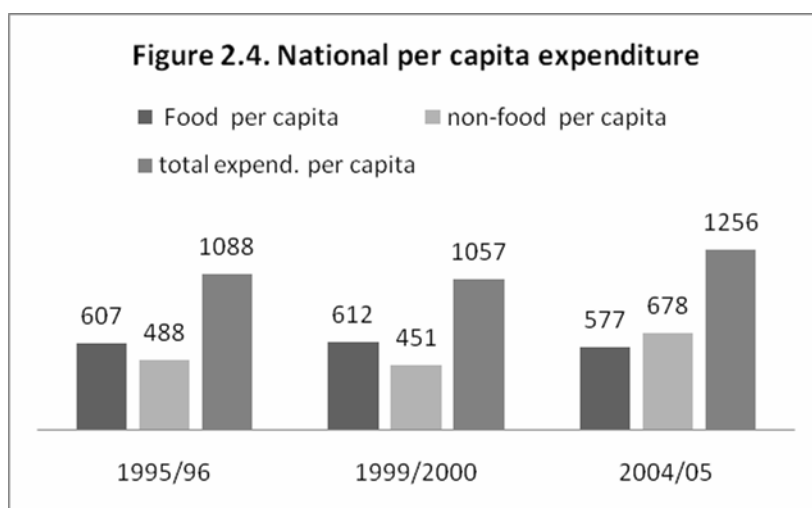
Poverty reduction has been more pronounced in rural areas than in urban areas with the headcount index in rural areas falling from 47.5 in 1996 to 39.3 in 2005. Growth measured by real per capita adult consumption expenditure, especially in rural areas, accounts for the bulk of the reduction in headcount poverty between 1996 and 2005. The decline in the depth and severity of poverty, as indicated by the decline in the poverty gap and poverty severity indices is an indication that the Government's growth and poverty eradication policy has been broad based and pro-poor.

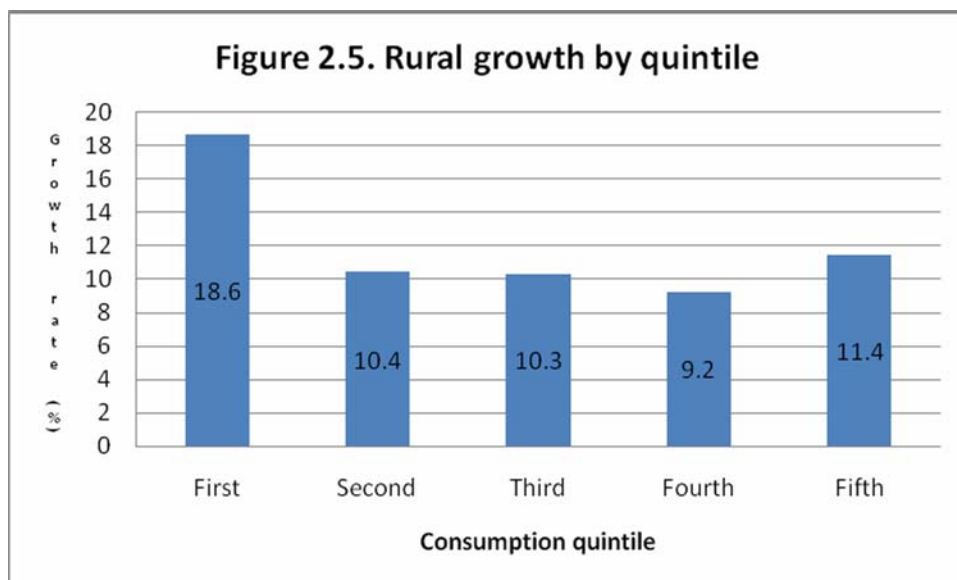




Income inequality has declined in rural areas, except in urban areas where the pro-poor benefits of income groups were offset by a marked increase in inequality. In aggregate, there has been a small increase in inequality with the Gini coefficient rising from 0.289 in 1996 to 0.304 in 2005. The Gini coefficient actually declines very slightly in rural areas, from 0.271 to 0.260, but the Gini coefficient rises in urban areas, from 0.338 to 0.436. While overall growth has been impressive, the impact on poverty reduction has been muted by the increased inequality in urban areas.

At national level, all quintiles experience some level of growth as shown in the chart below. However, in rural areas, growth was slightly higher amongst the poor (18.9% for the first quintile compared to 11.4 for the fifth quintile). By contrast, in urban areas, growth was very high for the very wealthy group (fifth quintile) and smaller growth around the poverty line.



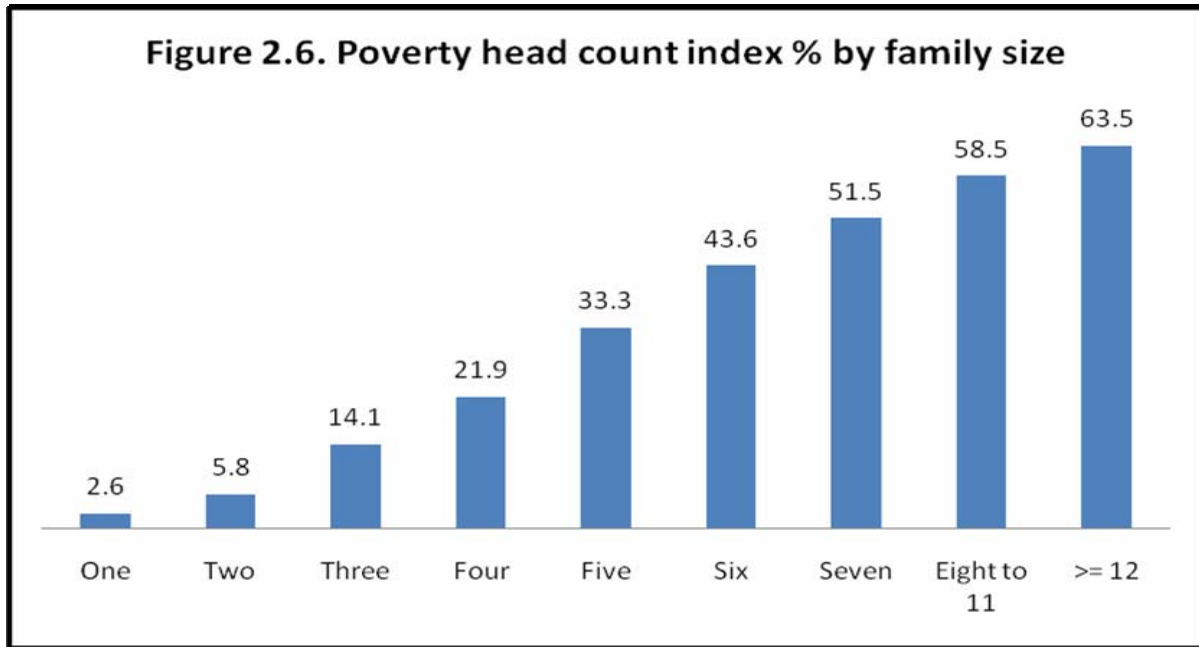


Where global estimates of income elasticity of poverty ranges from -1.3 to -2, for Ethiopia, the income elasticity of poverty was estimated to be -1.71 while the inequality elasticity of poverty was estimated to be 1.8. This means that for a given level of income distribution, each one percent increase in per capita real consumption leads to a 1.7% decline in the poverty head count index. On the other hand, for a given level of per capita real consumption expenditure, a one percent increases in the Gini Coefficient (a measure of inequality) leads in to 1.8% increase in the head count index.

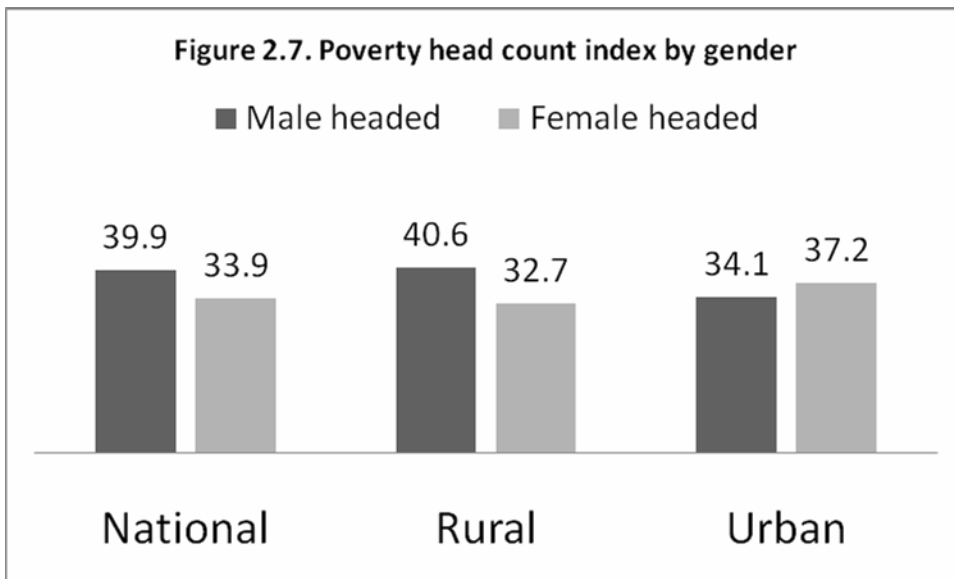
2.2.2. Income Poverty Levels versus Household Characteristics

Linking the information from the twin surveys (HICE & WM surveys) has helped to undertake disaggregated analysis on poverty/welfare. One important aspect to be noted is the findings in regard to the impact of various household characteristics on the poverty head count index.

Family size versus Head Count Index: According to the analysis results, poverty head count ranges from 2.6% for a one-family household to 51.5% for a seven-family household. Further, for a household with 8 to 11 family members, poverty headcount averaged 58.5% and for households with family members equal or greater than 12, poverty head count averaged 63.5% (Fig.2.6).

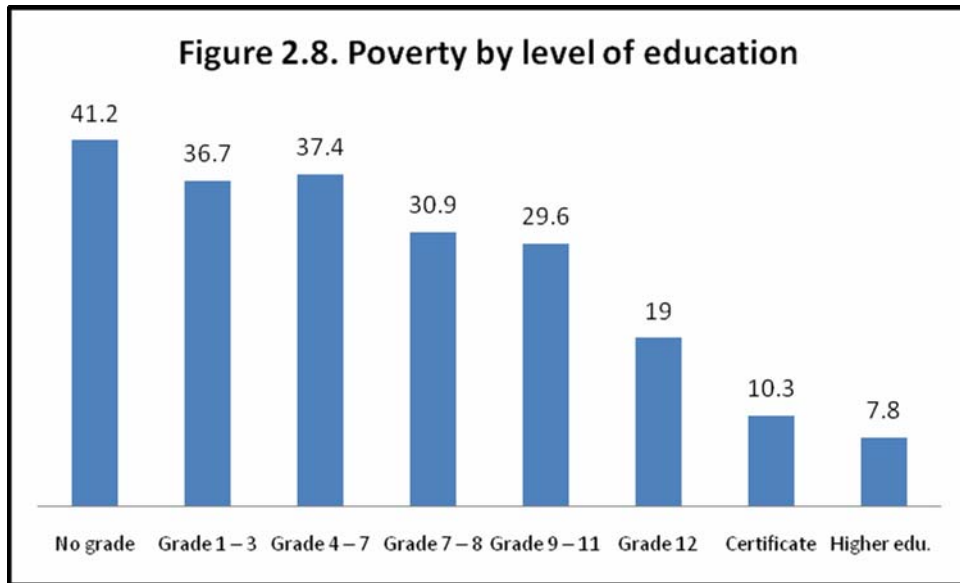


Gender versus Poverty Head Count Index: According to the 2004/05 HICE and WM surveys results, national poverty was lower for female headed households (33.9%) while poverty for male headed households was estimated at 39.9%. Rural poverty was also lower for female headed households (32.7%) and male headed households (40.6%). However, in urban areas, poverty was higher among female headed households (37.2 %) than male headed households (34.1%). (See Fig 2.7)

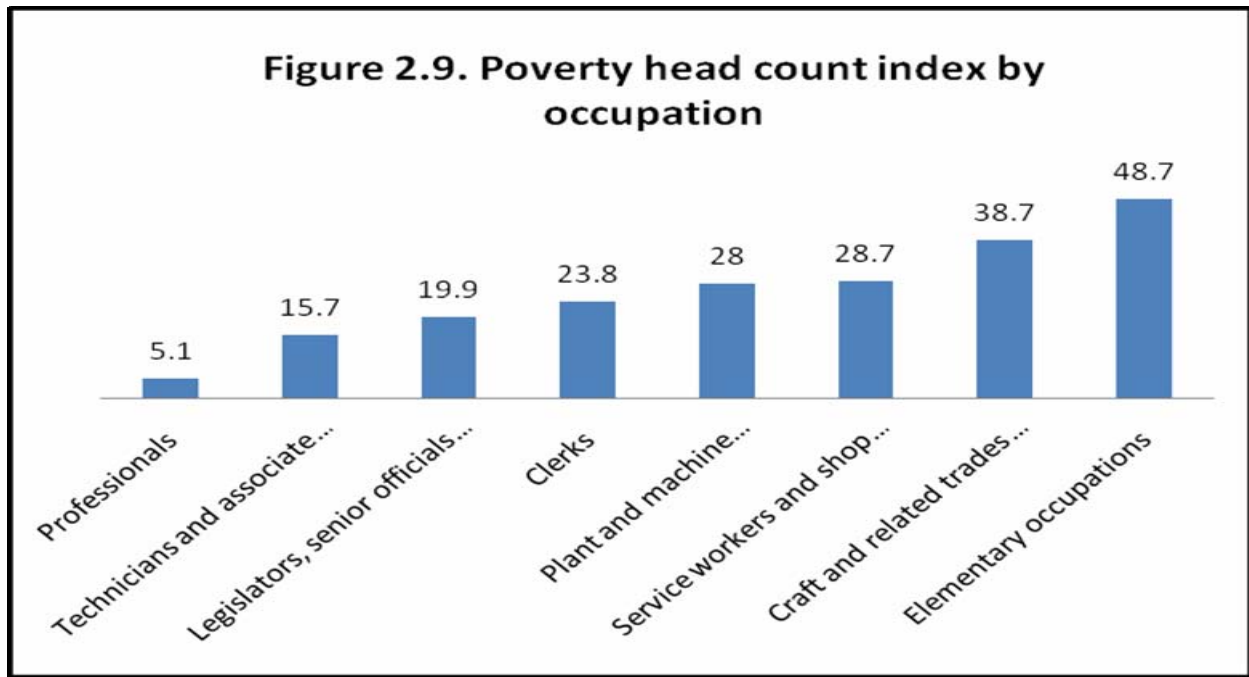


Education Level versus Head Count Index: Poverty level among households consistently decline as their education level increases. Poverty head count was the highest among those households with no education (41.2%) and lowest for those with 12 grades complete (19%) and further decline for those with certificate (10.3%). Poverty was the lowest among those with

higher education (7.8%). In general, poverty among primary school complete (grade 8) was nearly 8 percentage point lower than the national average poverty head count index (38.7) in 2004/05 (See Fig 2.8).



Occupation versus poverty headcount index: Poverty was lowest among professional and technicians (5.1% and 15.7%, respectively) and highest among those engaged in elementary occupations (48.7%). In general, poverty was below the national average (38.7%) for those persons engaged in clerical works (23.8%), plant and machine operators (28%), service workers and shopkeepers (28.7%).



2.2.3. Decomposition of Poverty

As indicated above, despite a substantial growth in urban areas as measured by the increase in per capita real adult equivalent consumption expenditure, poverty reduction has been offset by the increase in inequality. On the other hand, growth in rural areas has been accompanied by significant decline in income poverty (income inequality has declined in rural areas). The poverty decomposition technique has been used to establish the relative roles of growth and income distribution to poverty reduction. In rural areas growth does indeed account for the reduction in poverty. On the other hand, in urban areas, the relative role of growth for poverty reduction has been to a greater extent neutralized by increases in income inequality. These changes occur largely between 1999/00 to 2004/05.

As shown in Table 2.1 below, national poverty head count index showed a 6.7 percentage point decline between 1996 and 2005. Growth accounted for 10.4 percentage point decline while part of this decline has been offset by a 3.7 percentage point increase in head count index owing to the increase in income inequality over the decade. In rural areas, poverty head count index showed an 8.1 percentage point decline over the period. This level of decline has been almost fully accounted for by growth while the redistribution effect has been very marginal (0.5 percentage point).

Table 2.1: Decomposition of the change in headcount poverty between 1996 and 2005

Items	Headcount Poverty			Growth Component	Redistribution Component
	1996	2005	Total Change		
All Households	0.455	0.388	-0.067	-0.104	0.037
Rural Households	0.475	0.394	-0.081	-0.086	0.005
Urban Households	0.332	0.351	0.019	-0.126	0.146

Source: The 2004/05 HICES and WMS data sets

As shown in Table 2.2 below, poverty severity at national level showed a 2.4 percentage point decline between 1996 and 2005. Growth accounted for 2.2 percentage point decline while the pro-poor aspect of the growth in rural areas (improved income distribution) does also account for 0.2 percentage point decline in the poverty severity index. Thus, both growth and distribution worked in the same direction towards the reduction of income poverty. In rural areas, poverty severity showed a 2.5 percentage point decline between 1996 and 2005 (1.8 percentage point accounted by growth and 0.7 percentage point by improved income distribution). However, the decline in poverty severity in urban areas (1.6 percentage point) has been offset by a 1.7 percentage point increase owing to the increase in income inequality in urban areas. As shown in Table 2.2 below, growth still accounted for a 3.3 percentage point decline in poverty severity in urban areas.

Table 2.2: Decomposition of the change in the poverty severity index (P2) between 1996 and 2005

Items	Poverty Severity			Growth Component	Redistribution Component
	1996	2005	Total Change		
All Households	0.051	0.027	-0.024	-0.022	-0.002
Rural Households	0.052	0.027	-0.025	-0.018	-0.007
Urban Households	0.042	0.026	-0.016	-0.033	0.017

Source: The 2004/05 HICES and WMS data sets

2.2.4. Vulnerability, Shocks, and Households Coping Mechanisms

Vulnerability, one dimensions of poverty, reflects household's insecurity. It measures the degree to which individuals, households or communities are exposed to risks or shocks that threaten well-being. Hence vulnerability is a combination of shocks and the ability of a household to cope up with shocks (coping strategy) *ex ante* and *ex post*. Vulnerability can be defined as the probability or the risk of being in poverty or the risk of falling into deep poverty in the future. The profile of shocks affecting households in both rural and urban areas and their relative impact are depicted in Table 2.3 below.

Table 2.3: Profile of shocks Affecting Households by Rural and Urban Areas(%)

Types of shocks	National	Rural households	Urban households
Illness of household member	23.2	23.8	19.8
Drought	10.6	12.3	1.5
Loss or death of livestock	7.8	8.9	2.1
Crop damage	8.1	9.5	0.8
Death of household member	7.5	7.4	8.1
Flood	3.0	3.4	0.5
Price shock	2.0	2.0	1.6
Loss of job	1.2	0.7	3.6
Food shortage	24.3	26.9	10.0

Source: The 2004/05 HICES and WMS data sets

Household's ability to cope up with shocks has been evaluated based on the information derived from the Welfare Monitoring Survey (WMS) questionnaires administered in 2004. The 1999/00 and 2004/05 WMS included a series of questions on whether households can withstand a shock (*ex ante* mechanisms) and how, in practice, they respond to these malign events (*ex post* responses).

Ex ante mechanisms were probed by first asking if respondents could obtain 100 Birr in a week, should such a need arise? More than one-third of the total households (36.9%) are unable to raise 100 Birr within a week time for unforeseen contingencies. This capacity differs among rural and urban households. The proportion of rural and urban households unable to raise 100 Birr within a week time in 2004/05 was 35.7% and 43.1%, respectively.

Major sources of raising 100 birr are identified in the 2004 WM survey. At country level, sale of animals (40%), loan from relatives (18%), sale of crops outputs (14%), and own cash (9%) are

the main sources to raise 100 Birr. The proportions in rural areas are very similar with higher percentage of households reporting sale of animals (45%) followed by loan from relatives (17%), and sale of crop outputs (16%). The same sources also served to bail out households from unforeseen contingencies for rural areas in 1999/00, but sale of crop output was the second highest source of 100 Birr. For urban areas, however, the main source of risk coping mechanism was loan from relative (29%) followed own saving/reserved money (27%). In general, sale of animal and crop outputs as a source of Birr 100 in unforeseen circumstances is lower in 2004/05 compared to 1999/00. On the other hand, the contribution of loans from relatives and own cash as a source of this Birr 100 increases. Although still very small, Bank loan as a source of this Birr 100 has also increased from 0.4% in 1999/00 to 4.2% in 2004/05.

Looking at the distribution of responses across quintiles reveals that sale of animals as a source of Birr 100 is higher among the poorest segment of the population, while loans from relatives is higher among the richest segment in rural areas. The analysis also indicated that own cash as a source of Birr 100, accounts for higher proportion among the rich in both rural and urban areas. Loan from bank is evenly distributed across income quintile in both rural and urban areas.

The 2004 WMS also asked households how they coped with shocks that actually occurred. These responses are strikingly similar to the responses given to the 100 Birr question. In rural areas, selling animals or crops were common responses. In urban areas, the use of own cash resources was frequently reported, particularly for illness shocks.

Table 2.4: Responses to the most frequent shocks: Rural Households

Types of shocks	Food Aid	Sale of livestock	Sale of other agricultural products	Sale of other household assets	Use own cash resources	Other
Illness	7.2	42.5	38.1	2.6	19.8	12.4
Drought	48.8	42.6	19.4	3.1	10.2	10.0
Loss or death of livestock	9.7	20.4	31.2	3.9	18.2	18.3
Crop damage	29.9	43.1	18.5	3.4	14.4	12.1
Death	8.7	41.3	35.2	2.8	20.3	16.4

Source: The 2004/05 HICES and WMS data sets

Table 2.5: Responses to the most frequent shocks: Urban Households

Item	Food aid	Sale of livestock	Sale of other agricultural products	Sale of other household assets	Use own cash resources	Other
Illness	4.6	9.7	5.5	8.1	54.9	19.9
Drought	40.7	10.3	8.8	4.1	15.3	34.2
Death	9.1	8.6	4.5	7.7	43.0	25.4

Source: The 2004/05 HICES and WMS data sets

Overall, vulnerability has been higher in urban than in rural areas. Illness of household member has been found the commonest type of shock that affects most households in both rural and urban areas. Drought and crop damage were common shocks in rural areas. As shown in Tables 2.4 and 2.5 above, food aid has been found to be the main response to draught and sale of livestock for other shocks such as illness and death.

2.2.5. Correlates of Poverty and the Role of Shocks

Various interrelated factors could affect household welfare either negatively or positively. For instance, access to assets and public services are positively correlated with household welfare while shocks such as illness and drought impact them negatively. To capture such effects consumption per capita and adult equivalent consumption have been regressed on a set of household and community characteristics as well as shocks. Besides, a probit equation was estimated to assess the likelihood that a household is absolutely poor. In all this, the three period surveys data sets were pooled (1995/96, 1999/00 & 2004/05) and analyzed. The results of the analysis are summarized below:

a) Effect on Consumption

- Controlling for other characteristics, male headed households have consumption levels 7.3% higher than female headed households;
- Each grade of schooling of the household head helps to increase real per capita adult equivalent consumption by nearly 2%;
- Completion of primary schooling (grade 8) helps raise consumption in urban areas by an additional 10%;
- Ownership of animals increases consumption as does ownership of land;
- Households residing in urban areas have higher consumption(11.7%) than households residing in rural areas;
- Holding all other factors constant, an urban household headed by a man with grade 12 education has a level of per capita adult equivalent consumption that is 43% higher than a rural household headed by a woman with no schooling; and,
- A household that experiences any shock in the previous 12 months (death, illness, job loss, and drought, and crop damage, loss of livestock or rise in food prices) suffers a consumption loss equivalent to 3.9% of per capita adult equivalent consumption.

b) Rural versus Urban Effects

- Shocks have a larger negative effect on consumption in urban than in rural areas;
- Ownership of animals increases consumption in rural areas;

c) Effects of shocks on Poverty

- Overall, shocks increase the likelihood of being poor by 3.2%. Male headed households are less likely to be poor. This has been true for both rural and urban localities;

- Asset ownership reduces poverty. Holding all other factors constant, ownership of a plough animal and cattle by a rural household reduces the likelihood that it is poor by 20.3%;
- In rural areas, crop damage and drought increase the likelihood that a household is poor, by 9.6 and 7.5 percentage points respectively; and,
- Severe illness is associated with increased likelihood that a rural household falls in poverty. The likelihood that a rural household would fall in poverty owing to severe illness increases by 9.9 percentage points. The likelihood that an urban household would fall in poverty owing to severe illness increases by 15.0 % percentage points.

d) Effects of shocks on Consumption

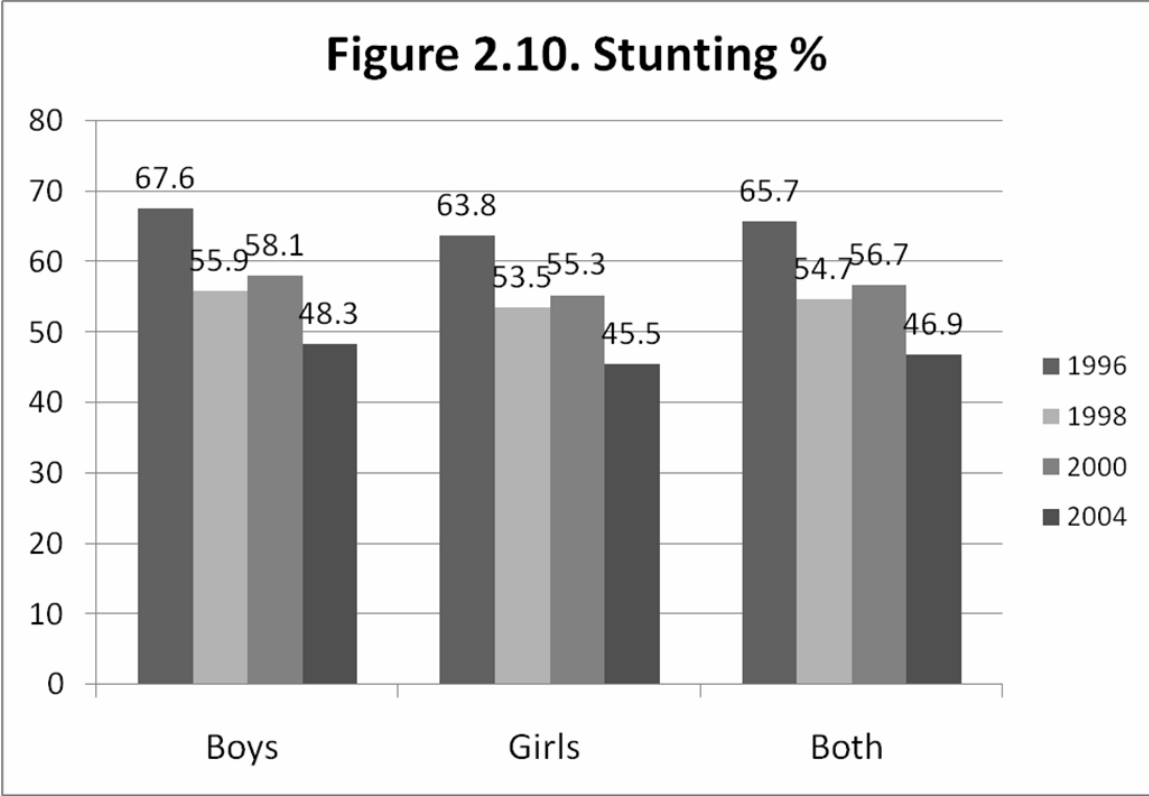
- In rural areas both crop damage and drought reduce consumption;
- In urban areas, job loss reduces consumption;
- Severe illness shocks have had significant negative effect on adult equivalent consumption, reducing it by 8.9% in rural areas and by 19.4% in urban areas.

2.3. The Non-Income Dimensions of Poverty: Human development and access to services

Nutritional Achievements: The poorest segment of the population have fared less for all anthropometric measures (wasting, stunting and underweight). Stunting which is a measure of long-run malnutrition has declined considerably since 1996. It has declined from about 66% in 1996 to 47 % in 2004. In general, stunting has been higher in rural than in urban areas for all years. On average, stunting has been lower among females than males (Fig 2.10 below).

Health: The proportions of households who consult health services have been higher among the rich than among the poor, the main reason being lack of money.

Education: In regard to literacy, enrolment in primary and secondary school increased substantially. Enrolment at all levels increased as one moves from the poorest to the richest quintiles. Numeracy rate is higher for the richest quintile than for the poorest. The same is true for literacy rate, but the differences between the poorest and richest quintile has not been as big as that for numeracy.



2.4. Policy Implications of the Findings: Prospects and Challenges for the MDGs

The magnitude of the growth elasticity of poverty reduction (-1.71) compared to the global average (which ranges between -1.3 and -2.0) shows that growth has been broad-based and pro-poor in Ethiopia. On the other hand, the inequality elasticity of poverty was found to be 1.8. This means that other things equal, each one percent increase in the Gini Coefficient results in to a 1.8 % increase in the poverty head count index. The improvement in the growth elasticity of poverty reduction (from -1.3 in 2000 to -1.71 2005) is a reflection of Government’s effort to render growth more pro-poor.

On the basis of this finding, if inequality remains constant, for each one percent increase in per capita real adult equivalent consumption expenditure, poverty headcount could be reduced by 1.71 %. The target set for the head count index for the PASDEP period and beyond has been anchored on the level in 1999/00 and target was set to half this level by the end of 2014/15. Given this improvement in 2005(increase in absolute value) of the growth elasticity of poverty reduction, the poverty reduction effort is expected to be more pronounced than it was originally assumed. Thus, poverty head count is expected to decline to a lower level than was already planned (29%) by the end of 2009/10. The trend estimate of poverty head count index for 2006/07 was put at 34.6%. The consistent significant decline in the depth and severity of poverty particularly from 2000 to 2005 confirms the appropriateness of the policy measures being pursued and programs being implemented by the Government.

The significant decline in rural poverty is clearly attributed to the wide-ranging and multi-faceted pro-poor programs that have been implemented in rural areas such as menu based extension program to support commercialization of smallholder agriculture, expansion of cooperatives, the Food Security Program, and the recent Productive Safety Net Program, among others. Employment expansion through small and medium enterprise development and job creation through the construction of low cost houses in Addis Ababa and which was subsequently replicated to other regional towns. This scheme is primarily aimed at the ultra- poor in urban areas with limited training and medium level technical skills.

Growth is of the essence and has been and still is a key to poverty reduction. Along with enhancing growth, particular attention needs to be paid to address inequality particularly in urban areas. One important avenue to addressing inequality is the provision of quality education at all levels and enhanced job creation through coordinated development of small and medium enterprises and strengthening their linkages and synergies with Technical and Vocational Education Training Programs. The findings indicate how education impacted on poverty reduction. As noted above, each grade of schooling of the household head helps to increase real per capita adult equivalent consumption by nearly 2%. Government's concurrent effort to expand primary education along with infrastructure expansion is meant to stimulate the growth impact of poverty reduction.

As has been already noted, the findings indicate that gender inequality has been significantly redressed in rural areas but is still prevalent in urban areas. This could be one of the reasons why inequality has increased significantly in urban areas compared to its level in 2000. The most important factor distinguishing rural women from urban women has been found to be ownership of land and livestock by the former. Ownership of these assets by women in urban areas is very much limited. Thus, there is a need to design and implement more women-focused programs in urban areas. The on-going women and youth packages are expected to alleviate urban poverty.

Household specific shocks such as illness has had significant impacts on poverty. The on-going implementation of the health extension program will greatly enhance communities' protection. Overall, the growth and poverty analysis clearly shows that a big push implementation of the pillar strategy of the PASDEP is appropriate and necessary to accelerate poverty reduction and ensure the attainment of the MDGs.

Chapter III

Developments in the Macro Economy

3.1. Real Sector and Prices

In recent years, the Ethiopian economy has experienced encouraging development in its economic performance. It has witnessed an annual average real GDP growth rate of 11.8 % during the last four years ending in 2006/07. During this period (2003/04–2006/07), agriculture, industry and service sectors registered average annual growth rate of 12.7%, 10.6% and 11.5%, respectively.

The agricultural sector has continued to contribute the lion's share to economic growth. In 2006/07, agriculture (including allied activities) contributed 46.3% to total GDP and is still the major source of growth. However, the recent expansion has been broad based with significant contribution from manufacturing, construction and service sectors. Industry and service sectors took a share of 13.4% and 41.2% respectively to total GDP, in 2006/07.

The agriculture sector registered a growth rate of 9.4 % in 2006/07 while growth in industry and service sectors averaged 11% and 13.5%, respectively during the same year. With in "Industry", construction and manufacturing sub-sectors which accounted for 5.7% and 5.1% of GDP, respectively registered the highest level of growth rates during the fiscal year under review. Accordingly, real GDP growth of "Construction" and "Manufacturing" sub-sectors averaged 10.9% and 10.5%, respectively during the year under consideration. With in the Distributive Service Sector; Whole Sale Trade and Hotels and Restaurants sub-sectors which accounted for 13.2 and 2.7 % of GDP in 2006/07, registered the highest growth of 17.7% and 25.1%, respectively. With in the Other Service sector category, Real Estate Renting and Business Activities and Education which accounted for a little over 8.2% and 2.8% of GDP in 2006/07 registered the highest growth rates of 15.0 and 13.9 %, respectively.

The overall performance of services sectors accounted for a little more than 40 % of GDP and is to a larger extent determined by the growth in the goods producing sectors (Agriculture and Industry). Moreover, linkages between agriculture and industry are likely to be strengthened as reflected by the increase in the relative share of the Industry in overall GDP (13.4 % of GDP in 2006/07). The target for structural transformation during the PASDEP is to increase the share of industry to 15 % of GDP by the end of 2009/10 while the share of agriculture and allied activities is expected to decline modestly to 46% of GDP by the end of the Plan Period.

With regard to growth prospects for 2007/08, overall real GDP growth rate forecast is 10.8 %. Agriculture and allied activities is expected to contribute 44.9% to GDP and is forecast to increase by 7.5 % during 2007/08. Industry and Services each is expected to contribute 13.5 and 42.3 % to GDP and are forecast to increase by 12 and 14 %, respectively during 2007/08. The overall forecast growth figure of nearly 11 % is a signal that growth momentum during the last four years will be maintained for the fifth year. The sectoral growth figures and relative shares forecast for 2007/08 are indications of the shift in growth intensity towards the modern goods producing sectors (industry) and the service sectors.

Inflation, which was on average at single digits in 2003/04 and 2004/05, accelerated by the end of 2006/07 and averaged at 17.8%. Food inflation which is the main driving force was 11.8% and 7.7% in 2003/04 and 2004/05 respectively, and picked up to 18.8% by the end of 2006/07. The source of the increase in average price levels in recent years (particularly since 2005/06) is still under study. The likely potential factors are demand pressures caused by higher disposable income of small farmers, which improves their purchasing power. The on-going improvements in marketing system (crops) through cooperatives and the expansion of telephone infrastructure in rural areas, which in turn improve information communication coupled with expansion of microfinance and productive safety net program, has helped reduce desperate sales by small farmers. An improvement in the road network has also increased the producers' price margin for crops. The suspension of in-kind food aid and the introduction of local purchases for emergency aid may also have contributed to demand pressure on food price inflation. The agro-processing activities taking place (e.g., farmers' sale of wheat, barely, etc to local processors) as the economy transforms may also be contributing to the overall demand pressure.

All these may have pushed prices of grains up to their international parity level. In addition, there is a boom in the construction industry, which increased employment opportunities and which in turn increased income and purchasing power. Other potential factors include: the construction and opening up of universities across almost all regions of the country; the increase in income of farmers as they have become able to sell their produce at a market price which resulted in increase of own consumption among grain-producing households, and the increasing trends in Diaspora return who are now engaged in different socio-economic investment activities. Finally, the recent increase in international oil price has also both direct and indirect impact on the general price inflation. The above-mentioned factors are still under investigation and various studies and research works are being conducted towards clearly identifying the major source factors for the recent pressure on prices.

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

In general, the overall performance of the percentage macro economy, as measured by the GDP growth rate, has been encouraging during the year under review (2006/07). The GDP growth target under the base case which underlines the PASDEP being 7%, the outturn for 2006/07 was 11.4%. Currently Ethiopia has had faster growing economy in the SSA region. Table 3.1 and Table 3.2 as well as Figure 3.1 below further illustrate the growth trend in key socio-economic sectors between 2000/01 and 2006/07.

Table 3.1: Trends in the Performance of the Macro economy, Growth Rates (%)

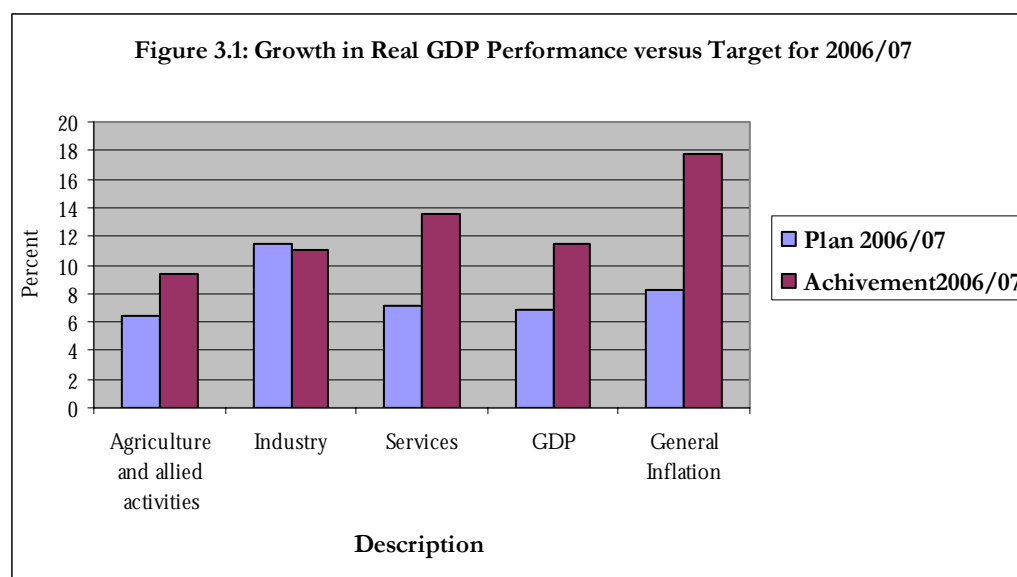
Sector/Indicator	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 (Forecast)
GDP in 1999/00 prices	7.4	1.6	(2.2)	11.7	12.6	11.6	11.4	11.3
Agriculture	9.6	(1.9)	(10.5)	16.9	13.5	10.9	9.4	8.9
Industry	5.1	8.3	6.5	11.6	9.4	10.2	11.0	12.0
O/w: Manufacturing	3.6	1.3	0.8	6.6	12.8	10.6	10.5	12.2
O/w: Construction	8.0	16.2	13.6	19.5	7.5	10.5	10.9	12.0
Services(Total)	5.2	3.3	6.0	6.3	12.8	13.4	13.5	14.0
Distributive services	5.6	4.2	5.5	6.4	14.7	14.2	15.7	12.3
O/W: Whole sale and retail trade	(4.0)	(4.0)	18.6	14.1	20.8	31.9	38.8	14.0
Other services	2.3	2.4	6.5	6.1	10.9	12.5	11.2	15.9
O/W: Banking and Insurance	11.8	(25.0)	10.8	19.7	24.2	33.5	2.5	15.8
Per Capita GDP (Real)	5.2	(1.3)	(4.9)	10.5	8.8	7.9	8.1	8.0
Inflation	(7.2)		15.1	8.6	6.8	12.3	17.8	19.0 (March, 2008)

Source: MoFED

Table 3.2: Growth in Real GDP Performance versus Target for 2006/07 (%)

Item	Base Line 2004/05	Achievement 2005/06	Plan 2006/07	Achievement 2006/07
Agriculture and allied activities	13.4	10.9	6.4	9.4
Industry	8.1	10.2	11.5	11.0
Services	8.4	13.4	7.1	13.5
GDP	12.6	11.6	6.8	11.4
General Inflation	6.8	12.3	8.2	17.8

Source: MoFED



On the demand side, gross domestic investment grew by 30.3% and 33.7% in 2005/06 and 2006/07, respectively. As shown in Table 3.3 below, gross domestic investment reached 24.2% and 25% of GDP respectively, in 2005/06 and 2006/07 and is projected to increase to 28% of GDP in 2007/08. This positive development is promoted by a favorable investment climate and acceleration of privatization as well as improved land lease management, and a series of investments in physical infrastructure and human development that contributed to higher growth in private investment.

Total final consumption expenditure accounted for 96.4% and 94.4% of GDP respectively, in 2005/06 and 2006/07. It is projected to decline to 90% of GDP in 2007/08 as a greater share of GDP goes into savings and investment as more surpluses are generated. The decline in consumption is indicative of an increase in domestic saving which reached 5.6% of GDP in 2006/07 from about 3.7% in 2004/05. Domestic saving forecast is 10.1% of GDP in 2007/08.

Exports of goods and non-factor services have registered a 20.1% growth in 2006/07. Over the last four years, its average annual growth rate was 22.5%. In 2006/07, exports of goods and non-factor services reached 12.8% of GDP while imports of goods and non factor services have reached about 32.2% of GDP by the end of 2006/07. As a result, trade deficit has slightly narrowed and reached 19.4% of GDP during 2006/07 from nearly 22.7% of GDP in 2005/06.

Real per capita GDP reached 181 USD in 2006/07. The average yearly growth rate of real per capita GDP over the last four years averaged 8.8%.

Table 3.3: Demand Side GDP: Major Components as a Ratio to GDP @ CMP (%)

Item	Base Line (2004/05)	Achievement (2005/06)	Plan for (2006/07)	Achievement (2006/07)
Gross domestic capital formation	23.0	24.2	23.0	25.0
Consumption expenditure	97.1	96.4	93.0	94.4
Export of goods & non-factor services	15.1	13.8	16.9	12.8
Import of goods & non-factor services	35.5	36.5	32.9	32.2
Resource Gap	-20.4	-22.7	-16.0	-19.4
Domestic saving	3.0	3.7	7.0	5.6

Source: MoFED

3.2 Fiscal Performance

This section focuses on the performance of Government revenue, expenditure and financing during the year under review. To this effect, it will examine the tax and non-tax sources of revenue on the one hand and the various components of Government expenditures comprising recurrent and capital outlays. This section also provides a review on the extent of financing gap

that resulted from the revenue and expenditure flows and the sources of finance used to bridge the gap.

3.2.1 Revenue

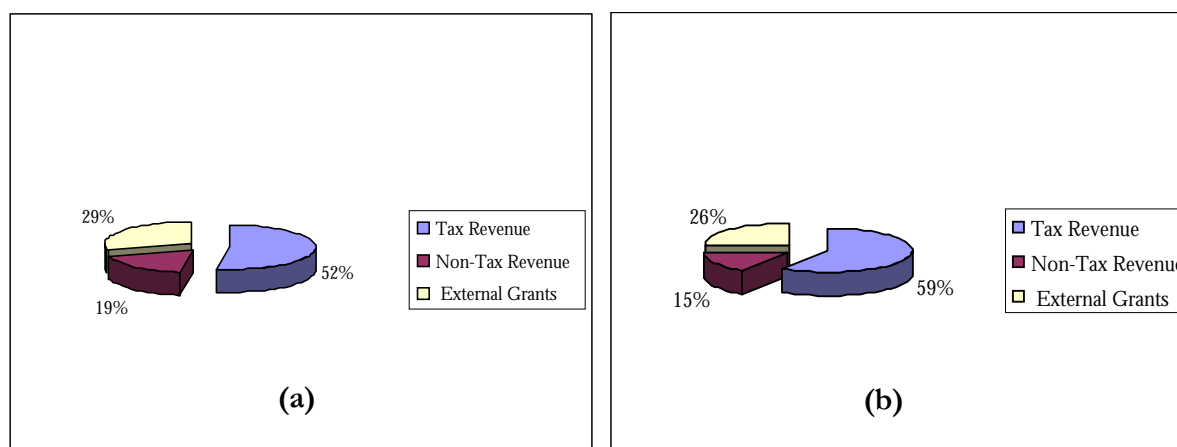
Total Government revenue including grants during 2006/07 reached Birr 29.4 billion which showed an increase of 26.3% compared to the level in 2005/06. Accordingly, total revenue collected during the year covers 85.1% of the total Government expenditure budget for the same year. Domestic revenue amounted to Birr 21.8 billion by the end of the fiscal year showing an increase of 11.6% compared to the preceding fiscal year with performance rate of 84.9% compared to the budget target. Out of the total domestic sources, 79.4% has been generated from direct and indirect taxes while the rest 20.6% from non-tax sources.

Table 3.4: General Government Revenue, In Million Birr

Item	2005/06 Actual	2006/07 Budget	2006/07 Pre. Actual Expenditure	Performance Against 2006/07 Budget (%)	Change over preceding fiscal year (%)
Tax Revenue	14159	18573	17354	93.4	22.6
<i>Direct Taxes</i>	4461	5961	5168	86.7	15.8
<i>Domestic Indirect Taxes</i>	3111	4375	3997	91.4	28.5
<i>Foreign Trade Tax</i>	6587	8237	8189	99.4	24.3
Non -Tax Revenue	5371	7111	4444	62.5	(17.3)
Domestic Revenue	19530	25684	21797	84.9	11.6
External Grants	3732	8841	7583	85.8	103.2
Total Revenue	23262	34525	29381	85.1	26.3

Source: MoFED

Figure 3.2: Composition of Domestic Revenue in 2001/02(a) and in 2006/07(b)



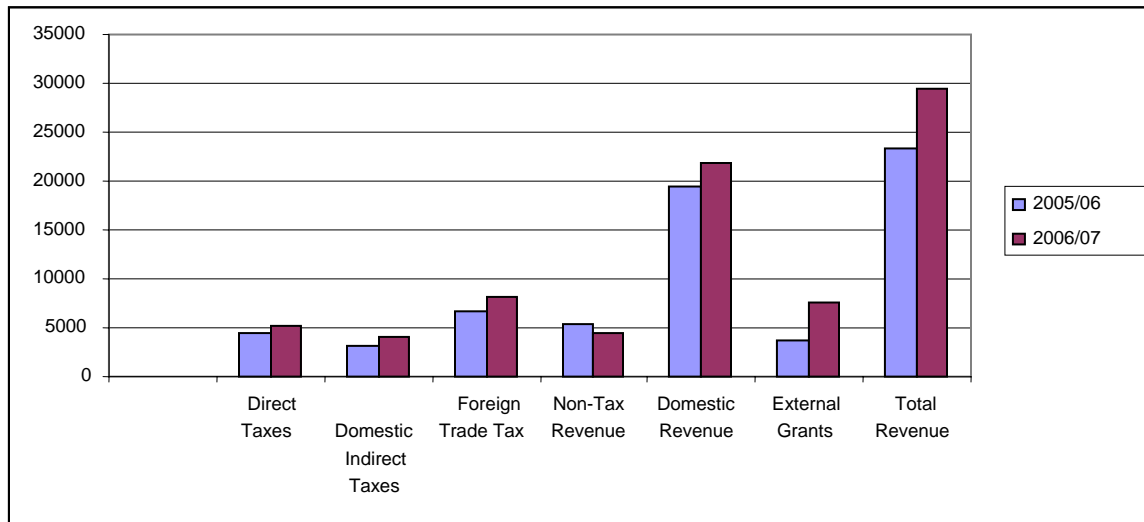
Out of the total tax revenue collected, 29.8% has been mobilized from direct taxes, while 23% and 47.2% from domestic indirect taxes and foreign trade taxes, respectively. The performance

in the revenue collection from direct tax, stood at 86.7% of the budget, which showed an increase 15.8% over the level in the preceding fiscal year. Similarly, domestic indirect tax (Birr 3.9 billion) which accounted for 91.4% of the budget was collected; showing an increase of 28.5% over its level in the preceding fiscal year (2005/06).

With regard to foreign trade tax, 99.4 % of the budget was realized. This shows an increase of 24.3% over the previous fiscal year (2005/06).

The performance of non-tax revenue, for the period under review, stood at Birr 4.4 billion, which shows 17.3% decline over the previous fiscal year. With regard to external grants, Birr 7.6 billion was realized. It stood at 85.8% of the target as depicted in Table 3.4 above.

Figure 3.3: Composition of General Government Revenue (2005/06 and 2006/07), Million Birr



3.2.2 Expenditure

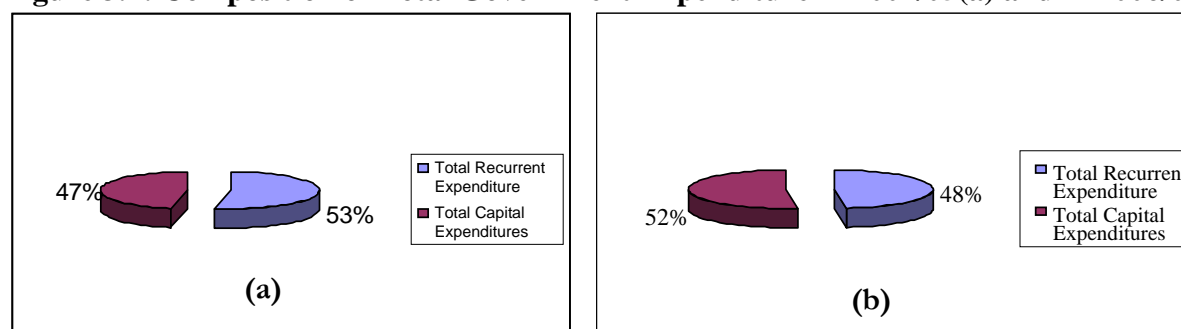
In 2006/07 total Government actual expenditure reached Birr 35.6 billion, covering 85% of the budget, and exceeding the 2005/06 level by 21.3%. However, the share of total expenditure to GDP declined from 22.3% in 2005/06 to 20.8% in 2006/07. Looking at the components of Government expenditure, in 2006/07, 48% of the expenditure was allocated for recurrent expenditure while capital expenditure accounted for 52%. The main beneficiaries were the pro-poor sectors such as education, health and infrastructure development. The share of poverty targeted expenditure to total expenditure increased from 59.9% in 2005/06 to 62.9% in 2006/07, showing a 27.2% increase ate over the preceding fiscal year (2005/06).

Table 3.5: General Government Expenditure, in million Birr

Item	2005/06 Actual	2006/07 Budget	2006/07 Pre. Actual	2006/07 Pre. Actual Against Budget (%)	2006/07 Performance over 2005/06 (%)
Total Recurrent Expenditure	15234	19269	17125	88.9	12.4
Total Capital Expenditures	14092	22567	18442	81.7	30.9
Total Expenditure	29326	41836	35567	85.0	21.3
<i>o/w</i> : Poverty Targeted Expenditure	17592	24977	22371	89.6	27.2

Source: MoFED

Figure 3.4: Composition of Total Government Expenditure in 2004/05(a) and in 2006/07(b)



During the fiscal year under review (2006/07), a total of Birr 17.1 billion recurrent spending was allocated, constituting 88.9% of the annual recurrent budget. This shows that compared to the preceding fiscal year, a 12.4% increase was observed. Of the total recurrent expenditure, 41.1% and 12.8% were allocated for administration and general services; and economic services, respectively. While 36.2% and 9.9% was allocated for social services and other miscellaneous expenses, respectively. Out of the total recurrent expenditure in 2006/07, 45.5% was allocated to poverty targeted sectors (education, health, agriculture and rural development and roads) showing an increase of 20.1 % compared to the previous fiscal year.

Table 3.6: General Government Recurrent Expenditures, In Million Birr

Item	Actual Expenditure 2005/06	Budget for 2006/07	Actual exp 2006/07	Change in 2006/07 Performance Over 2005/06 (%)
Administration and General Service	6522	6563	7041	8.0
Economic Services	2009	2419	2198	9.4
Social Services	4996	6041	6193	24.0
Others	1707	4246	1693	(0.8)
Total Recurrent Expenditure	15234	19269	17125	12.4
<i>o/w</i> : Poverty Targeted Expenditures	6493	7690	7800	20.1

Source: MoFED

Similarly, during 2006/07, Birr 18.4 billion expenditure was allocated for capital outlays including special programs, which accounted for 81.7 % of capital budget. This shows an increase of 30.9% compared to the level in the preceding fiscal year. Of the total capital expenditure, 61.6% was allocated to economic development while 32.5% and 5.6% was allocated to social development and general development, respectively. In 2006/07, 79% of capital expenditure was spent on poverty targeted sectors, showing an increase of 31.3% compared to the level in fiscal year 2005/06.

Table 3.7: General Government Capital Expenditure (In Million Birr)

Item	2005/06 Actual Expenditure	2006/07 Budget	2006/07 Pre. Actual Expenditure	Pre. Actual Exp. over budget 2006/07(%)	Change in 2006/07 Performance Over 2005/06(%)
Economic Development	9728.8	13760.6	11367.0	82.6	16.8
Social Development	3796.1	7814.1	5997.6	76.8	58.0
General Development	516.9	992.0	1033.4	104.2	99.9
Total Capital Expenditures	14092	22566.7	18442	81.7	30.9
<i>o/w</i> : Poverty Targeted Expenditures	11099	17287	14571	84.3	31.3

Source: MoFED

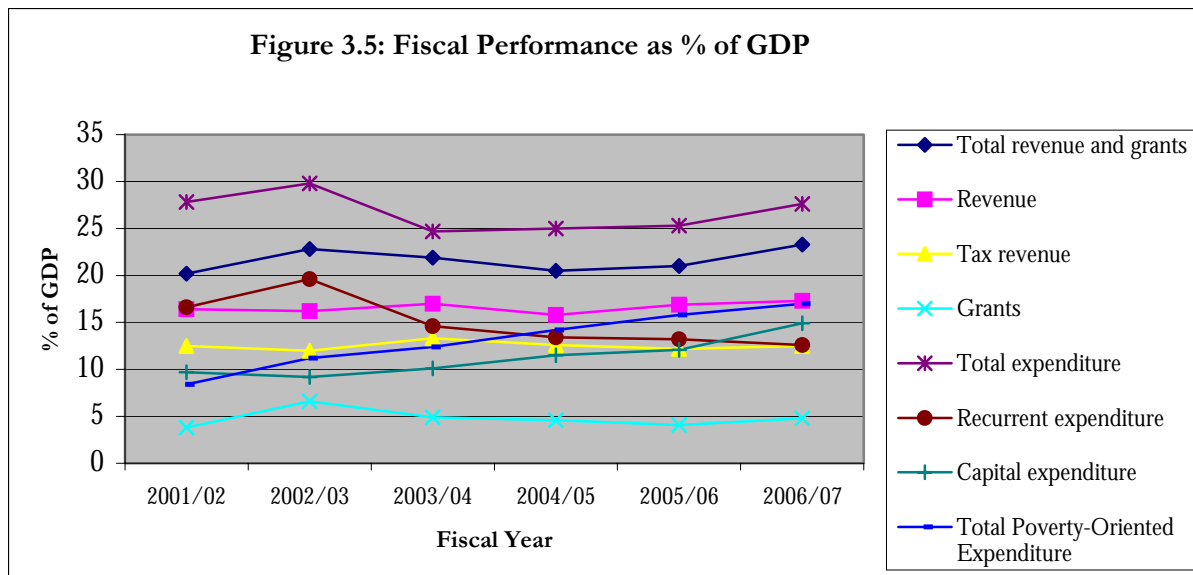
3.2.3 Financing

As total Government revenue including grants of Birr 29.4 billion collected during 2006/07 fell short of the 35.6 billion total expenditure outlays, this resulted in a fiscal deficit of Birr 6.2 billion. This fiscal gap was financed through a net foreign loan of Birr 1.9 billion and the remaining through net domestic borrowing. However, in relative terms (as a ratio to GDP) it declined to 3.6% in 2006/07 from 4.6% in 2005/06. Table 3.8 and Figure 3.5 below also illustrate the trends in fiscal performance from 2001/02 to 2006/07.

Table 3.8: Trends in Fiscal Performance (2003/04-2006/07) (% of GDP at CMP)

Item	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 (Pre. Actual)
Total revenue and grants	20.2	22.8	21.9	20.5	17.7	17.2
Domestic Revenue	16.4	16.2	17	15.8	14.8	12.8
<i>o/w</i> Tax revenue	12.5	12.0	13.3	12.6	10.8	10.2
Grants	3.8	6.6	4.9	4.6	2.4	4.4
Total expenditure	27.8	29.8	25.1	25.2	22.3	20.8
Recurrent expenditure	16.6	19.6	14.6	13.4	11.6	10.0
Capital expenditure	9.7	9.2	10.1	11.5	10.7	10.8
Total poverty-oriented expenditure	8.4	11.2	12.4	14.2	13.4	13.1

Source: MoFED



3.3. External Sector Performance

This sub-section reviews the performance of the external sector of the economy, which covers the changes on the growth and composition of exports, imports and the resultant trade balance and current account position of the country during the fiscal year under review. It also examines the capital account and hence the overall Balance of Payment (BoP) position during the fiscal year under consideration (2006/07). Accordingly, merchandize exports registered substantial growth in recent years, owing to both increase in volume and value of major exports in the international market.

Export earnings reached USD 1.2 billion in 2006/07 showing an increase of 18.5% over the preceding fiscal year, slightly higher than the 18.0 % registered in the preceding fiscal year value of merchandize exports has been increasing at an annual average rate of about 26 % during the last four years ending in 2006/07. Increases in the volume of exports of the major export items (except oilseeds) were the main factors for the growth in exports. During 2006/07, the volume of exports of coffee and pulses increased by 19.4 and 43.7 %, respectively. The volume of oilseeds exports, which has been steadily increasing for the past four years, declined by 11.5 % in 2006/07. Revenue from flower exports, which has become an important foreign exchange earner over the past three years.

The various incentive packages given by the Government to investors has helped revamp the sectors performance, As a result export proceed reached USD 63.6 million, 193.2 % higher than the amount earned during the preceding fiscal year.

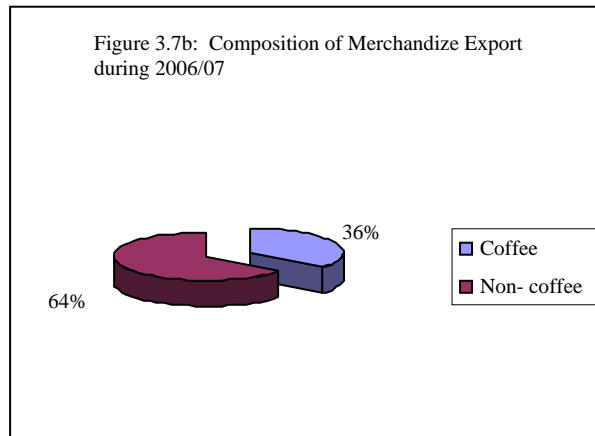
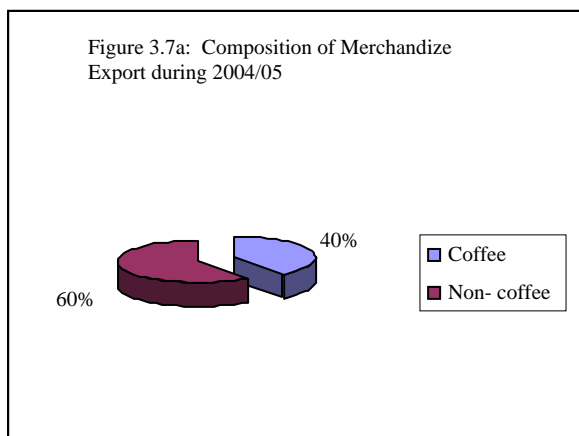
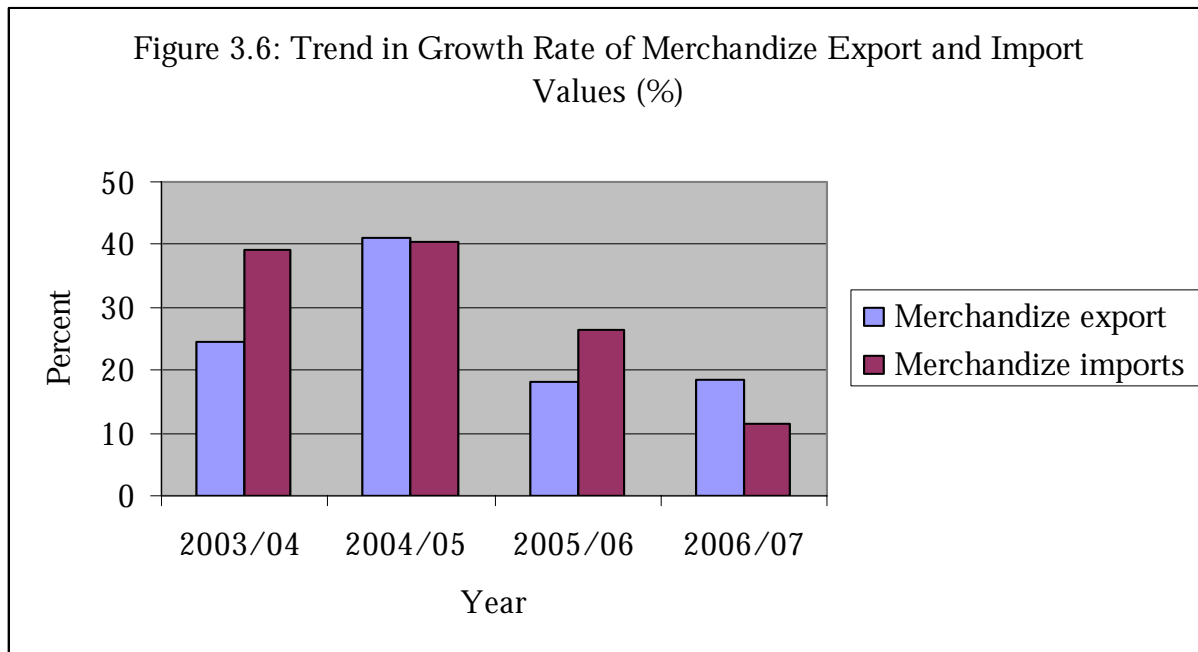
Imports also grew by 11.6 % in 2006/07 and reached USD 5.1 billion. Merchandize import growth in fiscal year 2006/07 was significantly lower than the growth rates of 40.4 and 26.4 % registered during 2004/05 and 2005/06, respectively. The rapid growth in imports during the past four years is believed to have been associated with the surge in investment activities, especially in the construction sector. The average growth rate in imports of capital goods during the past

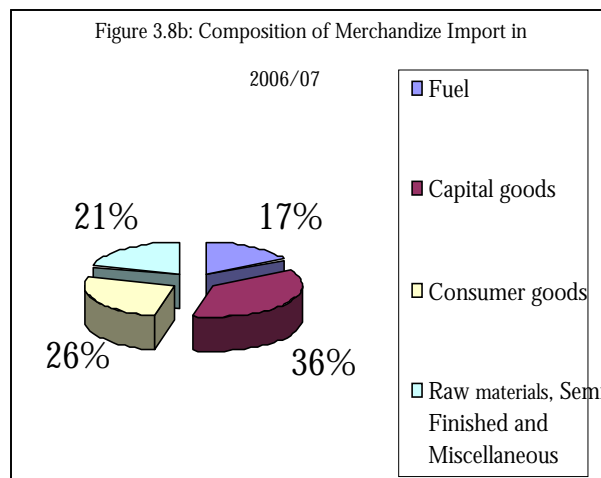
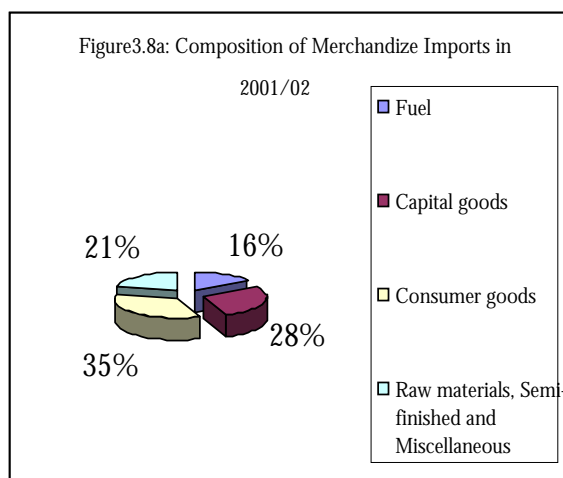
four years stood at 36.5 % compared to an average growth rate of 20.0 % for imports of consumer goods.

Table 3.9: Trends in Growth Rate of Merchandize Export and Import Values (%)

Item	2003/04	2004/05	2005/06	2006/07	Average
Merchandize export	24.4	41.1	18.1	18.5	25.5
Merchandize imports	39.3	40.4	26.4	11.6	29.4

Source: NBE





Notwithstanding the encouraging sustained growth in merchandize exports, the trade deficit widened to USD 3.9 billion in 2006/07 compared to a deficit of USD 3.6 billion in 2005/06. However, the share of trade deficit in GDP moderately narrowed to 20.3% in 2006/07 from 23.7% in 2005/06.

On the other hand, the surplus in the net services account of the BOP improved to USD 190.8 million in fiscal year 2006/07 compared to USD 148.1 million in fiscal year 2005/06; reflecting a growth rate of 28.9 %. This improvement was mainly the result of increased net receipts from travel and transport services. Similarly, private transfers (including transfers through non-Government organizations) picked up by 38.3 % and reached USD 1.7 billion. Private cash remittances increased to USD 632.6 million in 2006/07 from USD 354.9 million in 2005/06. Official transfers also grew by 38.4 % and reached USD 1.2 billion during the fiscal year under review. As a result, the current account deficit (including official transfers) narrowed down from 1.35 billion USD in 2005/06 to USD 0.85 billion in 2006/07. The ratio of external current account deficit to GDP also declined to 4.4% in 2006/07 from 8.9% in 2005/06. This amounted to a 23.1% improvement in the surplus on the capital account due to increased official loan disbursement, a decline in amortization of official debt services and increased FDI inflow. Net official loan disbursement amounted to USD 357.7 million in 2006/07, up from USD 343.2 million in 2005/06. Similarly, estimated FDI inflow rose by 32.0 % and reached USD 482.0 million.

In general, the overall balance of payments turned from a deficit of USD 208.0 million in 2005/06 to a surplus of USD 85.1 million in 2006/07, reflecting a build-up in the foreign exchange reserves of the banking system.

Table 3.10: External Sector Performance (%GDP)

Item	Base line 2004/05	2005/06	2006/07
Merchandize export	7.2	6.6	6.1
Merchandize imports	31.9	30.3	26.4
Trade Deficit	-24.8	-23.7	-20.3

Source: NBE

With regard to exchange rate developments, the average exchange rate of the Birr in the inter-bank foreign exchange market reached Birr 8.7943/USD by the end of 2006/07, depicting an annual depreciation rate of 1.3 %. The rate of depreciation of the Birr during the fiscal year under review was on average relatively higher than that of the preceding fiscal years. On the other hand, in the parallel market, the Birr appreciated by 0.8 % and stood at 8.9570. The average rate by the end of 2005/06 was 9.026 birr per USD. As a result, the average spread between the official and parallel market exchange rates narrowed down from about 4.0% in 2005/06 to 1.9% in 2006/07.

3.4. Financial Sector Performance

Improvements in financial services promote economic growth through facilitating payment and exchange systems and mobilizing and channeling scarce financial resources to efficient sectors and users. In this regard, fiscal year 2006/07 witnessed encouraging developments in the financial services and efficiency of banks. Non-performing loans of commercial banks has declined from 14% in 2005/06 to 10% in 2006/07. Similarly, their capital adequacy ratio has increased from 10.75% to 18.32% during the same period. In terms of service expansion, the number of commercial bank branches increased from 421 as of June 2006 to 487 as of June 2007 (15.7% growth).

Regarding disbursement of new loans (excluding central Government), a total of Birr 15.5 billion was injected to the economy during 2006/07, reflecting a 25 % increase compared to Birr 9.4 billion in the preceding fiscal year. Of the total disbursement, 59.3 % was provided by private banks. About 94% of the disbursement was extended to the private sector, indicating the prominent role played by commercial banks in supporting private investment and the Government's policy to encourage private sector development through financing.

By the end of fiscal year 2006/07, the total stock of outstanding credit of the banking system (excluding central Government) reached Birr 31.1 billion, indicating an annual average growth rate of 16.3 %. Out of the total outstanding credit, 88.8 % constituted claims on the private sector and the rest on public enterprises. Looking at outstanding credit by sector, 22.5 % of the outstanding credit was owed by industry, 20.9 % by external trade and 13.6 % by agriculture.

Commendable progress has also been registered in the provision of micro finance services during the year under review. The stock of total loans extended by Micro Finance Institutions (MFI's) has increased from Birr 1.96 billion as at June 30, 2006 to Birr 2.74 billion by end of June 30, 2007, showing a growth rate of 39.8 %. Similarly, the amount of savings mobilized by these institutions increased from Birr 715.9 million to Birr 1.04 billion during the same period. The number of clients served by MFIs has also gone up from 1.2 million to 1.6 million. The expansion of micro finance services is believed to contribute notably to reducing poverty and unemployment in the economy through reaching those sections of the society that are at the lower end of the income distribution and have not had access to formal financial services.

3.5. Macroeconomic Policies and Reform Measures

3.5.1 Implementation of Monetary Policy

Ethiopia's monetary policy continued to focus on maintaining price and exchange rate stability so as to create conducive macroeconomic environment that promotes economic growth. To this end, the National Bank of Ethiopia has employed a mix of both direct and indirect monetary policy instruments. The major policy instruments include setting the minimum deposit interest rate, setting reserve requirement ratio, selling Treasury bills and monitoring the ceiling set on Government borrowing from the banking system.

By the beginning of fiscal year 2006/07, the Bank has estimated broad money to grow at a rate of 22 % which was more or less consistent with the forecasted growth of nominal GDP of 20% during the same period. Looking at the performance, Broad money grew by 19.7% where as nominal GDP grew by 29.8% in 2006/07. Given the growth rate of real GDP of 11.4% and an inflation rate of 17.8% in 2006/07, it is clear that nominal GDP has grown by much more than the forecast rate of 20 %. As a result, the Bank has broadly succeeded in achieving its target of streamlining the growth of broad money with nominal GDP growth. Nevertheless, the objective of the Bank to contain core inflation below 10 % was not realized as it reached 15.2% during the review year. The pass-through of foreign inflation (particularly that of fuel oil and construction materials) on domestic prices, the substantial jump in the prices of construction materials due to intense demand in the sector and the upward revision of water and electricity charges and tariffs could be the major factors behind the observed surge in core inflation.

The growth in broad money during 2006/07 was largely associated with the expansion in domestic credit to the tune of 23.1 %. Looking at the structure of domestic credit, net claims on Government increased by 16.4 % while credit to Non-Government sector expanded by 30.4 %. This clearly reflected the ongoing policy direction that encourages the private sector as an engine of economic growth.

There were no substantial changes in the interest rate structure of commercial banks during fiscal year 2006/07. Hence, with core inflation at 15.2 %, all interest rates remained negative in real terms. At the close of the fiscal year, however, the NBE revised the minimum interest rate on savings deposit from 3 to 4 % and the reserve requirement ratio from 5 to 10 %. Consequently, a moderate change in the interest rate structure of commercial banks is expected in the future.

As one of its monetary policy instruments, the National Bank of Ethiopia continued to use the selling of Treasury bills mainly to mobilize non-inflationary resources to cover Government budget deficit. Accordingly, in 2006/07, the Bank sold Treasury bills worth Birr 65.3 billion which was Birr 17.5 billion or 36.7 % higher than that of the previous fiscal year. Commercial banks accounted for 95% in the purchase of Treasury bills. With the gradual strengthening of non-banking actors in the future, the potential of the Treasury bills market as a non-inflationary source for Government deficit financing is expected to be significant. The policy measure that increased the reserve requirement from 5 % to 10 % was partly a move towards removing this constraint and also to restrict the money creating capacity of commercial banks.

3.5.2. Implementation of Fiscal Policy

It is known that the Government's intention is to maintain a fiscal stance that is prudent but also addresses the development needs of the country. During the medium term, the Government is going focus on maintaining the deficit at a sustainable level while at the same time maintaining public spending in key poverty oriented sectors. The Government also understands the need to balance the tremendous demands for services and investments with the need for macroeconomic discipline, which will protect the poor from inflation, and maintain the economic stability needed for private sector growth to create jobs and income. The Government's intention is also to expand investments in education, infrastructure, and other services as fast as possible, but only to the extent affordable with rising domestic resource and aid inflows. Appropriate fiscal policy measures have been introduced to encourage taxpayers through facilitating the tax collection system and its revenue generation. Measures taken so far include: income tax streamlining and closing of loopholes, improving the incentive system, strengthening tax administration, overhauling the income tax law and regulations, introducing a broad-based Value Added Tax (VAT) and tax identification numbers, and rationalizing tariff rates. Recently, the Government also introduced a sur-tax, in order to stabilize the recent price increase in the grain market. It is to be noted that this system is a short-term measure to tackle the rise in food prices and to support the urban community until the situation is stabilized (Box 3.1 below).

Although the domestic resource mobilization effort has been impressive, external finance that passed through the budget has been on the decline since the aftermath of 2005 election. However, external resources (ODA) increased from 1.05 billion USD in 2005/06 to over 1.5 billion USD in 2006/07. These resources were allocated principally to infrastructure and human resource development, a strategy which has greatly contributed to the achievement of growth and macroeconomic stability.

In terms of inter-Governmental fiscal transfer, the fiscal transfers to regional Governments continue to be effected through a credible and transparent budget subsidy formula, and have taken into account criteria for equity and efficiency. With the view to deepening the decentralization process, *woredas* are being fully empowered to take up expenditure and revenue assignments within their competence.

The Government has been pursuing prudent expenditure policy by continuing to restrain public expenditure on defense and non-priority sectors and protect poverty-targeted outlays and capital expenditure, while containing total spending within affordable limits.

Box 3.1: Implementation of the Tax Reform Program has helped to revamp Tax Revenue collection

In order to achieve development objectives through the PASDEP, mobilizing financial resources is indispensable. The major sustainable source of the required financial resource is domestic revenues from tax and non-tax sources.

In line with this, in the past years, the Government adopted far-reaching tax reform measures including overhauling the tax laws and regulations, broaden the tax base by way of introducing the Value Added and Turn over taxes back in 2003. Parallel with the tax reform programs extensive tax administration measures have been undertaken. The tax administration measures include the implementation of a national Taxpayer Identification Number (TIN), the introduction of the presumptive tax scheme in order to address the hard to tax group, re-organizing tax collection institutions, computerizing the tax administration, and conducting comprehensive tax education to enhance taxpayers' compliance.

Since identification and registration of the tax payer is the prime function of the tax collecting institution, the introduction of TIN is expected to improve the over all revenue performance through creating data base, improving information flow, and creating essential link to all tax operations. Of all the tax reform efforts undertaken so far, substituting the previous cascading sales tax with a well designed and modern value-added tax system could be cited as significant step in the reform program and a major success. Comparative studies attested that VAT revenue productivity compared with our neighboring countries has been found to be very encouraging. Accordingly, the VAT significantly contributed to revamp recent tax revenue performance.

Tax assessment in the absence of books of account is the most challenging aspects of tax administration. To this end, the Government introduced presumptive tax assessment scheme on category "C" tax payers aimed at improving equity and putting administrative simplicity. The scheme has been implemented at regional level to collect profit tax from potential taxpayers with lesser collection cost and minimized collusion. The introduction of turn over tax on those who are not eligible to VAT is intended to keep the neutrality of the tax system and argument revenue collection by regional Governments.

In the process of improving the tax system and promote service delivery, various operational programs, systems and procedures have been introduced in taxpayers' revenue accounting. Such measures enhanced efficiency and effectiveness in the management of tax arrears and taxpayers' compliance. Above all, the tax reform agenda incorporated a comprehensive computerization program aimed at automating all tax administration function through out the nation. To this effect, since the beginning of 2005, a tax system that handles all taxes in a single software system known as Standard Integrated Government Tax Administration System (SIGTAS) is being installed. Currently SIGTAS is implemented in Large Taxpayers' Office (LTO) and Addis Ababa Branch offices as well as regional offices of FIRA where the system is intended to administer VAT.

Source: MOFED

Chapter IV **Performance in Financing the Plan (PASDEP)**

4.1. Revenue, Expenditure and Financing

4.1.1. Domestic Revenue and Grants

In 2006/07, total revenue and grants was budgeted at about Birr 34.5 billion (20.2% of GDP) of which domestic revenue amounted to Birr 25.7 billion (15 % of GDP). External grants have been budgeted at Birr 8.8 billion (5.1% of GDP).

Looking at the components of revenue and grants, domestic revenue has been on average increasing faster than recurrent expenditure during the last three years ending in 2006/07 (16.3% per annum versus 12.7% per annum, respectively). Annual average growth rate in tax revenue has been slower than that of nominal GDP over the last three years ending in 2006/07.

Non-tax revenue has been increasing at the rate of 19.1% on average during the three years ending 2006/07. Non-tax revenue collection stood at 62.5% of the budget as it declined by about 17.3% in 2006/07 compared to its level in 2005/06. The decline in non-tax revenue and the fast growth in tax revenue is a positive sign which shows that the productive sector is increasingly becoming the revenue base of the economy.

As shown in Table 4.1 below, total Government revenue (domestic revenue and grants) stood at 85.1% of the budget. It stood at 26.2% higher than the level attained during the previous fiscal year (2005/06). Domestic revenue collection in 2006/07 was higher than the level in the previous year (2005/06) by about 11.6%. In 2006/07, external grants fell short of the budget (85.5%) while the outturn against its level in 2005/06 was 103.2%.

Table 4.1: The Outturn for the 2006/07 Resource Envelope

Items	2006/07 Performance Against the Budget (%)	Change in 2006/07 Performance over 2005/06 (%)	Average Growth Rate (%) (2003/04- 2006/07)
Domestic revenue	84.9	11.6	18.4
Tax revenue	93.4	22.6	20.7
Non tax revenue	62.5	-17.3	15.2
External grants	85.8	103.2	21.7
Domestic revenue and grants	85.1	26.3	17.1

Source: MoFED

4.1.2. Expenditure & Financing

Total spending for 2006/07 was budgeted at 41.8 billion Birr (36.2% of GDP) while the outturn was estimated at 35.6 billion Birr (20.8% of GDP). The outturn for spending fell short of the budget by 15 percentage points. External Grant was budgeted at birr 8,841 million and Financing below the line (external net) budgeted at birr 3,316 million. Altogether, Birr 12,157 million or an equivalent of 7.1% of GDP in ODA was budgeted. However, what has been realized was only 5.6% of GDP. Fiscal Deficit including grants was budgeted at about 6.3 % of GDP and what has been realized was 3.6% of GDP. These parameters are reflections of the prudence in fiscal management under resource constraint. Table 4.2 below summarizes the financing of the PASDEP during its second year of implementation.

Table 4.2: Performance in financing the second Year of PASDEP Implementation, as % of GDP at CMP, unless otherwise specified

Item	Base Line (2004/05)	2005/06 Actual	Budget 2006/07	Pre. actual 2006/07	2006/07 Performance Against Budget
Domestic revenue	15.8	14.8	22.2	12.8	84.9
o/w- Tax revenue	12.5	10.8	16.1	10.2	93.4
o/w- Non tax revenue	3.3	4.1	6.2	2.6	62.5
Grants	4.2	2.4	7.6	4.4	85.8
Domestic revenue and grants	20.0	17.7	29.9	17.2	85.1
Total expenditure	25.2	22.3	36.2	20.8	85.0
o/w- Recurrent	13.4	11.6	16.7	10.0	88.9
o/w- Capital	11.8	10.7	19.5	10.8	81.5
Poverty-oriented expenditure	14.2	13.4	21.6	13.1	89.6
Fiscal deficit including grants	(5.0)	(4.6)	(6.3)	(3.6)	85.2

Source: MoFED

4.1.3. Sectoral Performance in Poverty-Oriented Spending

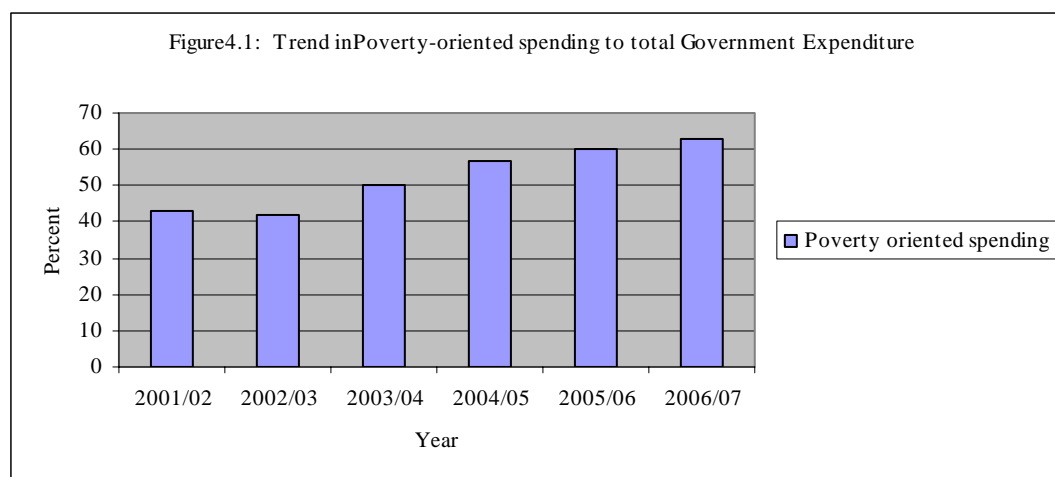
The share of total spending on poverty-targeted sectors (both recurrent and capital from all sources) increased from about 42% of total expenditure in 2002/03 to over 62.9% by the end of 2006/07. Increases have been witnessed in spending across all poverty-oriented sectors in the past year, with recurrent poverty-targeted spending increasing by 20.1%, over the previous year, and capital by 31.3%, largely due to the steady increase in spending on most poverty-oriented sectors in particular the on-going Federal food security program.

As noted earlier, during the SDPRP and now PASDEP period, Government resource allocation and implementation has been geared towards investments on growth enhancing (infrastructure) and pro-poor social sectors. As indicated in Table 4.3 below, from the total public expenditure, spending on poverty-oriented sectors has been increasing over time (from 43% in 2001/02 to 62.9% in 2006/07). In 2006/07, spending on poverty-oriented sectors increased by nearly 3 percentage points compared to the preceding fiscal year (from 60.1% in 2005/06 to 62.9% in 2006/07).

Table 4.3: Trends in Pro-Poor Sector spending in total public spending (%)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	6-Year Average
Education	14.2	16.1	20.4	19.7	21.8	23.7	19.3
Health	5.9	4.9	4.3	4.8	4.6	6.6	5.2
Agriculture and food security	9.2	8.1	13.4	16.3	16.8	12.5	12.7
Road	10.7	9.9	9.6	11.3	12.5	14.1	11.4
Water and sanitation	2.8	2.9	2.0	4.5	4.4	6.0	3.8
Total	43	42	50	57	60.1	62.9	52.5

Source: MoFED



4.2. Developments in External Finance Flows and its Management

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

ODA Disbursement: Including technical assistance, Ethiopia received about US\$1.5 billion in 2006/07. This is mainly due to PBS disbursements. In absolute terms, the amount of ODA has risen sharply from an average of US\$500 million per annum in the mid-1990s to over US\$1 billion per annum recently. Over the last Eight years (1999/00- 2006/07), ODA has averaged at US\$1034.6 million per year. The contribution of bilateral donors to ODA over the Eight years period was on average US\$ 322.4 million per year accounting for 31% of ODA. Multilateral donors have been and still are the principal providers of external assistance. On average they altogether contributed US\$ 712.1 million (69%) of total ODA to Ethiopia during the same period. Details are presented in Table 4.4 below.

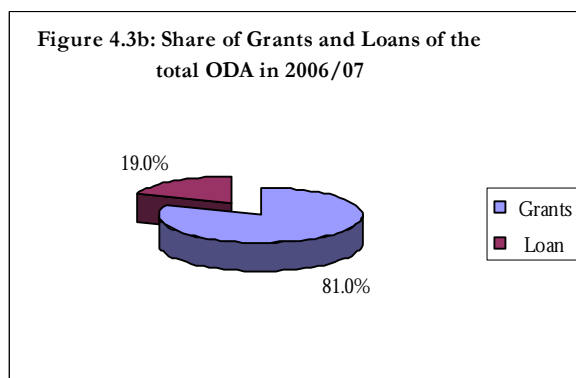
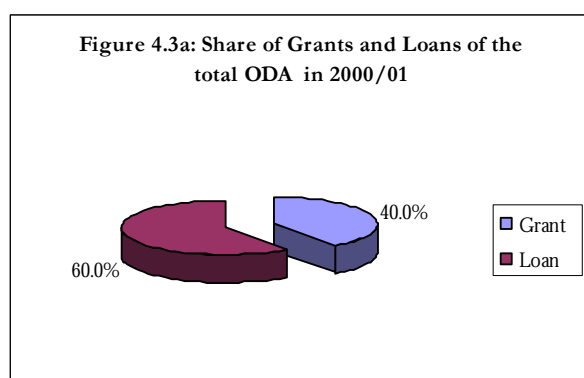
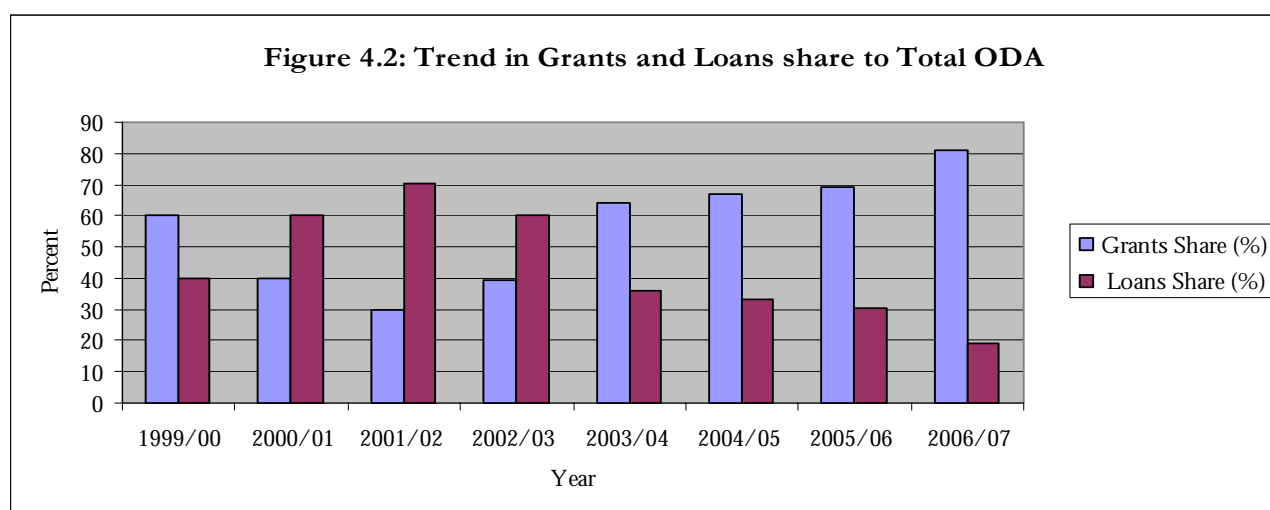
As has been already noted, the figures presented here under include technical assistance as well. However, what is of crucial importance for the country is the volume of development aid that

passes through the budget process. The figures also indicate rough estimates, since the full amount of the aid are not reflected in the Government budget, either because donors spend it directly, or do not report them through Government systems.

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

Source	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	8 Years Total
Multilateral	268.46	454.18	734.5	552.4	652.5	736.0	632.5	964.8	4995.34
Bilateral	101.66	140.40	133.8	141.1	285.0	320.1	474.5	579.8	2176.36
Total	370.12	594.58	868.3	693.5	937.5	1,056.0	1,107.4	1549.3	7176.7
• Grants	222.60	238.24	259.59	274.86	601.34	705.79	768.68	1256.51	4327.61
• Loans	147.52	356.34	608.73	418.73	336.12	350.17	338.68	292.83	2849.12
• Grant Share (%)	60.14	40.07	29.9	39.63	64.15	66.84	69.42	81.1	60.30
• Loan Share (%)	39.86	59.93	70.1	60.37	35.85	33.16	30.58	18.9	39.70

Source: MoFED



As the country has already entered in to the third year of implementing the PASDEP (2007/08), there is an urgent need to scale up ODA towards full-scale implementation of the PASDEP and

hence MDGs. The magnitude of the gap to be financed as indicated in the PASDEP is the minimum level by which development partners could scale up financing in Ethiopia.

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

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

Aid Flows Information: The Government expects donors to provide full information on aid flows regularly, disbursement plans within a medium-term time frame (3 years), on a timely manner, and based on classifications/categories (Federal vs. regional). This will ensure that aid flows are properly captured in the budget as well as enable the Government to publish details of aid received from the development partners on a regular basis.

Harmonization and Alignment: The Paris Declaration calls for a radical way of delivering aid and it represents a landmark achievement for the international community, which brings together a number of key principles and commitments in a coherent way. Although donors argue that they have changed their approach and that conditionality has been replaced by country ownership, poverty reduction and pro-poor growth strategies, experience on the ground suggests otherwise. Lack of harmonization and alignment of policies, procedures and programs among various donors' agencies is still a problem in making aid delivery effective. On the other hand there is no mechanism for the country to hold donors accountable. This needs to be replaced by effective development partnership based on mutual accountability.

The effort on the domestic front has been encouraging as reflected by the domestic revenue performance evaluated against PASDEP target for 2006/07. Resources have been further decentralized to sub-national level as reflected by the sharp increase in Federal transfers to regions as well as the fast increase in both recurrent and capital spending. Scaled-up foreign financing to ensure full-scale implementation of programs articulated in the PASDEP could have complemented this effort. However, what has been witnessed during the first two years of implementing the PASDEP is that external finance that passed through the budget process has not been forthcoming even as projected in the PASDEP (business-as-usual scenario). In 2006/07, 5 external grants fell short of the budget by 14.2%. However, it amounted to 103.2% when compared to the 2005/06 level.

Notwithstanding the drawbacks just outlined, external aid is still an important source of financing capital expenditure (accounting on average for 30% to 40% of overall capital expenditure) to sustain the accelerated growth path witnessed during the last five years. Moreover, the wide range of institutional and structural reforms that have been taking place will help enhance the transparency of Government expenditure management and accountability of the public sector. These efforts are expected to encourage all development actors including our development partners to mobilize their resources towards the common goal of poverty reduction and its ultimate eradication.

Finally, besides mobilizing ODA resources, the Government is doing its level best to facilitate and attract foreign investment to promote growth, employment and poverty reduction.

4.3. The 2007/08 Budget

The 2007/08 fiscal year is the third year in the implementation of Ethiopia's Five Year Development Plan (the PASDEP). The budget has been progressively realigned with PASDEP priorities through the macroeconomic and fiscal framework (MEFF). Poverty-oriented sectors have been given due emphasis during the formulation of the Macroeconomic and Fiscal Framework (MEFF) and the preparation of the 2007/08 budget in line with PASDEP's indicative Financing Plan. The basis for 2007/08 budgets was the 2007/08-2009/10 MEFF. For fiscal year 2007/08, domestic revenue was budgeted at 33.3 Billion ETB and total general Government expenditure excluding special programs was budgeted at 52.4 billion Birr. Out of the total expenditure about 47.4% is recurrent and 52.6 % capital expenditure. It is worth noting that the share of capital expenditure stood at 40%, 46% , 48% and 52% during fiscal years 2003/04 , 2004/05, 2005/06 and 2006/07, respectively.

Domestic revenue budgeted at 33.3 billion birr was equivalent to 16.1% of GDP. The PASDEP target was set at 15.7% of GDP for the same fiscal year. Given that total spending is budgeted at 25.3% of GDP, fiscal deficit including grants as percentage of GDP is budgeted at 4.1% of GDP. The PASDEP target for spending as percentage of GDP set at 22.8% of GDP while fiscal deficit including grants was set at 4.5 % of GDP. This is what is termed as gap to be financed under the Base Case in the PASDEP. The amount budgeted for domestic revenue including grants has shown an increase over the PASDEP target owing to a greater extent to an increase in external grants. The expenditure budget exceeded the PASDEP target by 2.5 percentage points.

Of the total expenditure budget (from all sources) of 52459 million Birr, about 31584.6 million Birr (60.2%) was budgeted for poverty-oriented sectors: Agriculture & Food Security, Education, Health, Roads, Water and Sanitation. The expenditure budgeted for poverty-oriented sectors was higher than the budget for the preceding fiscal year (2006/07) by 26.5% (of which recurrent increased by 34.6% while capital increased by 22.8%).

In accordance with the PASDEP objectives, the Government continually increases budget for agriculture and food security (up by 21.2% compared to 2006/07), education (up by 23.2% compared to 2006/07), health (up by 32.2% compared to 2006/07), and water supply and sanitation (up by 25.9% compared to 2006/07), roads (up by 32.8% compared to 2006/07).

An increase in budget allocation to poverty-oriented sectors such as agriculture and food security, roads, health and water is a reflection of the continued pronounced focus by the Government on those sectors. Table 4.5 below depicts the details on budget allocation to poverty-targeted sectors.

Table 4.5: Allocation to Poverty Targeted Spending: 2007/08 Budget versus 2006/07

(Values in Million Birr)

Item	2006/07 Budget	2006/07 Pre. Actual	2007/08 Budget	PASDEP Target for 2007/08	Change in 2007/08 Budget Over 2006/07 Budget	Change in 2007/08 Budget over PASDEP Target for 2007/08
Education	8163	8424.5	10055	7166	23.2	40.3
Health & HIV/AIDS	2855	2352	3774	3465	32.2	08.9
Agriculture and food security including Irrigation	5123	4442	6208	6417	21.2	-3.3
Road	6091	5007	8091	8761	32.8	-7.6
Water and sanitation	2746	2144	3457	2811	25.9	23.0
Urban Housing Development	-	-	-	4,200	-	-
Rural Electrification	-	-	-	2,023	-	-
Others ²	-	-	-	1,206	-	-
Total poverty-oriented expenditures	24977	22371	31585	36049	26.5	-12.4
Total expenditure	41836	35567	52459	47218	25.4	11.1
Recurrent	19269	17125	24844	19584	28.9	26.9
Capital	22567	18398	27615	27634	22.4	0
Poverty-oriented spending as % of total spending	59.7	62.9	60.2	76.3	-	-

Source: MoFED

During fiscal year 2007/08, total Federal transfer to regions (from treasury) has been budgeted at about 13.6 billion Birr, representing an increase of 41.7 % compared to what has been budgeted in fiscal year 2006/07. In addition, it should be noted that although food security is a Federal Government program, the implementers are regional states. In effect the food security budget is a regional resource.

² Others include projected costs on Private sector development, Population and development, and Gender and development. The allocated finance is in the ratio of 76:17:17, respectively.

Chapter V

Efforts to Eradicate Poverty and Hunger: Overview of Sectoral Performances

Development is cumulative outcome of coordinated activities by all different socio economic sectors. To this effect, the Government of Ethiopia designed development policies and strategies for each sector and has been under implementation. These are the policies, strategies, and programs up on which the PASDEP is built. Encouraging results have been registered in each sector. In view of that, the progress made and the challenges encountered across major socio economic sectors up until the 2006/07 fiscal year are presented in turn in the sections below.

5.1. Agriculture, Rural Development & Food Security

Owing to its size, the influence of the Agriculture sector on the Ethiopian economy has been overwhelming. It influences the path of the economy both in terms of its impact on the over all out put and employment. Being the dominant sector, agriculture contributes about 50% to overall GDP, generates 90% of export earnings and supplies about 70% of the country's raw material to the secondary activities. The recent growth in the agriculture sector is a response to the Agriculture Development Led Industrialization (ADLI) strategy that has been under implementation since 1994 as reflected in the then Sustainable Development and Poverty Reduction Program-SDPRP (2002/03-2004/05) and its successor the Plan for Accelerated and Sustained Development to End Poverty-PASDEP which spans the five year period, 2005/06-2009/10.

With in the domain of the agricultural sector remarkable progress has been registered on crop production and productivity; livestock productivity; diversification of agricultural production; establishment of agricultural marketing system, research and extension services; supply of agricultural inputs such as fertilizer and improved seed utilization; expansion of small and medium scale irrigation scheme and management & utilization of natural resources.

To sustain the growth in the agricultural sector, in 2006/07, complementary efforts have been continued in terms of capacity building interventions via agricultural extension packages and research; promotion of agricultural exports; agricultural input utilization; irrigation development and natural resource conservation etc. An overview of the sector's performance for 2006/07 is presented in the sub-sections below.

a) **Crop Production and Productivity**

Main season (Meher) production of major crops by Private Peasant Holdings accounted on average for over 90% of total output of major crops and 93% of cultivated area in any one year. Total area cultivated under major crops during the Main (Meher) season increased from 10,170 thousand hectares in 2005/06 to 10,576 thousand hectares in 2006/07 (nearly 4 % increase over 2005/06). The plan as indicated in the PASDEP was to cultivate 12,437 thousand hectares. It is worth noting in this regard that the plan took in to account area to be cultivated under all kinds of land holdings (including private commercial farms and state farms) whereas the performance reported during the year under review covers only private peasant holdings during the main (Meher) season only. This is not amenable for achievement versus planned target comparison for both area cultivated and production of major crops owing to data gaps on the non-peasant sector as consistent time series data has not been made available annually. After all, if one looks at the plan in the PASDEP, private peasant holdings account on average for about 90% of production of major crops and 97% of area cultivated under these same crops (major crops).

With regard to the volume of crop production, total production of major crops by private peasant holdings during the main season increased from nearly 134 million quintals in 2005/06 to 149 million quintals in 2006/07. This amounts to a 12% increase over the production level in 2005/06. Both volume of production and yield per hectare have also shown consistent increase for almost all categories of major crops during 2006/07 while area cultivated under major crops has only shown a modest increase of about 4 % in 2006/07. Area cultivated under major crops has been increasing at a decreasing rate since 2004/05. Thus, increase in production has been to a larger extent attributed to increase in productivity during the last two years. See Table 5.1 and Table 5.2 below for the details.

Table 5.1: Trends in Area Cultivated, Production, and Yield Major Crops for the Main Season for Private Peasant Holdings

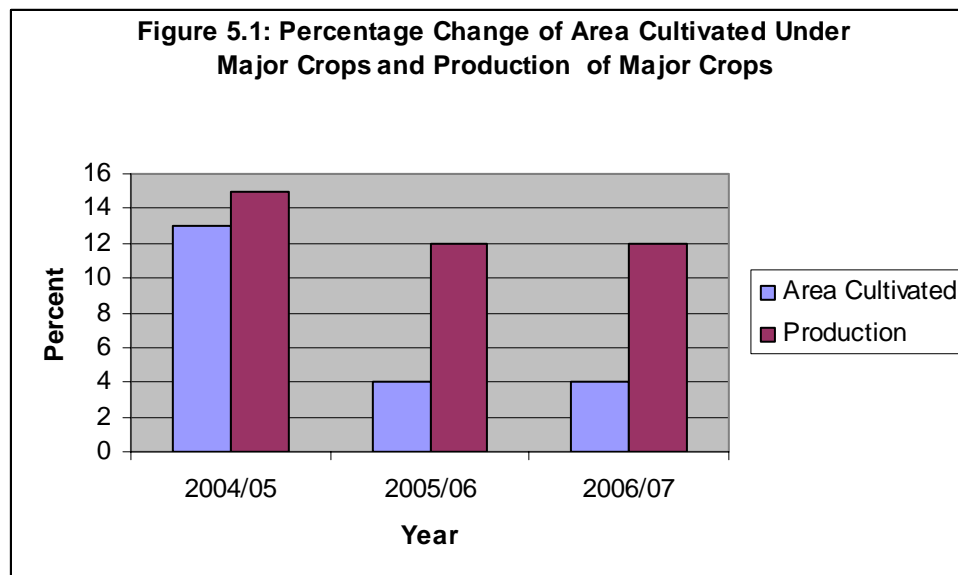
Item	Area Cultivated '000 ha.			Production '000 quintal			Yield q/ha.		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
Cereals Total	7,643	8,081	8,462	10,0365	116,242	128,658	13.1	14.4	15.2
o/w- Teff	2,136	2,246	2,405	20,255	21,756	24,377	9.5	9.7	10.1
-Barley	1,095	998	1,019	13,281	12,707	13,521	12.1	12.7	13.3
-Wheat	1,398	1,460	1,474	21,766	22,191	24,630	15.6	15.2	16.7
-Maize	1,399	1,526	1,694	24,067	33,368	37,764	17.2	21.9	22.3
Pulses Total	1,349	1,292	1,375	13,496	12,712	15,781	10.0	9.8	11.5
o/w-Faba Beans	463	457	459	5,520	5,128	5,761	11.9	11.2	12.6
-Chick Peas	168	201	200	1,616	2,106	2,538	9.6	10.5	12.7
-Haricot Beans	246	164	223	2,114	1,384	2,227	8.6	8.5	10.0
-Field Peas	254	233	221	2,283	1,823	2,100	9.0	7.8	9.5
Oil Seeds Total	825	796	739	5,266	4,864	4,965	6.4	6.1	6.7
o/w- Neug	359	307	274	1,872	1,471	1,477	5.2	4.8	5.4
-Lin Seed	251	215	174	1,519	1,259	1,082	6.1	5.9	6.2
Total	9,817	10,170	10,576	119,127	133,818	149,404	-	-	-

Source: CSA

Table 5.2: Area and Production of Major Crops: Percent Change over the Previous Year (%)

Item	Area Cultivated			Production		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
Cereals	9.3	5.7	4.7	11.5	15.8	10.7
Pulses	22.7	-4.2	6.4	30.1	-5.8	24.1
Oil Seeds	44.6	-3.5	-7.2	68.3	-7.6	2.1
Total	13.3	3.6	4.0	15.1	12.3	12.0

Source: CSA



This improvement has been mainly attributed to the adoption and implementation of on-going agricultural policies and strategies at the grass root level which include: provision of updated marketing information to the farming communities, identification of suitable agro ecological zones, which are focused on specialization and diversification, the emphasis given to pastoral and agro pastoral farming communities addressing their critical problems mainly on moisture harvesting techniques, appropriate agricultural technologies generated, identified and delivered to specific agro ecologies, Development Agents(DAs) trained and deployed to the farming communities and increased utilization of agricultural inputs particularly fertilizer and improved seeds.

b) Agricultural Extension Services

To increase agricultural production and productivity improving farmers' capacity through training is very essential which subsequently ensure food self-sufficiency and there by help transform small holder farmers from subsistence form of agriculture system to marketable agricultural commodity producers. In response to this, agriculture extension services have been provided through DAs assigned in each rural *kebele*. The training has been provided in packages that have been developed at the Federal and regional levels. During 2006/07, 4 million farmers were trained against the planned target of 1 million. This is four-fold compared to what has been

planned in the PASDEP. The focus areas of the training programs have been on crop production and protection, livestock development, livestock health and natural resource management.

Household package has been carried out by farmers who previously acquired know-how through participating in extension (minimum) packages. Household package training differs from minimum package in that it requires socio-economic base line survey and setting of household income target for a specific period of time, usually three years. In household packages beneficiary farmers implement agricultural packages of their own choice in an integrated manner. In 2006/07, 337,634 farmers were trained against the planned target of 328,560 farmers. Accordingly performance stood at 102.8% of the planned target.

In modular training, DAs provide theoretical and practical training for farmers for a period of at least three months. Farmers or pastoralists have been trained on areas of their choice based on their own will. In 2006/07, it was planned to train 335,580 farmers whereas only 32,128 (28,036 men and 4,092 women headed households) were trained. The reason for low achievement is the failure in supply of training equipment.

In 2006/07, it was planned to construct 2,114 farmers' training centers (FTCs). However, the construction of 969 FTCs has been fully completed. The achievement is 45.8% of the plan.

c) Promotion of Agricultural Exports

Given the prevailing favorable investment condition in the country, the target for most of the agricultural commodity exports has been promising except for cereals. The reasons for shortfalls in achievement in the case of cereals export has been the temporary directives issued by the Government not to export cereals like Teff, Wheat, Barley, Maize, etc to ease the inflationary pressure. During 2006/07, volume of export of the newly emerging agricultural commodity (cut flower) increased by about 116% over its level in 2005/06. In 2006/07, volumes of export of pulses increased by about 44% over its level in the preceding fiscal year see Table 5.3 below.

Table 5.3: Performance in Agricultural Exports

Crop	Unit	2005/06 Actual	2006/07 Plan	2006/07 Achievements	2006/07 over 2005/06(%)
Coffee	In '000 metric ton	147.7	207	176.4	19.4
Pulses	“	110.4	170.4	158.8	43.8
Oil seeds	“	265.5	188.4	235	-11.5
Flower	“	6.3	-	13.6	115.9
Vegetable and fruits	“	34.8	49.6	40.9	17.5
Chat	“	22.3	-	22.7	1.8
Cereals	“	-	48	4	-
Meat	“	8	36	5.8	-27.5
Live Animal	“	33.3	185	43.7	31.2

Sources: National Bank of Ethiopia and Ethiopian Customs Authority

d) Food Security Program (FSP)

The FSP has been designed to address the underlying sources of chronic and transitory food insecurity problems. The core objectives of this program are to enable 8.29 million chronically food insecure people attain food security in the five year period. The other objective is to significantly improve the food security situation of the remaining 6.71 million people facing transitory food insecurity problems. The program has been under implementation since 2003.

The key interventions designed to attain household food security over the five-year period include:

- Undertaking voluntary resettlement program;
- Undertaking Safety net program which helps to bridge food insecurity gaps while building community assets; and,
- Building household assets through on farm and off farm activities.

The major achievements during 2006/07 in line with the program are summarized below:

Voluntary Resettlement Program: The Voluntary Resettlement Program has been intended to create access to land for food insecure households who live in highly degraded and over populated parts of the country. The program started in 2002/03, and considerable progress has been made since then. In 2006/07, it was planned to resettle 57,250 households in Amhara, Oromya and SNNP Regional states. Intensive efforts were made to attain the target, and by the end of the year, 28,794 (50.3 % of the planned) households were resettled. In the Amhara region, the plan was to resettle 15,000 household heads. However, due to a number of operational constraints, only 7203 household heads were resettled. The achievement against the planned target was 48%. In Oromia region, 34,650 household heads were planned to be resettled. Out of this, 14,931 household heads were resettled. The achievement against the planned target was 43%. In SNNP region, the plan was to resettle 7,600 household heads. However, 6,660 household heads were resettled. The achievement against the planned target was 88%.

The Productive Safely Net Program: The Productive Safely Net Program is one of the key interventions designed by the Government to serve the dual purpose of bridging the income gap for chronically food insecure households, and engage such households in community asset-building efforts to earn income, especially during the lean season and times of drought.

The productive safety net Program was started in 2005 with 4.8 million chronically food insecure beneficiaries; in Amhara, Oromia, Tigray, SNNP, Harari regions and Dire Dawa administrative council, covering a total of 192 *Woredas* in the above mentioned Regions. The program has had two components - labor-intensive public works and direct support for labor-poor households. The able-bodied are engaged in public works for which they are paid a minimum amount, while the labor-poor are provided the same amount free.

In 2006, the number of program beneficiaries increased to 7.2 million and the same number of beneficiaries was maintained for the year 2007 budget year. Out of these beneficiaries 5.8 million have participated in the Public Works (PW), while 1.3 million were Direct support (DS) beneficiaries.

Beneficiaries get the transfer in two ways; those who have labor, by participating in the Public Works (PW) and those who do not have through Direct support (DS). Transfer is made in cash and food based on the beneficiaries preferences. The objective of the overall safety net Program is to protect the asset depletion at the household level and create communal assets at the community level. Hence, the labor intensive Public Works (PW) activities, aim to create communal assets.

In 2006 and 2007 Birr 1.0 billion and Birr 1.1 billion cash has been transferred, respectively, and the total amount of 198,868.6MT and 218,446MT food has been transferred during 2006 and 2007, respectively.

Various development activities have been undertaken in the past three years with the Productive Safety net Program that could help to fulfill the aim of the program (creating community assets through public works).

The major activities of the public works include: soil and water conservation, water harvesting, small scale irrigation, a forestation, rural road constructions and social infrastructure development activities. The safety net program Public Works (PW) activities were performed based on the Community Based Participatory Water Development Planning (CBPWDP) approach.

In 2006/07, technical Public Work reviews were undertaken in selected *Woredas* of Amhara, Oromia, and Tigray, SNNP, Harari regions, and Dire Dawa Administrative Council by Government and Donor Team, focusing on the appropriateness, effectiveness, quality and sustainability of the works. The overall conclusion of the reviews showed that in spite of some technical and administrative constraints, it was noted that good progress and encouraging achievements have been registered.

Building Household Assets: Asset depletion has been considered as one of the principal causes of food insecurity in the country. Accordingly, sustainable asset building has been considered as a way out to address the food security problem. To this effect, packages have been developed and credit facilities have been arranged. In this regard, during 2006/07, it was planned to provide credit service for 320,974 households and 377,713 households (118 %) got access to credit to purchase different types of technology packages. The source of credit has been largely from the Government's annual Food Security Budget. The other recognized source of credit is the World Bank, CIDA, Italian Government Food Security project.

Achievements in this regard by regions are presented as follows:

- In Amhara Region, the plan was to provide credit to 104,875 household heads and 96,377 household heads got credit to purchase different types of technology packages. The achievement against the planned target was 92%;
- In Oromia Region, the plan was to provide credit to 52,969 household heads, and 95,536 household heads got access to credit support to purchase agricultural inputs and to

participate in different income generating activities. The achievement against the planned target was 180%;

- In Tigray Region, 127,130 household heads were planned to obtain credit support, and credit was provided to 145,580 household heads. The achievement against the planned target was 115%;
- In SNNP Region, 36,000 household heads were planned to get credit to procure agricultural inputs as well as to participate in income generating activities. About 40,214 household heads got credit for the same purpose. The achievement against the planned target was 112%.

e) **Agricultural Input Supply**

To enhance agricultural productivity and tackle the food security challenge of the country, adequate utilization of agricultural input plays an important role. In this regard, the Government of Ethiopia has put an effort to supply various agricultural inputs to the farmers. Accordingly, encouraging results have been achieved during the year under review.

Fertilizer Supply: During 2006/07, 433,199 MT (280,375 DAP and 152,824 Urea) fertilizer had been supplied. It is estimated that 400,000 MT of fertilizer was utilized. This exceeds the 2005/06 fertilizer utilization by 7%. Table 5.4 below presents the trend in fertilizer utilization.

Table 5.4: Trend in Fertilizer Utilization, In Metric Ton

Item	2005/06 Actual	2006/07 Plan	2006/07 Actual	2006/07 over 2005/06 (%)
Chemical Fertilizer	375,717	650,000	³ 400,000	7
DAP	251,156	370,000	267,200	6
Urea	124,561	280,000	132,800	7
Organic Fertilizer	1700	10,300	538	-68
Total	377,417	660,300	400,538	6
Improved seed (quintal)	225,310	1,394,512	⁴ 198,454	-12

Source: MoARD

In 2006/07, it was planned to supply 10,300 MT of Organic fertilizers, but only 538 MT of Organic fertilizers was supplied and distributed to farmers. The shortfall has been attributed partly to insufficient promotional efforts.

Improved seed supply: In 2006/07, it was planned to supply 1,394,512 quintals of improved seed to farmers. Of this, 323,093 quintals of improved seed was planned to be supplied by the Federal level seed growers and the remaining by regions (from farmers-based seed multiplication programs). Accordingly, 198,454 quintals of improved seed had been supplied and distributed by Federal seed multipliers. However, information on the amount of improved seed supplied and

³ Estimated based on previous years consumption trends

⁴ Supplied and distributed by the Federal level seed growers only.

distributed from regional seed sources, farmers-based seed multiplication programs has not been incorporated in this assessment.

f) Natural Resource Conservation and Management

Efforts have been waged to promote sustainable social and economic development through the social management and use of natural resources. This sub-section highlights developments in water harvesting structures, small scale irrigation, and wildlife conservation during 2006/07.

Small Scale Irrigation Development: According to the PASDEP target, during 2006/07, 34,000 hectares of land was planned to be developed under modern irrigation. However 40,159 hectares of land was developed in modern and 494,393.1 hectares of land in traditional irrigation. This achievement has put the total area developed by modern irrigation in the country to 148,918 hectares.

Box 5.1 below summarizes the role and efficiency of community managed small scale irrigation schemes in addressing the poverty eradication agenda as articulated in the PASDEP.

Box 5.1: Practical significance of small-scale irrigation schemes in the livelihoods of the poor

In countries like Ethiopia which relies on agriculture for a large part of its GDP, raising agricultural productivity is the most viable option for reducing poverty, and irrigation development can act as spring board for economic development.

The overall objective of the national water resources management policy of Ethiopia is to enhance and promote efforts towards an efficient equitable and optimum utilization of the available water resources and contribute to the country's socio-economic development on a sustainable basis.

Indeed, the importance of water management and irrigation is strongly stipulated in PASDEP and significant investment being made on the sector and PASDEP recognizes the importance of the development of small and medium scale irrigation schemes. Among these, we see some of the small-scale irrigation schemes which are communally managed and resulted in successful intervention to improve the livelihoods of poor farmers. This box summarizes success stories of a number of community managed small scale irrigation schemes:

Hare irrigation scheme: *it is located in the Gamu Gofa zone, Southern Nations, Nationalities and People's Regional(SNNPR) state at 495 km South of Addis Ababa near Lake Abaya in the Rift valley lakes basin. It was established in 1993 by the transitional Government of Ethiopia and the China national complete plant import and Export Corporation limited of The People's Republic of China to establish a modern river diversion scheme on the Hare River.*

The Hare river irrigation scheme has had 19,674 beneficiaries and has been managed by the farming community itself. Water committees (WCs), which are elected from the irrigators themselves, are responsible for the operation and management of the scheme. The WCs usually consists of a chair man, secretary and members. The numbers of members in the WCs differ from district to district in the irrigation scheme.

Crop production with animal husbandry is the main farming system in the Hare irrigation system. Cash

Water Harvesting: Water harvesting is in general a process/system of collecting, directing and concentrating all possible rainwater that falls in an area to increase the amount of water available for domestic use, livestock and plant growth.

The PASDEP plan for 2006/07 regarding water harvesting was 9,250 hectares, which was mainly planned on the basis of construction of water harvesting storage structures. However, by constructing household ponds, shallow wells, community ponds, and pond in black soils (vertisols) and developing springs, a total of 36,072.5 hectares of land was developed by water harvesting. This brings the area developed by water harvesting to 51,752.45 hectares in the country. This remarkable success was achieved with the efforts made by regions to implement water harvesting by considering alternative ways of water harvesting techniques based on their local conditions rather than giving emphasis to household ponds.

Wild Life Conservation & Utilization : In 2006/07, comprehensive efforts have been waged to enhance wildlife conservation and Sustainable utilization.

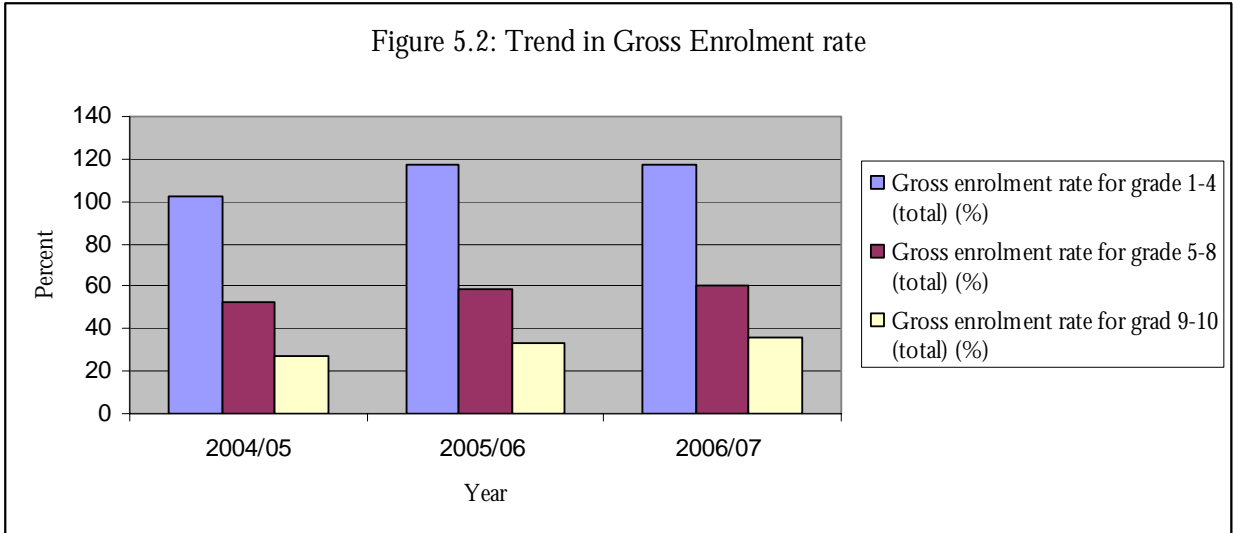
- ¾ It was planned to establish one new park and two new parks were established;
- ¾ One wildlife reserve site has been upgraded to a park status;
- ¾ One community conservation area has been established;
- ¾ Infrastructure development such as track roads has been constructed;
- ¾ Awareness creation on wildlife conservation has been provided.

5. 2. Education

As noted in APR 2006, in 1997/98, the Government of Ethiopia initiated the Education Sector Development Program (ESDP). Currently, the program is in its third phase, spanning the period 2005/06 to 2009/10. The strategic concern under this program are improving the quality of education, increasing access to educational oppor

Table 5.5: PASDEP Education Targets and Progress to Date

Indicators	2004/05 Base Year	2005/06 Achieve ment	2006/0 7Plan	2006/07 Achieve ment	Performance Rate Against Target (%)	Performance Rate Against Base Year (%)
Gross enrolment rate for grade 1-4 (total)(%)	102.7	117.6	121.3	117.4	97	114
%Girls gross enrolment rate (%)	95.5	111.2	117.3	111.3	95	117
%Boys gross enrolment rate (%)	109.8	123.9	125.2	123.3	98	112
Gross enrolment rate of under served region(%)						



With the substantial success in raising enrollment rate, educational quality appears to be the main challenge of ESDP. To overcome this challenge, programs have been designed and implemented during the year including upgrading teacher’s quality and increasing the number of teachers through on job training and summer training. Accordingly, pupil-teacher ratio for grades 1-4 reached 64:1 in 2006/07 from 65:1 in 2005/06. The availability of text books for core subjects

13,995). Accordingly, the total number of students in universities increased from 173,901 in 2005/06 to 180,000 in 2006/07.

5.3. Health

The Health Sector Development Program (HSDP) is currently in its third phase of implementation. During the year under review, 2006/07 remarkable achievements have been realized in the sector which enabled increasing access, coverage and improved health care. Encouraging achievements have also been observed in the area of strengthening the health system. In the sub-sections that follow major achievements and challenges of the health sector for 2006/07 are summarized.

a) The Health Extension Program (HEP)

The major priority area for the health sector has been the training and deployment of Health Extension Workers (HEWs). The encouraging achievement in HEP implementation for 2006/07 has been noteworthy. The target was surpassed by 3.4% showing a successful deployment of 7,753 HEWs.

During brings the total number of HEWs deployment so far to 17,653 HEWs accounting for about nearly 59% of the total national requirement of 30,000 HEWs. In order to build the capacity of HEWs training centers in pastoral and semi-pastoral regions teaching materials and other supplies including a curriculum have been delivered. This will enable to train the planned the reporting period (2006/07), 2,659 health posts were constructed. The construction of an additional 1,064 health posts is under completion. This brings the total health posts to 3,723 or 87% achievement in 2006/07. With this rate of construction at the national level, the availability of health posts will significantly increase to 9,914 accounting for 66% of the 15,000 health posts required to reach universal health coverage in the rural areas of the country.

The plan for 2006/07 for environmental sanitation was to increase latrine use from 32% to 44% \in areas where HEP is fully functional. Reports from three regions indicate that sanitation coverage increased from 20.5% to 28.1% (Oromiya), from 6% to 8% (Gambella) and from 60% to 64.6% (Harari). However, due to under reporting from most of the Regional Health Bureaus(RHBs) it has become a challenge to conduct a national estimation of sanitation coverage for the year under review.

b) Maternal Health

Improvements in maternal indicators included in ANC coverage increased from 50% in 2005/06 to 52% in 2006/07. Postnatal care coverage increased from 16% in 2005/06 to 19% in 2006/07 and proportion of deliveries attended by skilled health personnel increased from 15% in 2005/06 to 16% in 2006/07.

A consistent increasing trend has been witnessed in the contraceptive acceptance rate for the years 2001/02 to 2005/06 from 14% to 36% with slight decline in 2006/07 to 33%. This is an indication of a sustained trend of achievement. In 2005/06, OPD attendance per capital was 0.33

and in 2006/07 stayed stable at 0.32. Under reporting appears to be the major reason for poor health service utilization rate indicators as witnessed during the pilot implementation of HMIS. Hence, it is expected to improve given the HMIS reform currently underway across the country.

c) Immunization

The coverage for DPT3, Measles, and fully immunized children showed consistent increase from 51%, 42%, and 30% in 2001/02 to 73%, 65%, and 53% respectively in 2006/07. The 2006/07 coverage for DPT 3 showed slight decline compared to what has been achieved in 2005/06.

d) Improving Hospital Service

As part of access and quality of care, a project that was designed based on the main strategic issues for improving hospital service has been implemented in 14 hospitals on a pilot basis. Subsequently, blueprints have been developed to rollout implementation to 40 hospitals in 2006/07. Besides, the existing training facilities in the universities under the Federal ministry of education and, the Federal Ministry of Health (FMoH) are making the necessary preparation to start training 50 general practitioners in St.Paulos Millennium Medical College by the end of 2007.

In 2006/07, it was planned to train 2000 health officers in 20 hospitals and currently 1906 nurses are enrolled in the accelerated health officers training in five universities. Currently, there are 3278 students in the regular and accelerated Health Officers (HOs) trainings. When these students complete their studies, the existing shortage of health professionals will be significantly alleviated.

e) Health centers (HCs)

During 2006/07, the construction of 19 new Health Centers was completed while 25 HCs are under construction; Five HCs have undergone rehabilitation and 7 HCs were expanded. Moreover, the construction of 36 new, 192 ongoing and 228 up-grading of nucleus health centers were carried out during 2006/07.

f) Malaria and TB Prevention and Control

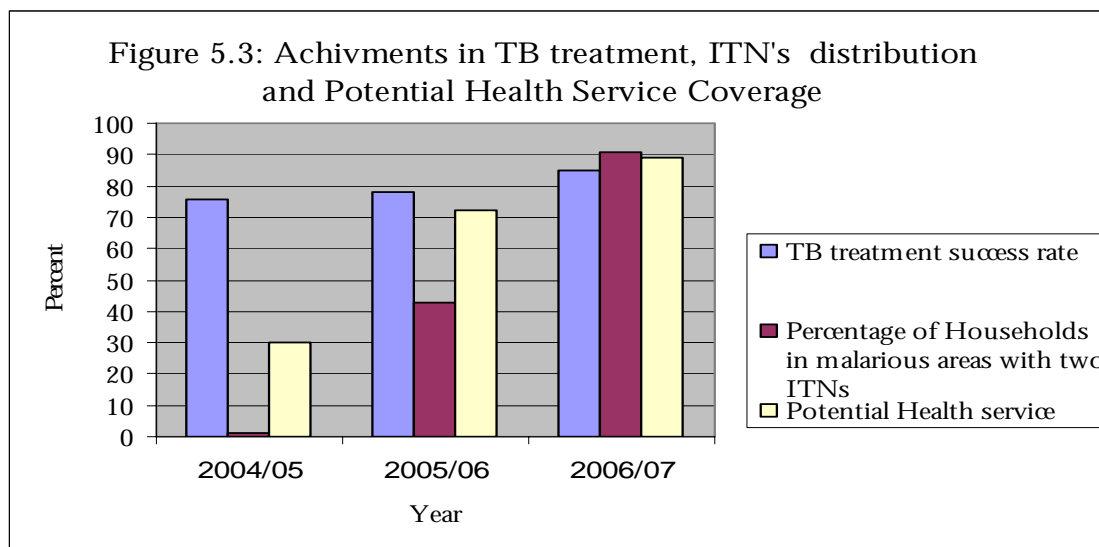
Environmental control and protection activities of malaria were implemented by the HEWs through community mobilization. Besides, 9.5 million ITNs were distributed in 2005/06 as well as the preceding years. In 2006/07, the plan was to distribute 10 million ITN of which 8.7 million (87%) were distributed. The procurement for 2.3 million ITN has been under taken during the subsequent period. Of the total requirement of 20 million ITNs, 18.2 million has been distributed so far. This brings a remarkable national target achievement of 90%. In general, due to the rigorous prevention and control measures undertaken, no malaria epidemic occurred during the fiscal year under consideration. Transmission of malaria has also been stable throughout the fiscal year as compared to the previous fiscal years. Currently, the national TB treatment success rate has reached 85%, which is in line with the international standard. The national TB case

detection rate reached 32% in 2006/07 and the cure rate improved from 66% in 2002/03 to 69% in 2006/07.

Emergency operation center was established in the FMOH in order to specifically deal with the international threat of the Avian Human Influenza and other emergency situations. Epidemic of Acute Watery Diarrhea (AWD) is one of the major health emergencies that occurred during the fiscal year under review. The outbreak was initially reported from Gambella Regional State in April 2006 and has been successfully controlled in two months time through a coordinated effort of both Government bodies and partners. During the epidemic, 2,300 cases and 18 deaths were reported. A second bout of AWD occurred two months later, and was spread in 201 Woredas and 10 sub-cities in 8 regions affecting a total of 79,831 cases that led to 941 deaths from July 2006 to June 2007. Currently, the outbreak is showing significant decline and vigorous efforts have been exerted to put it under full control.

Table 5.6: PASDEP Health Targets and progress to Date

Indicators	2004/05	2005/06 Actual	Plan 2006/07	Achievement 2006/07⁵
Reduce Infant Mortality rate out of 1000	77	77	62	-
Reduce under five Mortality rate out of 1000	123	123	106	-
Reduce Maternal Mortality rate out of 100,000	871	673	750	-
TB treatment success rate (%)	76	78	79	85
DPT3 coverage (%)	70	79	74	73
Contraceptive prevalence rate (%)	15	36	26	33
Proportion of births attended by skilled health personnel (%)	9	16	14	16
OPD (Out-patient) visit per capita.	0.3	0.32	0.4	0.32



g) HSDP Harmonization

The HSDP Harmonization Manual (HHM) has been finalized through an extensive consultative process which has been endorsed by FMOH and HPN (Health, Population and Nutrition) Donor Group. The motto of HHM is “**one-plan, one-budget, and one-report**”.

h) Financing

Since 2001/02, per capita public expenditure has been growing at annual average rate of 8%. In absolute terms, it increased from 11.3 ETB in 2001/02 to 21.6 ETB in 2006/07.

i) Challenges

Some of the challenges faced during implementation include the following among others:

- Inadequate institutionalization of HEP in the organizational structure of RHBs, Zonal Health Departments and *Woreda* Health Offices which are more prominent in the Newly Emerging Regions, inadequate supportive supervisions at all levels of the health system, delay in the construction of Health Posts(HPs) especially in Oromia region and delay in equipping and supplying these health posts;
- Rising cost of construction materials that contribute to the delay in handover of the outsourced health centers to the contractors for timely commencement of the construction work, long delays in procurement process of medical equipment, and long delays in the hiring of procurement agents;
- Weak financial liquidation and reporting systems of regional states;
- Occurrence of AWD epidemic for prolonged period of time due to shortage of professionals to control the problem, incomplete and delayed reporting from regions, limited resource at *Woreda* level, difficulty to coordinate partners working on the intervention, lack of information on the availability of resource from development partners;

- Difficulty to coordinate the activities and recognize the interest of different partners with regard to the implementation of the Health Commodity Supply and Management System; and,
- Multiple programmatic coordination for creating administrative burden and lack of focus on the public sector.

5.4. HIV/AIDS

The Government recognizes the serious economic and social costs posed by HIV/AIDS to the socio economic development efforts of the country through its potential impact on human capital development, productivity, and social services delivery. As noted in the PASDEP the Government has formulated appropriate policy measures and strategies to address the epidemic in a holistic manner.

Trend analysis shows that the national single point HIV prevalence estimate for 2006/07 was 2.1%. Disaggregated prevalence rate was 1.7% for males and 2.6% for females; while the urban and rural prevalence rates stood at 7.7% and 0.9, respectively. The prevalence rate is high in urban areas and also females are more vulnerable than males. The trend during the last four years suggests that with prevalence rates of 2.2% in 2003/04 and 2.1% in 2006/07, the HIV/AIDS epidemic appeared to have stabilized.

The number of VCT service providing centers increased from 448,241 in 2004/05 to 564,321 in 2005/06, and to 1,898,191 in 2006/07 (236% increase compared to 2005/06). Social mobilization through the millennium AIDS campaign has contribu

Table 5.7: PASDEP HIV/AIDS Targets and Progress to Date

Indicators	Base line 2004/05	Plan for 2006/07	Achievement for 2006/07
HIV prevalence among 15-24 old pregnant women	8.6	8.6	5.6
Adult incidence of HIV	0.68	0.65	0.26
%age of positive pregnant women receiving a complete course of ARV	42	44	36
%age of people with advanced HIV infection receiving ARV combination therapy	10	30	37.1
%age of sectors (state & none state) having work place policies & strategies for HIV/AIDS	-	20	41.6

Source: MoH

5.5. Infrastructure

5.5.1. Road

Poverty reduction and addressing vulnerability have been and still are the overriding agenda of the Government. In this connection, it has launched appropriate policies, strategies and programs. Its major trust has been to ensure food security, sustainable agricultural development, expand industry and promote socio-economic development. It is true that the success of development strategies heavily depends on the efficiency of the transport sector in general and road sub-sector in particular.

Substantial improvements have been achieved in reopening much of the main roads, accessibility has been improved and percentage of roads in good condition has also increased. At the same time, substantial progress has been made in institutional capacity building.

Much has been already achieved in the expansion of the road network, during 2006/07 the length of the total road network has reached 42,429 km indicating an achievement of 110% of the annual plan. Moreover, indicators like average distance to all weather roads and the average time taken to reach to all weather roads has been reduced significantly indicating the positive impact that the present Road Sector Development Program has brought about. Generally, it is believed that the 5 year plan can be fully met if the present trend continues in the remaining years of the PASDEP. Thus, every stakeholder has to contribute its share towards the realization of the plan.

The Road Sector Development Program is mainly executed by ERA, Regional Roads Authorities, and *Wereda* Road desks. It is believed that this structure would enable to rapidly construct different standards of roads and to safeguard the investment in a sustainable manner. Special attention has been given with regard to enhancing coordination among the executive bodies with the view to realize the mission of the road sector development program at large.

Summaries of targets to be achieved up on the completion of the program and performance indicators are presented in Table 5.8 below.

Table 5.8: Summary of Major Road Sector Targets and Progress to Date

Targets	Base year 2004/05	2005/06 Actual	2006/07 Plan	2006/07 Actual	Achievement against plan %	Targets to be achieved at the end of PASDEP period(2009/10)
Total road length (in km)	37,018	39,477	38,500	42,429	110	48,990
Road Density (in 1000 km square)	34	35.9	37.8	38.6	102.1	54.1
Asphalt road (in km)	4972	-	5,600	5,452	-	8,900
Roads in good condition (%)	64	69	71	71	100	84
Proportion of area further than 5 km from all weather roads (%)	72	72	70	68	-	10.7
The average time taken to reach at all weather roads(hrs)	5.7	5.3	5	4.5	-	3.6

Source: ERA

5.5.1.1. Overview of the 2006/07 Physical Accomplishment

During the reporting period, there have been different projects under execution by contractors, ERA force account brigade, RRAs and participation of the Community. In 2006/07, it was planned to rehabilitate 225 km of roads, upgrade 492 km gravel roads to asphalt standard, and construct 334 km new gravel roads. It was also planned to undertake heavy/periodic maintenance on 849 km asphalt and gravel roads and maintain and reconstruct bridges. Routine maintenance works on all types of roads, road design and feasibility/ Environmental Impact Assessment (EIA) studies, policy support and capacity building projects were planned to be accomplished.

During this period, 691 km of roads were rehabilitated and upgraded, 284.8 km were constructed and heavy/periodic maintenance was carried out on 817.4 km of asphalt and gravel roads. As compared to planned target rehabilitation, upgrading and construction works exhibited about 101%, 88% and 96% accomplishment rates respectively. Moreover, Regional Road Authorities planned to construct 1,634 km of rural roads and they managed to construct about 992 km of rural roads, which is 61 % of the planned target. In addition to these, detailed design/design review studies, feasibility and EIA studies and a number of policy and support rendering projects have been accomplished.

At regional level, about 992 km of new rural roads added up to the network. With community contribution, 24,353 km of low-level rural roads have been constructed in the different regions of the country. In addition to these, several design/design review, feasibility and EIA study projects have been carried out. Summary of major accomplishments during 2006/07 is presented by major components in Table 5.9 below.

Table 5.9: Physical Accomplishment of Road Sector PASDEP Targets

Category	2005/06 Actual	2006/07 Plan	2006/07 Achievement.	Achievement against Plan (%)
Federal Roads	3125	1900	1792.9	94
Rehabilitation of Trunk Roads	1742.9	225	226.6	101
Upgrading of Trunk Roads	246.4	336	297	88
Upgrading of Major Link Roads	34.0	156	167.2	107
Construction of Link roads	187.7	334	284.8	85
Heavy/Periodic Maintenance km	914	849	817	96
Regional and Community Roads	35060	16816	25343	151
Construction of new rural roads	1758	1634	992	61
Construction of low-level rural roads	33302	15182	24353	160
Total	38185	18716	27135.9	145

Source: ERA

i) Rehabilitation, Upgrading and Construction of Roads – Federal

During the year under review, several road construction, rehabilitation, and upgrading works have been undertaken. These include:

a) Rehabilitation of Roads - Federal

During the 2006/07 fiscal year, it was planned to rehabilitate 225 km of trunk roads and 226.9 km of road were rehabilitated. Accordingly, the rate of accomplishment was 101%.

b) Upgrading Roads - Federal

During 2006/07, it was planned to upgrade 492 km of the existing road network out of which 336 km are trunk roads and 156 km are link roads. A total number of 44 projects 24 trunk and the remaining link road projects have been included in the plan execution. Accordingly, the overall actual physical accomplishment as compared to the annual plan was 94% (which is 464.2 km), that means 297 km of trunk roads and 167.2 km of link roads have been upgraded.

c) Construction of Link Roads – Federal

During this reporting period, 20 road projects have been included in the plan for implementation. It was planned to accomplish 334 km link roads construction while the actual accomplishment turned out to be 284.8 km. This put the rate of accomplishment at 85%.

ii) Road Maintenance - Federal

Adequately maintained road network, that provides the level of service needed by road users, are critically important element of development of the country. Unless recurrent and periodic maintenance are carried out on the existing road network so as to safeguard the high cost of investment, the infrastructure will have shorter service years and will hinder economic activities by increasing vehicle operating costs. The ERA undertook heavy/periodic maintenance on 817.2 km of roads and routine maintenance intervention on 12,804 km of roads during 2006/07.

a) Heavy/Periodic Road Maintenance - Federal

All the heavy maintenance projects executed under the Emergency Recovery Program with funding from the World Bank are now completed. The physical plan set for the fiscal year under review was to accomplish 20 km, and 29.7 km has been accomplished, indicating an achievement of 149%.

With regard to periodic maintenance, a number of activities have been carried out during the year under review. During 2006/07, it was planned to undertake periodic maintenance intervention for 829 km of different standard of roads where as the actual accomplishment was 787.7 km. The rate of accomplishment was 95%. In 2006/07, 15 projects registered physical progress short of their annual planned target. Measures were taken towards improving the performance of delayed projects.

b) Routine Maintenance-Federal

In 2006/07, it was planned to carry out routine maintenance on 13,249 km of different standards of Federal roads, and 12,804 km of roads has been maintained indicating an achievement of 97%. The District Engineering Divisions (DEDs) established in all ERA maintenance districts have been making valuable contribution towards enhancing the performance of the districts further by strengthening their quality control.

iii) Rehabilitation and Replacement of Bridges – Federal

Bridges and structures, which are found at the vital transport routes/roads still need periodic replacement. These structures have highly deteriorated or even if some of them look sound they may be narrow and hence cannot serve efficiently the modern big size trucks. Some bridges and structures have been identified to be replaced or maintained. During the period under review, about Birr 43.5 million was allocated for bridge maintenance and reconstruction projects. Apart from the physical works, bridge inventory and condition survey study has been fully completed. By assessing the overall conditions of the bridges and by sorting out the ones that need urgent rehabilitation, the study is expected to provide valuable information for the preparation of bridge maintenance sub program. Accordingly, bridges that are in need of urgent replacement and that need detail study for maintenance work have already been identified.

iv) Regional Roads

a) Construction of Rural Roads

It was planned to accomplish 1,634 km of rural road construction and rehabilitation during 2006/07. However, 992 km has been accomplished, which is 61 % compared to the plan. Besides, 24,353 km of low-level rural roads have been constructed during the year under review. This level of performance has been achieved through community contributions in the construction of rural roads. The physical plan for 2006/07 was 15,182 km.

b) Ethiopian Rural Travel and Transport Program (ERTTP)

Since the program is the first of its kind in Ethiopia, certain preparatory activities were carried out prior to the full fledged implementation of the program with support from development partners.

Woreda Integrated Development Plan Study: Grants supporting the Woreda Integrated Development Studies have been obtained from different multilateral and bilateral donors. The World Bank has supported 64 woreda studies categorized under eight lots and 40 other *woreda* studies divided in five lots. The African Development Bank (AfDB) has supported 6 *woreda*. The Nordic Development Fund has supported six Woreda Integrated Development studies.

The summary of targets, performance indicators and current achievements are presented in Table 5.10 below.

Table 5.10: Summary of Targets and Performance during 2006/07

Targets/Objectives	Performance Targets	Means of Verification	2006/07 Achievement
	Average time taken to reach the nearest all weather road reduced to 3.7 hours by 2010	RSDP reports	Average time to the nearest all weather nearnearnearnearnearnear66.48004 0.48001 ref66

Recognizing this fact and given the urgency towards accelerated and sustained economic development and reduction of poverty in the country, the Government of Ethiopia has taken strategic measures to fulfill the ever-growing demand for water sector services, reduce poverty and attain sustainable socio-economic development.

In this respect, mainly the Ministry of Water Resources, all Regional Water Resources Bureaus, and Irrigation Authority, Woreda Water Desks as well as Non-Governmental Organizations have been involved in the implementation of water sector development programs to achieve the stated objectives and targets as articulated in the PASDEP and water resources management policy.

5.5.2.1. Water Supply and Sanitation

The provision of safe and adequate water supply for the population has far reaching effects on health, productivity, quality of life, and at large to reduce poverty and insure sustainable socio-economic development. Hence, the Ethiopian Government, NGOs, the community and the private sector have undertaken maximum efforts to improve the low level of water supply and sanitation situation of the country. This sub-section reports on the progress towards the achievement of water resources development, water supply improvement and sanitation situation in 2006/07 against the PASDEP target for the same year.

i) Rural Water Supply and Sanitation

a) Study and Design

In all regions, in the year 2006/07, new water resource verification studies, ground water studies and design have been carried out for 2,480 sites. Besides, revision of design works for 233 rural water supply sites have been undertaken during the year under review.

b) Construction

Deep and shallow boreholes, hand dug wells, haffir dams (“Kure”); springs as well as multi village rural water supply systems have been constructed. The types of rural water supply schemes that have been built in 2006/07 are depicted in Table 5.11 below.

Table 5.11: Type of Rural water supply schemes built in 2006/07

Rural water supply schemes	2006/07 Plan (number)	Performance 2006/07 (number)
Deep bore holes	427	236
Shallow bore holes	2982	1240
Hand dug wells	15474	2325
Haffir dams (“Kure”)	81	9 (under construction)
Spring development	2780	2001
Roof catchments	82	21 (under construction)
Multi - village water supply systems	3	4 (under construction)

Source: MoWR

c) Rehabilitation and Maintenance

Immediate rehabilitation and improvements as well as maintenance of rural water supply schemes have been carried out in all regions. Rehabilitation of boreholes and springs, roof catchments and sanitation facilities as well as maintenance and replacement of hand pumps, motor pumps, generators, and electro mechanical equipments have been undertaken. Accordingly during 2006/07, 2,044 rural water supply/ boreholes have been rehabilitated and maintained. Moreover, 4,298 different maintenance works and replacement of spare parts of rural water supply schemes have been carried out. As a result, the rate of malfunctioning rural water supply facilities has improved in 2006/07. The percentage of malfunctioning water supply facilities was reduced to 20% by the end of 2006/07.

Urban water Supply and Sanitation

Access to water supply in urban areas is better compared to that of rural areas. However, urban water supply systems have faced difficulties owing to their long overdue design period, low expected output/production level, population pressure, inadequate distribution system and high leakages, as well as low investment and implementation capacity. Nonetheless, the Regional Water Development Bureaus and the Ministry of Water Resources have taken measures to mitigate the problems and improve the water supply situations in urban areas.

a) Study and Design

Identification of new sources of water supply, study and design of urban water supply systems and study of immediate rehabilitation work for small, medium and large towns have been carried out in 2006/07. Accordingly, water supply studies and design for 21 towns, and design work for 23 sites have been carried out. Besides, studies on immediate rehabilitation and improvement work for 87 towns have been undertaken.

b) Construction

Construction of 64 small and medium towns' water supply systems have been undertaken. Of these 22 projects have been completed and the rest are under construction. Moreover, 40 water supply schemes (deep bore holes) have been constructed in different towns in 2006/07.

c) Rehabilitation and Maintenance

In 2006/07, immediate rehabilitation and improvement works for 67 towns as well as rehabilitation of 15 water supply schemes (bore holes) have been carried out across all regions.

Access to Water Supply: Table 5.12 below depicts water supply coverage rates by regions. Access to clean water supply at national level reached 52.46% during 2006/07 (i.e., 82.02% for urban and 46.39% for rural).

Table 5.12: Regional Distribution of Access to Water Supply (%)

Regions	2005/06			2006/07		
	Rural	Urban	Total	Rural	Urban	Total
Amhara	36.6	80	41.5	42.45	82.00	48.00
Oromiya	40.2	87.6	46.5	45.00	90.40	50.90
SNNPR	53.0	64.5	54.0	58.00	66.00	59.00
Tigray	42.8	50.9	44.3	51.15	60.00	52.80
Afar	41.1	73.0	44.0	51.00	73.00	52.98
Somalie	21.5	60.0	28.0	23.26	60.00	29.44
Benishangul-Gumuz	46.0	66.2	48.0	48.72	85.56	52.33
Gambella	41.4	37.0	40.6	49.43	72.90	53.71
Harari	29.0	21.0	24.0	29.24	21.00	24.13
Diredawa	57.0	72.0	68.2	65.07	72.00	70.21
Addis Ababa	-	90.1	90.1	-	94.42	94.42

mainly focused on medium and large-scale irrigation development projects that have been carried out by the respective Regional Water Resource Bureaus and the Ministry of Water Resources.

i) Medium and Large scale Irrigation Development

a) Feasibility Study and Design of Irrigation Projects

In 2006/07, feasibility study and design of 10 medium and large scale irrigation development projects (ongoing), which can develop up to 403,250 hectares of land, have been carried out. Out of these nine projects are being carried out by the Ministry of Water Resources and the remaining one is being implemented by Oromiya Irrigation Authority. The accomplishment of each project is briefly outlined below:

Lake Tana Zuria Irrigation Feasibility Study and Design Project: The project can develop up to 78,000 hectares of land and comprised three sub-projects. To date, feasibility study of one sub-project (Gumera) has been completed, while the study of the other two sub projects is undergoing. The entire project has so far accomplished 83% of the study/work.

Humera Irrigation Feasibility Study and Design Project: The project has the potential to develop up to 60,000 hectares of land. Most of the feasibility study of the project has been undertaken. During 2006/07, it has accomplished 95% of the activities planned for the fiscal year under review.

Wolequite Irrigation Feasibility Study and Design Project: The project has the potential to develop 40,000 hectares of land. The project was commenced in 2006/07 and has accomplished 54% of its tasks planned for the year under review. From the overall study work, 23% has been undertaken so far.

Arjjo- Dedessa Irrigation Feasibility Study and Design Project: The project has a potential to develop 16,800 hectares of land, and to date the feasibility study of the project has been completed.

Wabe-Shebele Irrigation Feasibility Study and Design Project: The project is comprised of four irrigation sites, namely Gololecha, Elion, Buledoho and Erer, which can develop up to 52,920 hectares of land in total. To date, the study of two sites (Erer and Golocha) has been completed, while the other two sites are under study.

Zeway irrigation feasibility study and design project: The project has a potential to develop up to 15,500 hectares of land, and to date, 60 % of its feasibility study and design work of the project has been completed. Planned activities for 2006/07 have been carried out according to schedule.

Lake Abaya Irrigation Feasibility Study and Design Project: The project aims to develop 21,900 hectares of land in three sites, namely Gelana, Gidabo and Belate. To date 83% of the feasibility study of the project has been completed. During 2006/07, it has undertaken 95% of work planned for the fiscal year under review.

Irrigation Program II: This project supported by the World Bank aims to develop 20,000 hectares of irrigation land, and carry out feasibility study on 80,000 hectares of land. The feasibility study and design work for the 20,000 hectares of land started in 2006/07 and accomplished the activities according to the plan for the year under review. The project has accomplished 10% of the over all feasibility study and design work.

Ground Water Irrigation Feasibility Study and Design Project: The project is comprised of four irrigation sites, namely Addea, Alayedege, Kobo Girana and Raya valley. In 2006/07, the feasibility study of each site has been carried out and accomplished 91% in Addea, 53% in Alayedege, 91% in Kobo Girana and 97% in Raya valley against their respective plan for the fiscal year under review.

Fentale Irrigation Feasibility Study and Design Project: The project is being undertaken by Oromia Irrigation Authority, and aims to develop 18,130 hectares of land. The project has accomplished 71 % of its feasibility study and design work during 2006/07.

b) Construction of Irrigation Projects

Construction of nine medium and large scale irrigation development projects, which can develop 124,321 hectares of land, has been carried out in 2006/07. The constructions of irrigation projects have been carried out by the Ministry of Water Resources (two projects), Oromiya Irrigation Authority (six projects) and Somali Regional Water Bureau (one project). The progress on the implementation of individual project is briefly outlined below:

Koga Irrigation and Watershed Management Project: This project mainly aims to develop 7200 hectares of farmer's land holdings by constructing dam and carry out watershed management activities on 22,000 hectares of land, etc. So far the construction of the dam has been completed. Out of the total project work, 60% has been accomplished. The project has also accomplished 91 % of its planned activities for the year under review (2006/07).

Kessem-Tendaho Dams and Irrigation Construction Project: This project aims to develop up to 90,000 hectares of land for commercial purposes and pasture/grazing by constructing two dams and irrigation infrastructures at two sites, namely Kessem and Tendaho. During 2006/07, 87% and 88%, Kessem and Tendaho dams respectively have been completed. Of the irrigation infrastructures development at Kessem and Tendaho sites has also been carried out 16% and 15%, respectively.

Construction of six medium and large scale irrigation development projects has been carried out by Oromiya Irrigation Authority, of which five are spate irrigation projects. The status of the five irrigation projects is briefly outlined below:

- ***Fentale Irrigation Construction Project:*** This is aimed to develop 18,130 hectares of irrigation land and has accomplished 40% of the tasks planned (3000 hectares) to be carried out during 2006/07;
- ***Boru Dodota spate irrigation project:*** This project aims to develop 5,000 hectares of irrigation land. In 2006/07, it has accomplished 40% of its work plan (2000 hectares) for the respective year;

- ***Bilillo Spate Irrigation Project:*** It has accomplished 91% of the work of 400 hectares of irrigation land planned to be carried out during 2006/07;
- ***Hargeti spate irrigation project:*** The project has accomplished 94% of the construction work of 500 hectares of irrigation land planned for the year 2006/07;
- ***Lja Galma Waqoo-1 spate irrigation project:*** It has accomplished 90% of the work of 656 hectares of irrigation planned to be carried out during 2006/07;
- ***Lja Malabe spate irrigation project:*** Has accomplished 95% of the work of 215 hectares of irrigation land, which is planned to be carried out during 2006/07.

Gode Irrigation Development Project: This project is aimed to develop 2,220 hectares of irrigation land, which is being carried out by Somali Regional Water Bureau. Construction of irrigation infrastructures of 390 hectares of land has been completed up to the end of 2005/06. Besides, the project has accomplished 70% of its planned work for the year 2006/07.

In general, low implementation capacity including shortage of heavy machineries and equipment, lack of capable and efficient contractors and their poor managerial experiences, as well as shortage of skilled manpower, poor geological formations, shortage of cement, etc., have been the main challenges of irrigation development during project implementation in 2006/07.

Major Challenges

Major problems and challenges that have been encountered in the Water Sector development program implementation in the year 2006/07 include:

- Institutional arrangements of Water Sector management at all levels have not been comprehensive and complete;
- Shortage of skilled manpower;
- Shortage of skilled, experienced and well equipped national consultants and contractors in the water sector;
- Lack of heavy duty machineries,
- Very high cost of industrial raw materials used for construction and maintenance purpose in the water sector;
- Prolonged process in loan and grant program implementation and delay in their financial and procurement processes;
- Lack of experience in project management at all levels;
- Lack of and under developed infrastructural facilities;
- Insufficient investments in water supply and sanitation development programs especially at Woreda levels.

However, mitigation measures have been undertaken at all levels of water sector management to address these challenges. Among other things, training of technicians and medium level professionals in areas of water supply and sanitation as well as irrigation development have been carried out in nine regional training institutions, and graduates are being assigned at Woreda and lower levels of water sector management.

Besides, procurement of necessary machineries and equipments are being carried out at Federal, regional and woreda levels of management to enhance their implementation capacity. Moreover, measures are being taken to strengthen the water committees and water boards for sustainable water services management. Strategies have been identified and are being implemented to increase investments for the water sector development programs.

5.5.3. Power

The role of energy development for overall economic growth and social development is crucial. Considering strong positive correlation between power and economic development, the power sector has been given the attention it deserves in the poverty reduction program that the country embarked on. In 2006/07, the Ministry of Mines and Energy has executed various activities in the energy sector aimed at contributing to the national economic development and poverty reduction efforts. It has exerted utmost efforts for a rapid and sustainable national economic growth by promoting and developing the energy and mining sub-sectors.

The performance and implementation activities of the energy sector during 2006/2007 are summarized below:

(i) Power Generation Development Program

To satisfy the ever growing energy demand and export the surplus to neighboring countries to enhance the foreign exchange earnings of the country, constructions of five main hydro electric power generation stations with a total capacity of nearly 3,000 MW and a number of ground works for others are being carried out. Utmost efforts are being made so that projects come on stream according to plan. In the mean time, a total of 3,386.71 GWH of electricity is being generated from the ICS (3,331.71 GWH) and SCS (55Gwh) exceeding the plan by about 10%. The status of projects under implementation is being described below:

Tekeze Hydro power generation plant Project: The Tekeze 300 MW capacity project accomplished 16.3% out of the planned 20% and hence, to date 76.3% of the project work has been accomplished. It is expected that one unit of the hydro power generation plant project will

accomplished against the planned target of 33.2%. This brought the total completed work to 45.2%. The lag in performance was caused by the unexpected change of geology which delayed tunnel drilling and the late arrival of the tunnel boring machine.

Windmill power generation project: Generally it is assumed that Windmill power generation project will generate up to 120 MW. Though the first phase with a 25 MW capacity was planned to be completed so as to fill the power deficit being observed in electric supply, it could not be achieved owing to financial constraints being encountered. Hence, the physical work during the year was limited to office works including designing, bid document preparation and other preparatory activities. Accomplishment of the project in 2006/07 stood at 75%.

Fincha – Amerti Neshe Hydropower plant project: Previously a financing constraint was faced in implementing this 100 MW capacity project. However, recently a credit to finance the project was obtained from the Chinese Government and preparatory works have already started.

Halele Werabesa hydropower plant project: No response was yet obtained from the World Bank for a request made to finance the 97 MW capacity project. Memorandum of understanding was signed with a UK-based company, Apogee, to develop this project through public private partnership arrangement.

Gilgel Gibe III hydropower plant project: This 1,870 MW capacity project was planned to accomplish 8.87% and fulfilled 8.36%. The performance was 94% against what has been planned for the year under review.

Second phase windmill power plant study project: In 2006/07, data collection and analysis, inspection activities, final report review for the feasibility study of two sites and identification of sites of interest were undertaken as planned. The performance for the Adama feasibility study stood at 80%. The overall performance of the project was 63%.

(ii) Status of Proposed Geothermal Power Plant Studies (Tendaho Geothermal power plant Study):

Though the country has massive hydropower potential, it is also important to consider other alternative energy resources as stipulated in the energy policy of the country. Therefore a study to develop the geothermal resource is being carried out. Proposal was sent to prospective financiers but no response was obtained. This has resulted in lower level of accomplishment of the study.

(iii) Power Transmission Lines and Distribution Substation Development

It is imperative to have transmission lines so as to take the energy produced by power generating plants to users. Accordingly, a number of new power transmission lines and substations are being constructed and strengthening of old ones is also being carried out.

a) Rehabilitation of transmission lines

In 2006/07, it was planned to inspect and carry out preventive maintenance for 7,727 km lines of different voltages and 6907km lines has been accomplished. The performance against planned target is 90%. Welding was also carried out on 299 towers of transmission lines.

b) Construction of Transmission lines on Short Term Basis

Gilgel Gibe II transmission line: During 2006/07 the plan was to accomplish 87% of the project. However, the achievement has been 70%. The reason for under performance relates to problems encountered in opening LC for the project. So as to be able to transmit power to be generated by the hydropower plant without any delay, restructuring has been undertaken to carry out construction of the power plant parallel with the transmission lines.

Beles – Bahirdar transmission line: This project was financed by the Chinese Government and the bidding process to retain a contractor from competing Chinese companies is in its final stage.

Gondar – Metema transmission line: The project planned to complete the overall work by undertaking 14% of the project and performance was 93%.

Nekemt – Bedele transmission line: It is planned to undertake 27.9% of the project work. However, 21.5% have been completed, and this is 77% of the target set for the year under review (2006/07).

Alamata-Kombolcha – Kotebe – Kalti transmission line: Owing to financial constraints encountered the accomplishment of this project during 2006/07 was very low (29%).

c) Construction of Transmission lines on Mid-term basis

Ethio-Sudan power interconnection transmission line: During 2006/07, it was planned to hire a consultant and a contractor as well as to sign a power purchase agreement. RFP and TOR to hire a consultant were prepared and sent to the World Bank.

In the mean time a pre-qualification document to hire a contractor was sold and the evaluation report was sent to the World Bank. As to the signing of the power purchase agreement, negotiation has been underway on both sides.

Ethio – Djibouti Transmission Line: Ethio – Djibouti Transmission line was designed based on the energy demand at that time. Currently, the demand has grown and both countries agreed to enhance the capacity of the transmission line to 230 kv. The rate of accomplishment of the project was 87% in 2006/07.

Bedele-Metu transmission line: During 2006/07 it was planned to undertake 33.7% of the project and 31.96% has been accomplished.

Ethio – Kenya 400 kv transmission line: Though the power interconnection of both countries was envisaged to be from Gilgel Gibe III, it is being considered to be from Gilgel – Gibe II. And so far 95% of the transmission line is completed. The entire project is to be completed by 2009.

(iv) Connecting New Customers: In order to satisfy the growing energy demand brought about by the growing economy, during 2006/07, it was planned to connect 300,000 new customers and 270,093 were connected. The performance against the plan was 90%. The number of new customers connected stood at 175,000 and 173,778 in 2004/05 and 2005/06, respectively.

(v) Expansion of new distribution lines

In 2006/07, it was planned to construct 1,733 km distribution lines in previously connected towns and 2,582 km were actually connected. The performance exceeds the plan by 49%.

(vi) Universal Electrification Access Program

During 2006/07, it was planned to connect 869 towns and villages located across the country and 758 of them were connected. In addition, construction of transmission lines and substations was carried out. The distribution of connected towns and villages across Regional states is depicted in Table 5.13 below.

Table 5.13: Distribution of number of Towns and Villages with access to Electricity

Regions	2006/07 Plan	2006/07 Achievement
Oromia	301	251
Amhara	242	218
SNNP	164	190
Tigray	61	61
Afar	16	15
Somalia	21	16
Bensangul	19	18
Gambela	16	12
Dire Dawa	2	2
Hareri	1	1
Total	869	758

Source: EEPCO

The connection of 74 towns and villages will be completed by the beginning of the 2007/08 fiscal year. Due to the early start of the rainy season in some parts of the country and limited access to roads and other related problems the work for 37 towns and villages could not get started. The major achievements for the year under review (2006/07) include the following:

- Around 200km transmission lines were built in Jimma – Aba, Gonder-Metema, Mekanisa-Addis-South and Mekele – Tekeze transmission line projects. However, due to financial constraints encountered, the construction of transmission lines could not be done as planned.

- Out of the 869 towns and villages which were planned to have electricity access by the year 2006/07, 758 were connected. This brings the number of towns and villages which got access to electricity to 1,620 in 2006/07. Accordingly, total electricity coverage of the country has increased from 17% in 2005/06 to 22% by the end of 2006/07.
- Electricity loss occurs owing mainly to two reasons: technical and non-technical. The rehabilitation works carried out on power plants, transmission lines, substations and other

c) Woreda-net, School-net and Agri-net Sites

A notable improvement was also observed in the number of *woreda-net*, *school-net*, and *agri-net* sites in the year under review (2006/07). Consequently, the number of *woreda-net*, *School-net* and *Agri-net* sites has reached 513, 175 and 29 respectively by the end of 2006/07.

d) Public Stations

ETC provides national and international telecommunication services, using communication media of Satellite, optical fiber, Microwave, Multi access radios, Very Small Aperture Terminal (VSAT), Ultra-High Frequency (UHF) and Very High Frequency (VHF). As far as growth of public stations is concerned, the opening of 32 new stations brings up the total number of telephone stations to 936 in 2006/07 from 904 in 2005/06.

5.5.5. Information and Communication Technology Development

Most recently, the Internet and related information technologies have increased the importance of ICT as a sector in its own right, driving economic growth and transforming social and economic activity. Accordingly, ICT plays a central role in fighting poverty, creating jobs, promotes the growth of new business opportunities, provides tools for modernizing education, and improving the effectiveness of Government administration and service delivery. Hence, the Ethiopian Government attaches high priority to Information and Communication Technology (ICT) as this sector is critical to promoting growth and reducing poverty.

During 2006/07 achievements in the ICT according to the strategies laid out in PASDEP include the following:

Promoting Human Resource Development in the ICT field: In 2006/07, for the completion of the development of ICT Human Resource (HR) strategy and action plan a consultant was hired and inception report is being finalized; regional training centers are established one each in Amhara, Tigray, and Benshangul and two in SNNP. These 5 training centers are currently operational. Oromia Regional State has completed the establishment of 3 training centers but is not operational yet; 1,180 Federal and Regional Government IT workers are trained on network operations and maintenance. 162 Federal and regional data centers and school net operators are trained on advance network management; 47 Federal and Regional Government employees are trained on web page development; and, 19 TVET teachers are trained on train the trainers, training on Personal Computer (PC) maintenance and modern electronics fundamentals.

Mainstreaming the use of ICT in all sectors of the economy including Public administration and the education system: In 2006/07, it was planned that 60% of the Federal agencies and 30% the agencies of the four largest regional states adapt and implement the strategy document. Accordingly, during 2006/07, the Development of National ICT strategy and action plan completed, 11 Federal Government ministries which implemented the civil service reform program selected and information systems, content and applications are being developed. All regions are organized to implement ICT enabled services and adopted the ICT strategies.

Developing the necessary telecommunications infrastructure: In 2006/07, it was planned that the remaining 50% of institutions of Federal and 50% of institutions of the four largest regional states and 10% of the institutions of emerging regional states develop and implement websites with basic public services. Hence, ToR redeveloped and the website development is underway. Also it was planned for development and implementation of selected common contents, applications and services at institutions of Federal systems for public service through Getaway. Accordingly, ToR redeveloped and the Getaway development is underway. Besides, services such as video conferences, E-mail, internet and other related services are provided to Federal and Regional Government institutions.

Also the central part of the ICT strategy is applying the principle of modern ICT to the delivery of services and administration of Government; improve effectiveness and reduce costs. This program includes School Net, *Woreda* Net, Agri- net, Higher Education and Research Net, Revenue Net, and Health Net. During 2006/07, encouraging achievements have been registered towards implementing these programs.

5.6. Tourism

Ethiopia's tourism sector has continued its steady growth, as witnessed by expansion and new construction of hotels, establishment of new tour companies and increase in tourist arrivals. International tourist arrivals totaled 227,000 during 2005/06, and foreign exchange receipts amounted to USD 115 million. Arrivals during 2006/07 reached 290,000, with an increase of 28% compared to the previous year and considerably higher than the planned 256,000. A similarly robust growth in receipts, though not yet reported, is obviously expected. Active promotion of tourism through participation in several important tourism trade fairs, increased distribution of promotional materials, design web site, and considerable media coverage resulting from familiarization trips to Ethiopia of foreign journalists, travel writers and tour operators have all contributed to the growth.

The implementation of programs pertinent to the tourism sector during 2006/07 includes the following:

Creation of Supportive policy Environment for Tourism: The target for the year under review included the dissemination of a new tourism policy, the finalization of a five -year strategic plan, and the formal establishment of a national tourism council at the Federal and regional state levels to assist the coordination of all tourism activities.

Because it was felt necessary to have further stakeholder discussions on the draft tourism policy, finalization and dissemination of the document was not possible during the year. The strategic plan, as first intended, was finalized. The national tourism council is yet to be officially established, but meanwhile the provisionally formed council has continued to function.

Human Resource Development (HRD): The major portion of the plan concerning the Catering and Tourism Training Institute (CTTI) being in Addis Ababa has been expected to:

- Implement a new syllabus leading to college diplomas;
- Continue with the construction of new classroom buildings and installation of equipments; and,
- Complete tender preparation for building a 4 -star model hotel.

During 2006/07, CTTI had to prepare, as per new directives of the Ministry of Education, training standards to replace the now abounded syllabus system. By the end of 2006/07, approval of the standards was still pending. Commencement of classroom building construction was once postponed because the contestants for the bid were judged unqualified.

As part of the HRD effort, the year had anticipated short-term seminars for the benefit of professionals in the tourism field. Two such international seminars were hosted by the Ministry of Culture and Tourism in collaboration with the World Tourism Organization .A large number of Ethiopians partook in those seminars, focusing on Tourism Marketing and Education and Training for Tourism Management and Good Governance.

91ST-EP (Sustainable Tourism-Eliminating Poverty) Pilot Project: The Ministry of Culture and Tourism had mainly envisioned the formulation of a plan for destination development and management for Lalibella, with the assistance of the ST-EP Foundation of the World Tourism Organization. Only the detailed Terms of Reference (ToR) were prepared with professional support from the organization during the year. The full development of the plan is now foreseen to come under a World Bank support programme for Ethiopia.

A community based tourism project for the Konso sub-region in the SNNPR was progressing well during the year. An 80,000- dollar grant from the ST-EP Foundation was secured, and the implementation of the plan has commenced, ensuring local community participation and regional Government involvement. A similar project identified for the Dorze community, lacking funds and expert assistance had to be postponed.

The ST-EP pilot project study had identified for Addis Ababa the need for assistance in the preparation of guidelines for handicrafts production and marketing .Though not foreseen in the plan for 2006/07, the Ministry had obtained a pledge from South Korean businessmen to financially support (up to US\$ 20,000) the Ketchene Women Potters' Association in such capacity building efforts.

Strengthening Marketing and Promotion: The year 2006/07 had targeted the formulation of a strategy for marketing and promotion, employing international consultants. During the year, a market research on Ethiopia's culture and heritage tourism was conducted by a reputable consultant deployed by the World Bank. The study pointed out the importance of this market in Ethiopia's marketing strategy. Terms of reference (TOR) for the preparation of the overall marketing and promotion study were ready, but funding constraints imposed a delay in the execution.

The Ministry, in partnership with the private sector and with the support of the Ethiopian Airlines and Ethiopian missions abroad, has waged a sustained promotional campaign during the year to improve the country's image and to reach an ever wider circle of potential tourists from

many countries. As stated earlier, the surge in the growth of international tourist arrivals can be attributed in part to these efforts.

Tourist Destination Development Studies: The keenly felt need for destination development studies to bring Ethiopian tourist destination to world -class attractions had

- Geological maps covering areas of 180, 2, 0.16 and 1,435 square kilometers have been conducted at scales of 1:25,000 – 1:50,000, 1:2,000 – 1:10,000, 1:2,000-1:4,000 and 1:100,000 respectively for follow up and detail geological study purposes;
- 1,170 line meter trenching has been conducted and 4,277 samples were collected for further geochemical, mineralogical and petro graphical analysis;
- 3 line kilometer radiometric and magnetic readings have been taken.

Energy Minerals Exploration: Section logging with collection of representative samples were carried out in areas covering 8,500 square kilometer and highly suspected of having potential petroleum deposits. A detail geological report which can serve as an input to produce petroleum promotion document has been prepared based on laboratory analysis results. The following detail technical studies were conducted on geothermal energy deposit located at Tendaho (Dubti):

- 206 line kilometer geophysical study and 40 line kilometer MT and TM surveys were carried out;
- 83 % of well testing and reservoir engineering study have been completed;
- 22 samples were collected for isotope study.

Minerals and Petroleum Investment Expansion activities: The ministry has set plans to execute various promotional activities for the development and expansion of mining investment. Accordingly, the following major activities were carried out during 2006/07.

- More than one thousand three hundred promotional documents, brochure and geosciences information have been distributed to local and foreign investors and Ethiopian Embassies;
- Two promotional documents, “The Potential for Gold in Ethiopia” and “Investing in the Mineral Industry of Ethiopia”, have been distributed to relevant offices and loaded to the ministry’s website;
- 31 mining and petroleum exploration and development licenses have been given to local and foreign companies;
- 154,451 kg gold, 702.55 kg rough and polished gemstones, 3.51 kg platinum concentrate and 113,887 kg tantalite concentrate have been exported and supplied to the National Bank of Ethiopia for foreign market;
- Discussions have been carried out with seven Regional State Mining Bureaus aimed at achieving common understanding and create awareness on the legalization of artisanal mineral production and marketing activities;
- Technical and material supports have been provided to render artisanal miners engage in legal mining works rather than illegal ones. By doing so, 29 artisanal mining associations have been established; and,
- Appropriate assistance has been given to nine artisanal gold mine associations and seven gold exporters to supply and export their production through the National Bank of Ethiopia.

To promote and facilitate the optimal and efficient exploitation and exploration of mineral resources by private investors, the Government has been conducting institutional transformation reform and has created conducive environment for private companies.

In 2006/07, 22 companies with paid up capital of \$24.3 million USD have taken 26 licenses to participate in mineral exploration and production. These companies have been expected to create employment opportunities for more than 700 people when they become operational. 2 companies with paid up capital of 52.8 million USD have taken 5 licenses to engage in petroleum exploration and production. In addition, a large number of people are being engaged in artisanal and construction minerals production.

These development activities have created permanent and casual job opportunities and contribute a lot in expanding infrastructural and other investment opportunities including:

- 39 million USD and over 30 million birr was obtained from different mineral and petroleum works and consultancy services;
- Over 34 million USD has been secured from the export of 1,938.75 kg of gold supplied by artisanal miners through the National Bank of Ethiopia;
- A total of 91.7 million USD has been obtained from the export of 4,451 kg gold, 702.55 kg rough and polished gemstones, 3.51 kg platinum concentrate and 113,887 kg tantalite concentrate during the budget year;
- 29 artisanal mining associations have been established within six Regional States of the country and necessary professional support has been given to the miners with a view to upgrade their mining skills for proper utilization of the resources and to change their livelihoods;
- The number of artisan miners who would like to secure licenses have increased due to successful efforts made to organize them and enable the miners to engage in legal trade practices;
- The 30,750 square kilometer regional geological map undertaken during 2006/07 brought a significant increment to the national regional geological map coverage of the country;
- From exploration activities conducted so far, different minerals such as gold, aquamarine, tourmaline, garnet, pegmatite, ignimbrite, rhyolite, pumice, scoria, clays, sands and other industrial minerals have been identified from samples collected during exploration. Further detail geological studies will be conducted based on laboratory analysis results; and,
- Following the promotional work conducted, many local and foreign private investors have shown interest to participate in mineral and petroleum exploration and development industries.

In general, encouraging achievements have been registered during 2006/07. This shows that the contribution of the mining sector in realization of the PASDEP and hence Ethiopia's vision is significant.

5.8. Trade and Industry Development

In line with a long term vision of developing an agro-based industrial economy, the interventions in agriculture sector is complemented with appropriate interventions in the Trade and Industry development. Hence, the impact of Trade and Industry in accelerating the country's economic development and bringing about structural transformation is quite immense. However, Industrial development in Ethiopia is still in its infancy and has a narrow base. Moreover, its linkage with the agricultural sector has been still weak.

Considering industrial sector's key role and its limitations, the Government has taken an array of policy reforms aimed at opening up the economy and the creation of conducive investment environment for private sector to take part. Further, as part of the plan for Accelerated and Sustained Development to End Poverty (PASDEP), a five year Industrial and Trade Development Programs have been designed and went operational since 2005/06. Following policy measures, as noted in the previous annual progress report, the Ethiopian Trade and Industry sector has been growing and showed appreciable improvement in terms of its contribution to GDP, export earning and employment creation. Accordingly, the share of industry, broadly defined, has been 13.4% of GDP while the industrial and service sectors registered a growth rate of 11% & 13.5%, respectively during the year under review.

This section summarizes outcomes during the second year of implementation of PASDEP ending in 2006/07 with focus on Textiles and apparel, Leather and Leather Products, Cement Industries, Floriculture development and export, sugar Industry development, Privatization and Joint venture, and trade related issues.

5.8.1 Industry Development

To monitor the progress made in the industrial sector during the year under review, the achievement against the target set for selected strategic sub-sectors of industrial/manufacturing sector are summarized below:

5.8.1.1 Performance of Textile and Garment Industries

As noted in PASDEP, the five year textile and apparel sub-sector development program envisaged investment expansion for more than 191 investors and expected export earnings from textile and Garment industries to reach US\$ 500 million with investment worth US\$1.6 billion by the end of the PASDEP period. During 2006/07, to direct the textile and apparel sub-sector according to the plan the Government desires to privatize all textile factories in the country through sales and rent in order to boost the capacities of the private sector. Accordingly, Dire Dawa, Awassa and Arba Minch textile factories have been rented to private investors while Adey Abeba and Komobolcha textiles are expected to be privatized soon. New textile factories are also entering the market. The first of these is Ayka Addis, Turkish factory, which is expected to be complete in 2008/09 and is expected to earn 80 million dollars per year through exports.

Apart from privatization, successive investment promotional activities have been carried out including supports to new entrants and expansion programs to the existing textile mills. More

specifically, during the past three years ending 2006/07, a total of 37 investment projects have already started production and the other 72 investments are on project level. In addition, Adama knitting is expected to use 100 quintals of cotton a day and the expansion project of MAA Garment will enable the factory to use 100 quintals of cotton per day.

Further, to raise the capacity of manpower for this particular sub-sector, Textile and Apparel Industry Institute has given relevant trainings for 534 persons from different garment factories. Moreover, Federal Micro and Small Enterprises Agency has given similar training for 506 persons on sewing and design.

One of the measures to evaluate the performance of the sub-sector is through considering its capacity to generate export revenue. Even though annual targets for export revenue for the sector could not be reached due to inherent problems in and around the sector, improvement has been witnessed from year to year. In 2006/07, it was planned to generate around 62.4 million USD while 12.6 million USD was secured. This tantamount to 113.5% increase compared to the export revenue generated in 2005/06.

Despite the effort exerted by the Government, the textile and Apparel sub-sector has remained to contribute below expectation in terms of export earning. Some of the major problems, which hinder the sector from securing the expected results include:

- Constraints in the production and supply of quality cotton;
- Interrelation and interdependence between different types of production stages such as spinning, weaving, finishing, sewing and accessories have been weak.

In order to address these constraints, the existing textile mills are encouraged and supported through detailed action plans to run their expansion and optimization projects. In addition, an attempt is being made to render new investments commence operation.

5.8.1.2 Leather and Leather Products Industries

By the end of 2006/07, this sub-sector is expected to produce 8 million pairs of shoes per year and thereby increase export earnings to US\$15.9 million. However, the actual production was 28,000 pairs of shoes per day from the seven capacitated factories and the export earning generated from shoe export was US\$5.5 million.

During 2006/07, the tanning industry was planned to earn US\$116.7 million while the actual achievement stood at US\$89.5 million showing 19.6% increase over the achievement in 2005/06. Besides, efforts were exerted to up grade the capacity of tanneries to produce finished leather products for export. Accordingly, six tanneries with promising capacity to produce finished leather products have been chosen and 3 of them have managed to raise their level of export to crust and finished leather products and are contributing a significant amount to export earning of the sub-sector. With regard to competition in the international market, factories twined with Italian companies have been contributing significantly towards foreign exchange earning and the prospect for the remaining is expected to be encouraging owing to on -going export-oriented development strategy framework.

5.8.1.3 Sugar Industries

According to the sugar development program, expansion work is under way on the 3 sugar

As to the construction of the irrigation canal, a contractual agreement between the factory and the Ethiopian Water Works Construction Enterprise was signed in January 2007. Since then, The Ethiopian Water Works Construction Enterprise (WWCE) has been busy mobilizing construction of site offices and residence camps to commence the construction work. So far designs of canal, siphon and hydraulic structures have been reviewed and updated.

Feasibility study was submitted, evaluated and approved for the Neshe 5000 hectares sugar cane expansion. The consultant has designed the irrigation system and submitted the draft reports of the engineering design by the end June 2007. The reports are currently under evaluation.

(iii) Wonji - Shoa Sugar Factory

The main objective of the expansion project is to set up a large and new Sugar Factory with a capacity of 300 thousand tons of sugar production per annum by developing additional 15,268 hectares of land.

During 2006/07, it is planned to purchase and install a new 12,500 ton cane processor per day and raise the land acquisition of the Wonji Shoa Sugar Factory (WSSF) to 3000 hectares in Arssi zone and Dodot.

Draft tender document preparation and evaluation has been completed and tender floating process for factory machinery purchase is underway. Tender floating, opening evaluation and draft contract agreement preparation has been carried out for soil test and geotechnical investigation.

For the rehabilitation and optimization of the existing cane plantation (7,022 hectares), the purchase of construction and farm machinery has been effected and the first batch of machineries has already arrived at the site. Further, Farmers' resettlement has been carried out on 3,223 hectare of land and purchase of construction materials that would enable the construction of the 1st batch of farmer's residential houses was carried out as well.

(iv) Metehara Sugar Factory

The objective of the expansion project of the factory is to develop additional 10,000 hectare of land to raise its annual production of sugar from the current level of 125,000 tons to 260,000 tons by the end of the plan period. The Metehara Sugar Factory (MSF) planned to develop at least 2000 hectares of land at kesem by the end of 2006/07. The Oromia Irrigation development authority runs the fentale project of developing 10,000 hectares of land. However the out growers of cane development scheme between the Fentale projects and Metehara Sugar Factory has not been finalized. Further, all preparation works on 20 hectares initial seed cane, 200 hectare seed cane and purchase of required machinery and equipments for the 1000 hectares land development is planned to take place based on availability of sufficient irrigation water. Recently MoWR announced the availability of sufficient water for the development plan.

5.8.1.4 Cement Industries and New Investments

The Government, through its five year industrial development program, has planned to boost the local cement production capacity from 1.6 million tons of cement annually in 2005/06 to 4.7 million tons of cement at the beginning of 2008/09.

During 2006/07, in addition to expansion program on the existing cement factories, 19 new investment projects have secured license. 14 of the new investment projects have secured land for factory sites and are at different levels of implementation while the remaining 5 projects have been undergoing raw material studies and are at feasibility stage to acquire factory site. In 2006/07, it was planned to produce 871,000 tons of Cement at Mughher and 797,691 tons was realized while the National Cement Factory (Dire Dawa) and Messebo Cement factory each produced 21,038 and 806,831 tons of cement respectively.

The surge of the construction industry has demanded to import additional amount of cement. Accordingly, licensed importers have imported 421,526 tons of cement during the fiscal year under review (2006/07).

5.8.1.5 Floriculture Development and Export

It is to be noted that the on-going economic policy of the Government has created a suitable environment for the development of floriculture. In line with this, it is targeted to intensify flower production in areas with altitude ranging from 1600 to 2600 meters above sea level. Accordingly, the intention is to raise Green house coverage to 2000 hectares through expanding the current farms held by investors with additional 400 hectares of land suitable for flower production.

Floriculture production has shown an encouraging achievement. The revenue generated amounted to 63.6 million USD in 2006/07 from 21.8 million USD in 2005/06 revealing 191.7% increase.

By the end of June 2007, the total area covered by flower development reached 801.6 hectare and of which 633.8 hectares is covered by roses, 11 hectares by summer flowers and 53.8 hectares by cuttings. The area covered by flower in 2006/07 was 24.3% higher than the annual plan. Further, action plans on training, infrastructure and related activities have been developed. More specifically, two short term trainings have been conducted and Holeta Research Institute is assigned to train those engaged in the horticulture industry. As to the supply of infrastructure, Telecom and Power supply to flower farms have been improved.

Ethiopia's flower export has been mainly destined to the Netherlands and German markets. Exploring other market opportunities such as Japan, USA, Russia and the Middle East will be the focus destinations of the up coming years.

5.8.2 Private Sector Development

Economic growth is driven by the integrity of a number of factors .Investment is one of the critical elements that determine the level and pace of growth. It helps to introduce technological

changes and enhance the quality of human resources, which in turn improve productivities and competitiveness. Conventionally, investment inducing factors are associated with large market, low cost of labor, abundant natural resources and close proximity to major developed countries market. However, these factors presuppose the existence of an enabling policy environment. Accordingly, the Government has created conducive environment to encourage private sector participation in almost all economic activities. Since the first investment proclamation in 1992, investment codes have been revised a number of times in an attempt to address constraints facing investors. Further, the Government has issued various rules and regulations, lifting restrictions imposed on the private sector and introducing various forms of incentives to encourage investment. Accordingly, the willingness of investors to participate in poverty reduction effort is on the increase.

Private Investment: As noted in the PASDEP, the medium term development policies focus on achieving accelerated growth through modernized agriculture, led by a vibrant and competitive private sector among other things. Hence, the Government is putting effort to speed up private sector development in general and private investment process in particular. These have impacted positively on the private sector expansion across all sectors including agriculture, construction, real estate, education, health; whole sale and retail trade, mining etc. And all have experienced an improvement over the 2005/06 situation. More specifically, between 1992 and 2007, the total investment capital invested by private investors across these sectors stood at 311.23 Billion birr. Of these, the share of foreign firms stood at 99.61 billion birr. During these periods, 2 million permanent and 1 million temporary job opportunities have been created. Agriculture, Industry and Construction sector accounted for the bulk of capital invested and permanent employment opportunity created.

Box 5.2: Export and Investment Incentives

Although Ethiopia is a country endowed with abundant natural resources, diverse climate change and abundant labour force, the performance of both agricultural and industry/manufacturing sectors have been unsatisfactory, the foreign currency earnings from the export trade has remained at its lowest level and manufacturing enterprises involved in export trade have not been competitive.

Recognizing these challenges, the GoE has designed and put in place a number of export and investment incentive schemes, which creates enabling environment and competence of investors and manufacturing exporters.

Export Incentives: Various policies, strategies and programs, which focused on export development and facility have been designed and executed. The Agriculture Development Led Industrialization (ADLI), the Export led industrialization development, and the Private Sector development policies and strategies are among the key strategic directions focusing on export development.

Considering the importance of the manufacturing sector to the success of ADLI and Export led industrial Development, the Government has formulated short to medium term comprehensive capacity building programs to improve competitiveness. The Various export trade incentive

schemes introduced for enhancing the competitiveness of the manufacturing sector involved in export trade activities include the following, among others:

The Export Trade Duty Incentive: this scheme was introduced by the Federal Government Proclamation “Export Trade Duty Incentive Scheme Establishment by Proclamation No. 249/2001” with the objective of improving foreign currency reserve by enhancing export trade and enable exporters access inputs at world market price. Duty Draw-Back scheme, Voucher Scheme and Bonded manufacturing Warehouse Scheme

Export Financing Incentive Scheme: This includes export credit guarantee scheme, foreign exchange retention scheme, and foreign credit scheme.

Investment Incentives: A number of packages have been put in place to encourage and promote both domestic and foreign investors. In this regard, the Council of Ministers has issued regulation No.84/2003 on Investment Incentives and Investment Areas Reserved for Investors. The incentives include: income tax holidays, exemption from taxes on remittance of capital, loss carry forward, and custom duty exemptions.

Exemption from Income tax: Investors engaged in manufacturing, agro-industrial activities, production of agricultural products will be exempted from income tax for a period of time determined under special circumstances.

Exemption from Payment of Customs Duty: investors can import duty free goods under different conditions

Investment Financing Incentives: It is an initiation to provide credit facilities for new investment and expansion of ongoing projects.

Other Conducive Environment for Export and Investment Development: In addition to the above schemes, the Government has designed and put in place various conducive environments to accelerate the development of exports and investment in the country, which include the following:

Infrastructure Development: Improvements in access to infrastructure has been given utmost emphasis.

Access to land: New investors or those who want to expand operations can get land on leased basis, which shall be mostly facilitated by Regional States. Apart from this, various incentives have been given to investors based on the areas of investment in which the regions have set as a priority.

Public-Private Sector Partnership Forum: This forum exerts to correct policy gaps and solve problems, develop future strategies based on best international practices, facilitate the three strategic industries: horticulture and floriculture, textile and garments, livestock and livestock products, and leather and leather products. The members of the forum include: producer-exporters, representatives from NBE and other service rendering institutions and Government officials at large.

Tackling Bureaucratic Bottlenecks: To minimize bureaucratic bottlenecks associated with private investment and trade activities, the Federal Government and Regional states have introduced one-stop-shopping system of trade and investment approval as well as related delivery services.

Institutional Support: There are specific institutions including: the MoARD, MoTI, LLPTI, Ethiopian Investment Agency, Regional States Investment Bureaus/Agencies, and the Ethiopian Privatization and Public Enterprise Supervising Authority

Source: MoTI

Privatization Programs: Ethiopia has a clear policy and strategy of implementing its privatization program. To this end, the Government has introduced a flexible payment arrangement which allows winning bidder to pay 35% at first, while the remaining 65% of sales value will be paid over the next five years. Moreover, institutional reforms have also been carried out for effective coordination and delivery of process.

Privatization of state-owned enterprises is being underway through employing different modalities such as: asset sales, lease, and public-private partnership in the form of joint venture and management contract. During the last 12 years (1994/95-2006/07), a total of 247 public enterprises, with a combine sales value of Birr 3.37 billion, including Wholesale and Retail trade, Hotel and Tourism, Industry, Mineral, Agriculture and Agro-industry have been privatized.

During 2006/07, it was planned to privatize 9 public enterprises and set tender value for 15 public enterprises. Accordingly, activities executed include:

- Two Textile mills were transferred with lease agreement and the hand over is completed;
- Decision was passed to privatize 17 public enterprises;
- Long term lease agreement was reached to privatize two state farms; and,
- Tenders were floated to privatize 30 public enterprises.

5.8.3 Trade Related Issues:

Negotiation and partnership Agreement: The Government of Ethiopia has initiated the process of Ethiopia's accession to the World Trade Organization (WTO). The Ministry of Trade and Industry (MoTI) has prepared a framework for the Foreign Trade Regime of Ethiopia as a requirement to start the negotiation process. The study on Foreign Trade Regime of Ethiopia has been approved following a serious of reviews and has been sent to the WTO secretariat.

In the process of acceding to WTO, implication of joining the WTO is being assessed in line with the country's economic, social and political setup. Accordingly, studies have been carried out pertaining to technical barriers to trade sanitary and phyto-sanitary measures, trade related investment measures, customs valuations, and telecom and financial sectors.

With a support from USAID, Trade related legal aspects have been identified and assessment was made whether they are compatible with WTO rules and regulations. These include: restrictions made on imports and exports, import licensing, foreign exchange regime,

investments and non-agricultural subsidies. The Ministry of Trade and Industry is coordinating the negotiation process of Economic Partnership Agreement (EPA) and to help this negotiation effort bear fruit, pertinent organizations are exerting effort to consolidated development projects based on Ethiopia's policies, strategies, and programs and development projects are summarized as Ethiopia's need on development support. During 2006/07, the document of this development

- Strengthening Urban-Rural and Urban - Urban Linkages.

In order to realize the above-mentioned development objectives and bring about accelerated and sustained development, ensuring good governance and building implementation capacity have been indicated as key instruments.

The other sub-sector under review is the Construction Industry. The Five Year Plan with regard to this industry focuses on the formulation of Construction Industry Policy and Strategy as well as designing Capacity Building Programs and carrying out their implementation. The plan pertaining to the construction industry has six major pillars:

- Creating enabling condition for accelerated growth of the construction industry by preparing policy, working systems, directives, standards and information system;
- Promote development of skilled manpower for the industry: training and skill improvement program preparation; preparation of curriculum and examination and revision works pertaining to license provision system;
- Preparation of construction standard and designing of legal framework that would enable to put in place quality control system;
- Strengthening partnership between Government and the private construction sector;
- Promote Research, Development and Dissemination regarding construction materials, building mechanisms and construction technologies.

5.9.1 Major Activities of the Sector & Performance during 2006/07

As outlined above, the review on the performance of the sector is presented in to two categories, Implementation of the urban development program and the construction industry.

5.9.1.1 Urban Development Program

(a) Housing Development Program

Housing Construction :Out of the total 396,000 housing units planned to be constructed in the Integrated Housing Development Program (IHDP) within four years (2006/07 – 2009/10), 61,036 housing units were planed to be constructed in 36 towns during 2006/07. Accordingly, construction has been commenced in all the 36 towns. Of the 2736 blocks; construction has been under way for 1616 blocks. It is worth noting that out of the total housing units planned to be constructed during the fiscal year, more than half of the houses have been in Addis Ababa (i.e 33,000 housing units in 1100 blocks). However, for a number of reasons, the implementation of the housing program has not been executed as originally planned. Consequently, the performance of the overall housing program in the country fell short of the plan. Besides, in Addis Ababa, of the 30,719 houses whose construction was commenced before 2006/07, the construction of 9,594 houses has been completed. In general, the housing construction has been under way in all the 36 cities across the country.

The Government has decided to integrate Government development projects that demand huge housing construction with the integrated housing development program. The Ministry of Works

& Urban Development has therefore taken up the construction of houses in the Tendaho Sugar Expansion Project. In Tendaho Sugar Project, 5 township and 28 villages with 18,389 residence and 285 services houses were supposed to be constructed. Apart from its significant contribution to the national economy, the housing program would contribute to the alleviation of housing problems and creating jobs with ultimate objective of eradicating poverty.

Promoting Micro and Small Scale Enterprises Development and job Creation: The Government housing program helps to promote Micro and Small Scale Enterprises (MSEs) development and job creation. Micro and small scale enterprises participate in the housing development program through production of construction materials and engaging in activities performed on construction sites. The plan was to promote the formation of 2,028 small businesses in 2006/07 in all the cities where the housing program is being implemented. Accordingly, across regions and Addis Ababa, 2,032 enterprises have been organized and commenced operation during the fiscal year under review. The above enterprises have been supported through the provision of equipment in lease. In this regard, 234 crushers, 449 mixers, 1268 molds, 172 vibrating tables, 376 HCB machine and 172 wagons were planned to be availed in the fiscal year under review. Of these, 155, 480, 1176, 150, 326 and 150 were bought, respectively and distributed to all regions and construction sites on micro lease credit basis.

The housing program has also registered impressive results in terms of job creation. During the budget year, more than 34 thousand job opportunities were created for urban dwellers in all the regions of the country through the IHDP.

Capacity Building Programs: In the fiscal year under review (2006/07), in view of creating and strengthening institutional capacity for executing IHDP, housing development project offices were established in all regions and in Dire Dawa City Administration. Branch offices were also established in urban centers where the housing development program is being implemented. Accordingly, a total of 35 housing development project offices were organized in 35 urban centers.

Moreover, about 50 documents (proclamations, regulations and manuals) that would enable implement the housing development program were prepared, endorsed and implemented in a transparent and accountable manner in four regions. This includes the Regional Government Condominium Proclamation, the Proclamation that Defines the Duties and Responsibilities of Regional Government in Transferring Houses constructed and the Proclamation for establishing the Regional Government Housing Development Project Office.

Land and Design Preparation: Land preparation for construction of houses has been undertaken in all the urban centers where the program is being implemented as per the prepared guideline. In the fiscal year under review, 442.0 hectares of land was planned to be prepared for the housing development program. About 456.4 hectares (103.3%) was prepared during the fiscal year under review (2006/07), land and design preparation was finalized and was made available for construction.

Supply of Construction Materials: During the fiscal year under review (2006/07), activities that ensure dependable supply of industrial and local construction materials were accomplished.

Activities that would ensure the supply of strategic industrial construction materials in a coordinated manner have been accomplished at Federal level. In this respect, although efforts were made to supply cement for housing development program from the domestic cement factories, it was not possible to fill gaps between supply and demand from domestic sources. During the fiscal year under review, although a total of 332,817 quintals of cement was distributed to the regions, the supply was only 12% of the total demand. Generally, due to the rapid growth of the construction industry, the demand for cement has increased significantly which has resulted in high price escalation and called for short term solutions. Hence, a system to import cement from abroad was laid down and implemented. This has helped to address the problems in the short term. To address the shortage of cement in the long-run, efforts have been underway to promote private investment in cement production.

Similarly, the housing program has faced shortages of metals. Thus, some important policy measures were taken to improve the supply of metals. Accordingly, activities that would enable reuse scrap metals in domestic factories had been undertaken. However this has not helped much to address the problem. There still has been a gap between supply and demand for metals. During the fiscal year under review a total of 14,399 tones of metal were supplied to regions. However, this was only 20% of the quantity demanded. Generally, although most of the regions have sufficient stock of reinforcement bar for their current construction, it is anticipated that their demand for metal will further increase. Therefore, in order to render the supply of metals dependable, it has been found necessary to import 35 thousand tones of reinforcement bar from abroad.

Regarding local construction materials (aggregate, sand and stone) the regions have identified the sites and have organized micro and small scale enterprises in the production of materials. Currently, most of the MSEs in every region have started their operation. In order to render the supply of aggregate dependable, about 240 MSEs were organized across regions including Addis Ababa and Dire Dawa. Of these about 170 have already started operation.

The other mechanism is to conduct research on alternative construction materials and construction methods. In this regard, activities related to use agro-stone board widely for internal and external wall which minimizes construction cost of houses had been undertaken. An expansion of the agro-stone production factory in Kaliti which has a capacity of 700 agro-stone panel/day in one shift has been completed. The construction of the second phase agro-stone expansion with the capacity of 700 agro stone panel per day is being finalized. The construction of a factory that produces magnesium oxide for this purpose has been completed and is at testing stage.

Housing Development Finance and Housing Transfer: Regarding housing development finance, all regions have obtained the first round loan for the implementation of the program from the Commercial Bank of Ethiopia (CBE).

- Lack of adequate and competent professionals particularly site engineers and foremen;
-

Preparation of Production Premises: During 2006/07 it was planned to construct 2,082 shades. By the end of the fiscal year, a total of 537 (57.12%) production shades for MSEs were completed.

Credit for MSEs

construction started in 2005/06. Accordingly, during the fiscal year under review, the construction of:

- Solid waste management project of Dire Dawa has been completed;
- 50% of Bahir Dar Town flood protection project, 75% of Kombolcha Town flood protection project, 15% the Adama's abattoir project, and 25% of the Bishofitu's market project are completed;
- While the asphalt road of Jimma (substituted by market development project) is under tender process, the 2nd project of the town (gravel road) is under construction;
 - While 35% of the Dilla Town abattoir, 35% of the Mekele solid waste management and 60% of the Awasa market projects are completed, Gondar Town drainage system is at its initial stage of construction; and,
 - Besides, cities and towns have executed a number of infrastructure projects through own sources.

(d) Urban Good Governance Program

The other key task planned for the fiscal year under review has been to prepare and implement the urban good governance package. Accordingly, the package has been prepared during the first quarter of the fiscal year in line with relevant Government policies, strategies and programs particularly the Urban Development Policy and urban development programs as well as detailed studies conducted by consulting firms.

The package consists of seven sub-programs namely, Land Administration System Reform, Infrastructure Supply Reform, Urban Finance and Financial Administration Reform, Organization and Human Resource Management Reform, Public Participation Reform, Urban Planning Reform and Urban Justice System Reform sub-programs. These programs have 23 projects and the Program is planned to be accomplished between 2006/07 and 2009/10.

All regions have prepared their own specific versions based on the package prepared by the Ministry of Works and Urban Development (MoWUD). As regions entered into implementation phase of the program towards the end of the fiscal year under review (2006/07), only activities accomplished at the Federal level are presented by sub-program.

Land Development and Administration Reform Sub-program: During the fiscal year under review the following activities have been undertaken under this sub-program:

- Regulation for the implementation of the compensation proclamation was prepared and ratified by the Council of Ministers; and the preparation of a model guideline was completed;
- The first draft of Housing Development Policy completed. Discussion with concerned stakeholders on the draft policy document to be undertaken subsequently;
- Feedbacks have been gathered from regions and bureaus organized under the Ministry on the draft proclamation establishing land and land related registration and proclamation for establishing cadastre survey agency, and implementation regulation;
- While information is being collected on the sufficiency/adequacy of regulation and working manuals for implementation of the lease system in Addis Ababa and regions, a

study report that would enable formulate the implementation of an improved lease system was prepared;

- A draft guideline outlining the importance and implementation of land auction techniques which would enable to lay down a system for land supply through auction was prepared;
- Draft report on the standard size of plots for different services was prepared; and,
- First draft report on rectifying the problems observed on condominium houses with the aim of improving the use of the houses pr

financial regulation prepared earlier has prepared implementation guidelines. Oromiya region is in the process of preparing the regulation; and,

- A field report on the benefits and problems encountered in Addis Ababa while implementing a unified financial administration system has been finalized. The report will be used as input to support provided to regions by the Ministry of Works and Urban Development.

Organization and Human Resource Management Reform Sub-program: The main activity accomplished in this sub-program pertains to the training of urban management professionals in post-graduate programs locally. Accordingly, a training program which would enable to raise the current training capacity of 30 persons in two years to an intake capacity of 400 persons per year has been designed and implemented. Accordingly, a total of 395 trainees selected from all regional states, Addis Ababa and Dire Dawa city administrations and the Federal Government have been attending their post graduate studies at the Ethiopian Civil Service College. The content of the training has been designed in line with the country's policies, strategies and programs. Moreover, it is planned to arrange similar training programs in collaboration with the Civil Service College to alleviate the shortage of skilled man power in urban sector.

It is necessary to ratify urban establishment proclamation in order to build the capacity of regional urban administrations. Accordingly, Tigray, Oromiya, Amhara and SNNPR have issued city establishment proclamation earlier with the assistance and follow up provided by the Ministry of Works and Urban Development (MoWUD). Some regions have undertaken proclamation improvement/revision activities. In addition, in view of enhancing effectiveness through improving the organization of urban administration, technical support was provide to 18 reform towns in order to undertake organizational study.

The urban organizational study prepared for Emerging Regions, after conducting a series of consultation, with the regional administration bodies and the public at large (the urban organization law) has been ratified by the respective Regional Councils.

Public Participation Reform Sub-program: In this regard, draft model (prototype) Urban Council and Urban Kebele Council Organization, Management and Code of Conduct and Ethics Regulations have been prepared. In addition, a draft model manual for direct public participation has been prepared.

Urban Planning Reform Sub-program: In this regard, during the fiscal year, the following activities have been undertaken:

- A draft regional urban plan model regulation and seven urban plan implementation manuals which would enable build the capacity of regional urban planning teams and the private sector engaged in urban planning have been prepared. The first drafts of the rural–urban linkage and public participation manuals are being finalized. The first draft guideline for authorization of license for private sector participation in urban planning service has been prepared;
- A rapid assessment report and strategy on capacity gap evaluation of the regional urban plan units and teams has been prepared. Support was also provided to Tigray and Amhara

regional states to set up urban planning units. The Amhara National Regional State has established an urban Planning Office by proclamation;

- A rapid assessment strategy report on identification of capacity gaps of Afar and Gambela regional states in urban planning and implementation has been prepared with that of Tigry, Amhara, Oromiya and SNNP. The strategy has been prepared to fit with the remaining two Emerging Regions; and,
- Various activities have been carried out to finalize urban plans whose preparation started in 2005/06. Accordingly, while the plan for Gambela regional state is completed, the finalization work of Yabelo, Hagere Selam, Harar and Dubti town plans is being undertaken. Similarly, while the preparation of basic map of Adwa and Wukro is nearing completion, the basic map of Metahara is under revision.

Justice System Reform Sub- Program: In this respect, new draft proclamation to strengthen social courts in cities and towns is prepared. In addition, the preparation of a draft regulation to revise code enforcement service is being finalized.

The way forward: The urban good governance package had been prepared and a consensus reached with the regions and the concerned Federal bodies on a consultative forum arranged in mid November 2007. However, it was realized that finalizing the work and its full scale implementation took quite a long time seen against the plan. In this regard, effort should be made to improve implementation of urban good governance packages in the following areas:

- While the full scale implementation of Urban Good Governance package demands the effort and commitment of all stakeholders, the attention given to it by the leadership and executive bodies at all levels should be considered from the perspective of leadership commitment;
- Clarity on the concepts, principles and sub- programs by all implementing bodies/parties should be further enhanced;
- Implementing agencies of the sub-programs and projects need to have a clear view regarding their task. Therefore, there is a need for enhanced understanding about the impact that these programs have on the livelihood of the people;
- Source of finance specially in relation to the PSCAP fund as one source of finance for implementing urban good governance package should be secured in line with the budget; and,
- Coordination among the various stakeholders should be further enhanced.

5.9.1.2 Construction Industry

In this regard, it was planned to prepare a Construction Industry Policy, Capacity Building Program and Laws. Accordingly, a Draft Construction Industry Policy Document has been prepared. Similarly, the Draft of the Construction Industry Capacity Building Program has been prepared based on the draft policy and baseline study document.

Besides, the National Building Proclamation has been ratified and supporting documents for the implementation of the proclamation have been prepared and translated into Amharic. The

preparations of a draft model regulation and guidelines that would enable regions to implement the proclamation have been completed.

In order to verify that contractors and consultants for every grade are registered as per the criteria set, detailed data base on contractors and consultants has been regularly computerized in collaboration with the concerned Federal bodies. Verification of the appropriateness of vehicles required, criteria for registration of contractors and the recruitment of required professionals has been carried out in collaboration with the Federal Road Transport Authority and the Ministry of Labor and Social Affairs.

To ensure the existence of appropriate and improved guidelines for registration services, a draft guideline for registration of contractors, consultants and professionals; a guideline for registration of construction equipment and a guideline for outsourcing the inspection of technical adequacy of construction equipment to Third party have been prepared.

Besides, in view of laying down information system for the construction industry, contractors are requested to fill-in formats while coming for renewal of registration, and registration of construction equipment is being computerized.

5.10. Capacity Building and Good Governance

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

5.10.1. Civil Service Reform

The main objective of the Civil Service Reform Program (CSRP) is to help effectively implement and efficiently enforce Government policies, programs and strategies in a transparent and accountable manner. Most Federal Civil Service Reform Offices have established Customer Services and Complaints Handling Units and prepared service standards. To improve service delivery, in addition to the Business Process Reform and Public Service Delivery Improvement Policy already completed during SDPRP, performance and service-delivery baselines have been established for core Government functions, and key services. During the PASDEP period, a significant number of activities are being implemented in the context of the Civil Service Reform Program to further expand and consolidate the institutional transformation agenda that has been underway across the nation over the last two years, in a more systematic and integrated manner such as strengthening the BPR, implementing an improved Performance Planning and Management System (PPMS) in Federal institutions and their counterparts in regional states, and to build the capacity of the institutions to enable them to prepare their strategic plans and render them operational . In this regard, the key function has been aimed at enabling the CSRP

'supporting institution' during 2006/07 to kick-off implementing the program in an integrated manner encompassing the five sub programs.

In a bid to make the Civil Service Institutions (CSIs) effectively discharge their new roles, over the past three years, the GoE has in tandem initiated institutional transformation and capacity development works. Accordingly, during 2006/07, the CSIs undertook consolidation and review works on the Business Process Reengineering (BPR) studies they launched in the previous year. They were able to properly identify their core and support business processes and have managed to fully and partially complete the BPR studies. Test-trial on completed business processes was also conducted. Although fundamental and dramatic changes could not be achieved as expected, however, a measure of demonstrable efficiency and effectiveness in the service delivery of a few processes which meet customers' expectations were registered. The CSIs also piloted the Performance Planning and Management System (PPMS) in their respective institutions, which generated useful feedbacks that could be used for further development of the system.

In relation to CSRP, the Ethiopian Civil Service College (ECSC) and the Ethiopian Management Institute (EMI) are jointly working towards the effective implementation of the CSRP in the country. The Federal Civil Service Agency (FCSA) as a regulatory organ also plays its supportive role. The two education and training institutions have taken measures to improve their service delivery systems to be more problem-oriented, to reorient the learning - teaching process to a more student-centered approach, and upgrade the quality of education and trainings they offer. To this end, ECSC has undertaken curriculum revisions in core subject areas. Similarly, last year EMI has developed and introduced four new training packages.

With the objective of improving their services, the CSIs undertook activities that would enable them to work in partnership with international sister institutions of learning and training and organize and strengthen autonomous institutions and centers that would gradually evolve into centres of excellence. During the fiscal year under review the ECSC organized the Centre for Civil Service Leadership and Management Development (CCSLMD) as well as the Centre for Tax and Customs Management (CTACM).

During 2006/07, the CSIs began to render implementation support of CSRP at institutional level. Accordingly, the ECSC and EMI started the integrated and uniform implementation of the CSRP

During 2006/07, the study which has been undergoing on upgrading the employee based performance system being piloted in selected Federal institutions to integrated PPMS comprising organizational, team and employee performance was completed incorporating other countries' experience. Familiarization trainings for selected Federal institution are being conducted on the new system before its full swing roll-out.

In the past two years, plans and a series of activities aimed at enhancing public financial institutions capacity to create enabling trade and investment environment, improve their service delivery systems, undertake BPR studies, introduced a results-oriented PPMS and initiate IT-based service delivery systems were undertaken. During 2006/07, the public financial institutions undertook study tours abroad to benchmark best performing organizations.

The CSR initiatives are also underway in the major public enterprises including the Ethiopian Telecommunications Corporation (ETC) and the Ethiopian Electric Power Corporation (EEPSCO).

During 2006/07, a revised Federal Civil Servants Proclamation No.515/2007 was promulgated. Attendant regulations and procedures were also prepared. Revision work on draft Civil Servants and Political Appointees code of conduct has also been completed pending the drafts to be submitted for the approval of the Council of Ministers (CoM) during the first quarter of the 2007/08 fiscal year. In addition, a revised Financial Administration Proclamation has been prepared and submitted to the CoM.

Preparatory works to introduce and implement program budgeting have been underway. Preparation of a Federal Cash Management and Payment manual was finalized and has become operational. Internal Audit operational manual and training module were prepared and Training of Trainers (ToT) was conducted to Federal and Regional internal audit professionals. Trainings on completed Environmental Audit, Special Audit and IT Audit manuals and standards were conducted to external audit staff.

In 2006/07, better performance has been registered in CSR popularization activities compared to previous years. A weekly one-hour-and-a-quarter direct radio talk-show which lasted a year long was conducted. The program has helped to indicate the level of awareness of customers in particular, and the public at large and has contributed to a better understanding of the public opinion about the CSR.

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

Challenges faced during 2006/07: The serious CSR implementation challenge still remains to be the continued failure of top and middle level management to embrace ownership and

commitment of the reform. The limited growth in the capacities of CSIs in general, and change agents knowledge and skill in particular, has been identified as another area of challenge.

5.10.2. Justice System Reform Program

The Justice System Reform Program is designed with the objective of improving the legal system that should serve as a basis to speed up the on-going democratization process. During 2006/07, the Prosecution Information System (PIS) that was installed and tested in two prosecution offices in Addis Ababa have been further improved and preparation of bid documents finalized to implement the new information system at the Federal level. In addition, ToR has been prepared and the required items have been identified for the information system study of the Federal police commission. Installation of an Automated Fingerprint Information System (AFIS) at temporary places in addition to the Federal police have been completed and tested, and conversation of data is about to be completed. The automated prison information system study which started in 2005/06 has been under implementation and effective and efficient service has been provided to the public by using the new automated system. A term of Reference (ToR) has been developed to undertake a study on establishing a national justice information center to improve publicly available information and data in the justice system. The implementation of court reform projects in all regional supreme and high courts have also been completed. The study on the organizational structure of the Federal Prison Administration has been completed pending the approval by the Ministry of Federal Affairs (MoFA). A TOR has been prepared to develop training module based on the new curriculum of the Federal Prison Administration Correctional Training Center.

5.10.3. Improved Democratic Governance

Human Rights: The human rights Commission and Ombudsmen's Office have been established, Commissioner and Ombudsmen have been appointed as well. Efforts have been underway to strengthen the institution with the establishment of systems and procedures. With regard to the Institute of the Ombudsman's Office (IOO), one of the expected outputs during the year under review has been strengthening of the organizational structure of the institute.

Transparency and Judicial Independence: during the period of SDPRP and towards 2005/06 names and qualifications of approved judges have been publicly announced. Furthermore, study on judicial independence, transparency and accountability has been completed to start and establish system of transparency and accountability in conducting judicial business. During 2006/07:

- Ground works necessary for e-litigation have been carried out;
- All Federal courts have been connected by Wide Area Network (WAN). This has enabled the courts to access the database any time as required;
- The e-litigation system has also been introduced during the reporting period so as to improve the performance of judges, professionals and other support staff of the courts. At all levels, training has been given in information technology, law & management area for 106 judges and support staff;

- During 2006/07 the study on judicial transparency and accountability has been completed and evaluated by the national steering committee and is being revised to further improve the content of the study.

5.10.4. Decentralization

The stated objectives of the Government's decentralization policy have been to improve the quality of service delivery and to empower local communities to take more responsibility for determining their own priorities. On average, 40% to 60% of Government expenditures have been decentralized to the local level, together with full responsibility for managing social services and increasing shares of capital investment starting in 2001. Continued efforts have been made to improve block-grant formula used to allocate resources to the regions and to strengthen urban governance structures. A preparatory work has been carried out to commence and develop an improved prototype formula by accessing the existing *woreda* block-grant allocation system. A National Urban Development Policy has been drafted as well. Moreover, efforts have been wedged to expand the participation of the rural population in development, in building democratic systems as well as to function within an organized administration. A manual has also been prepared and put into effect to encourage and secure adequate participation of the public in all activities. In the course of implementation of the PASDEP, these reforms are expected to be further reinforced and democratic decentralization be further strengthened. The capacity, capability and competence of *woreda* administration expected to be improved and grassroots participation be encouraged through the implementation of the District Level Decentralization Program.

District Level Decentralization Program: Under the decentralization program, the Federal System of Government has been further deepened to the district (*woredas*) level.

The overall goal of the Program has been to build capacity and bring about institutional transformation that would enhance development, democracy and good governance. The Program caters for deepening decision making power at district level, ensuring empowerment, social accountability and vibrant participation.

In 2006/07, *woreda* and *kebele* (local level) good governance package have been designed to attain the principles and elements of participatory process, consensus building, responsiveness, transparency, accountability, equity and inclusiveness, rule of law, efficiency, effectiveness and avoid bad or poor governance. Towards this end, the most notable actions include the designing of packages, drafting of different guidelines presiding good governance, formats on service delivery, complaint handling mechanisms, collecting revenue and allocating expenditure to render them transparent to the public, provision of training. In this regard, the following activities have been carried out:

Enhancing Democratic participation and consultation of membership based civil societies: systems and organizational structure for participation of membership-based civil society organizations has been arranged and is being implemented at kebele level in most of the regions.

Instituting inspection supervision system at local level: inspection team is being formed at kebele level to closely inspect actions, achievements and gaps on development, democratization and good governance.

Executing improved woreda planning system: An improved planning manual has been prepared in order to help woredas prioritize and follow up development and capacity building activities consistent with macro economic policies, strategies, regional and local conditions. This manual together with other related manuals and guidelines would be implemented in the woredas. Preparations have been underway towards this end.

Completing the devolution of power to lower tiers of Government: In order to put decentralization policies and instruments on a solid ground ; based on each regional Government legislation, a prototype district level decentralization policy and legislative framework has been already developed and implemented for four regional Governments at different levels. In this regard, a draft legislative framework would be prepared to support the refinement of *woreda* and regional Government expenditure assignment and fiscal transfer mechanisms. The region-*woreda* fiscal transfer manual is expected to be improved based on the assessments and manual prepared.

For building up the capacities of rural *woredas* and *kebeles* in pastoral areas, studies have been carried out to define the gaps and provide the necessary working manuals. This includes manuals on human resource survey, training needs assessment, grass root participation system, fiscal transfers. Action plan has been prepared and executed in 13 model *woredas* to enhance their planning and implementation capacity.

During the upcoming years of the PASDEP, the program is expected to focus on three pillars of capacity building namely, strengthening the implementation of *woreda* and *kebele* good governance package and bringing a leap forward; implementing studies that fill the gaps of institutions and systems at *woreda* level, and designing long-term *kebele* capacity building plan and implementing the same at kebele level.

5.11. Environment and Development

Poverty and environmental degradation are two closely related phenomena in Ethiopia. Environmental degradation is one of the causes of prevalence of widespread poverty. On the other hand, extreme poverty contributes greatly to the ever-increasing environmental degradation in the country. The PASDEP has demonstrated the renewed commitment of the Government and has incorporated environmental goals and targets and hence implementation of the environment component of PASDEP has been underway.

Major Achievements during 2006/07

With the objective of enhancing the rural environment for improved livelihood and gender equity, the following activities have been undertaken during 2006/07:

- The development of *Woreda* Environmental Management Plan preparation, implementation, monitoring and evaluation manual is completed;
- National Plan of Action to Combat Desertification has been updated in light of the new national and international policy dynamics;
- To enhance the Conservation and Sustainable Utilization of Wetlands Community based projects on conservation and sustainable utilization of wetland has been under implementation in three regional states (Amahara, SNNP, and Tigray Regional States);
- Involving Youth in Combating Desertification Initiative is under implementation in two regional states (Amahara and Oromia regional state);
- Concept paper, strategy and action plan for the “Defense for Environmental Protection” Initiative has been prepared. Follow-up action has been underway in collaboration with the Ministry of Defense.

With the objective of ensuring socio-economic development that enhance environmental sustainability and promote gender equity, the following major activities have been undertaken:

- Preparation of Six guidelines as planned in the PASDEP: textile, plastic, pulp and paper, construction, floriculture and public participation have been under various stages of preparation;
- Environmental education and awareness toolkit disseminated targeting various bodies involved in environmental management;
- Environmental awareness promotion activities.

With the objective of improving Waste Management and Pollution Reduction, various activities have been accomplished aimed at prevention of pollution originating from manufacturing and service enterprises. These include the following:

- Guidelines on the management and use of used engine oil and electronic waste has been prepared. The guidelines have been distributed to selected engine oil importing companies for testing.
- Guidelines for Environmental Management System have been drafted to support the implementation of environmental management initiatives of the six industry sectors (food, beverage, sugar, cement, textile, tannery and leather) targeted in the PASDEP. The guidelines will serve as training module to provide capacity building training to regional Government, industries and other stakeholders.
- A Draft pollution control guidelines has been drafted. This guideline will be employed to implement the draft pollution control regulation.

Under the ‘65 towns` municipal waste management initiative’ the following activities have been undertaken during 2006/07:

- Completion of municipal waste management strategic plan preparation, implementation, monitoring and evaluation practice and training guidelines;
- Completion of integrated municipal waste management practice and training technical guidelines; and

- Planned capacity building training for 30 participants was not implemented owing to budget limitation.

A Public-Private partnership pilot project on solid waste management has been underway in Addis Ababa. Activities undertaken during 2006/07 include the following, among others:

- Local level Waste resource management guideline has been prepared. A new technique to convert solid waste into charcoal has been successfully tested and 2000 hectares of land has been temporarily allocated for establishment of waste center;
- Awareness raising and sensitization program targeted sub city employees, *Kebele* administrators, community representatives, students, school teachers and community based organizations (CBOs), and *Idir* leaders have been conducted; and,
- Selected Micro waste management enterprises with capacity constraints received Capacity enhancement support including: 10 waste collection carts, 10 pairs of plastic shoes and 10 duty clothing.

Challenges Faced During the Year under Review

- Progress has been constrained by limited capacity or absence of environmental institutions at sub-national level;
- Limited awareness to environmental issues in bilateral and multilateral cooperation endeavour; and,
- Capacity limitation at the level of the Federal Environmental Protection Authority.

5.12. Gender and Development

The Government of Ethiopia has taken steps to improve the condition of women in the country, including formulating policies and strategies to integrate and mainstream the gender dimensions in economic, social, and political decisions. Accordingly, progress has been made in the adoption of a new Penal Code, which contains strong measures in support of women's rights. Protective legislations have been passed in terms of women's access to land, credit facilities, and productive resources as well. The Government has continued emphasizing gender equality in the process of decentralization and empowerment.

Gender issues have also been addressed in key related social development policy areas of the country. Education policy, Health policy and prevention of HIV/AIDS, Population etc. have served as entry points to mainstream gender issues.

Progresses in the Implementation of National Action Plan for Gender Equality

Economic Empowerment of women and girls: The contribution of Ethiopian Women to the country's socio-economic development effort is huge. Ethiopian women have not been able to enjoy the fruits of development equally with men. In order to enhance equity in agricultural sector, the following improvements have been achieved within the framework of the National Action Plan (NAP) for Gender:

- Regions have taken initiatives to register the name of both spouses for land certification in order to confirm the right of women to own and administer economic asset;
- Food security program of the country has given more attention to women particularly for female headed household;
- Agricultural credit services have been expanded through out the country and women have got opportunity to get better access to credit than before. This situation has helped women to engage in micro and small scale enterprises sector such as fattening, poultry, diary etc;
- In terms of reducing the burden of work load of women, the development program of the Ministry of Mines and Energy has given due emphasis to introduce appropriate technology such as bio-gas, energy saving stove, etc; and,
- In regard to women's access to agricultural extension program, studies showed that women have had limited access to modern technology and agricultural input. In this regard, the MoARD has given special attention towards increasing participation of Women Headed Households and married women in rural society supported under the agricultural extension program and gender mainstreaming guide line has been developed in order to mainstream women's needs in different development programs and projects in the agriculture sector. In this regard, significant progress has been achieved specially in respect to the participation of women headed house holds which has enabled them to benefit from short term and modular agricultural training program.

Education and Training of Women and girls: To increase the enrollment and retention rate of girls in the education sector, the following measures has been taken:

- Parents' Teacher Association (PTA) has been established at community level with the objective of monitoring girls' educational progress in schools. Women's association and Women Affairs Bureau have become members of PAT in order to mobilize community to further promote girls' education;
- Educational Management Board has also been established ranging from the lower to the higher administration unit of the school. Women teacher at various levels are members of the board for the purpose of monitoring the progress in girls' education;
- To increase the participation of pastoralist girls and women in different educational program, Gender sensitive education package has been developed and being implemented in pastoral area of the country; and,
- Gender focal point has been appointed in all schools to monitor girls' education.

Human Rights and Violence against Women and Girls: The Government has ratified various international conventions on the promotion of women's empowerment and gender equality. The main international instruments include: Universal Declaration of Human Rights (UDHR), Convention on Elimination of discrimination against Women (CEDAW), Violence against Women (DEVAW), and Convention on the rights of Children (CRC) have been integral part of Ethiopian Constitution. The Government has made effort to review the discriminatory laws and procedures in line with the principles of the constitution. The Family Law has been revised- age at marriage, divorce procedures are being addressed. Penal Code had been reviewed and Female Genital Mutilation (FGM), Rape and trafficking have been treated as a crime in the revised Penal Code. It is strongly believed that having gender sensitive laws and policies alone do not bring change towards equality. The practice of Violence against Women is related to the individual cultural belief and widely prevalent. In order to eliminate these traditional harmful practices, a lot of awareness creation programs have been undertaken at community level. Community conversation dialogue has been considered as a key strategy to bring attitudinal change of the community. Based on this Women's Machineries in collaboration with different donors and NGOs, have conducted discussion forums at all levels.

Women's Participation in Decision Making: In order to promote equal opportunity for women in decision-making position, a lot of awareness creations, advocacy and lobbying activities have been undertaken across the country. As a result, the number of women in decision-making and leadership has increased. For instance, the number of women representative in the House of Peoples Representatives from both the ruling party and the opposition has reached 117. The number of elected women at regional level has increased to 40% and 3.2% in relatively developed and under developed regions, respectively.

The Civil Service Reform Program and Civil Servants' Proclamation, also contributed a lot to women's participation in decision making position and encouraging women for their participation in civil service to discharge their responsibilities.

- Laws against gender based violence has been formulated in order to protect women from violence at work place;
- HIV/AIDS prevention guideline which gives more attention for women has been formulated and is being implemented at work place;
- Studies aimed at designing strategies have been initiated to promote women's participation in decision making positions.

Institutional Mechanism to Enhance Implementation of Women's Action Plan: Ethiopia has made a commitment to put in place structures to implement the Ethiopian Women's Policy efficiency. Mechanisms have been set up at all levels of Government organs in order to create enabling environment for mainstreaming women's needs in development programs.

Chapter VI

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

A well structured monitoring and evaluation System is critical for assessing the effectiveness or lack thereof of measures to eradicate hunger and poverty. Recognizing this, the Government of Ethiopia has put in place a well structured, institutionalized, comprehensive and complementary Monitoring and Evaluation (M&E) system since 1996. The system has been providing the necessary socio-economic data and information for the M&E system of then SDPRP and now PASDEP with MDGs implementation in perspective.

The system encompasses both survey-based and administratively generated data supported by the development of matrix of indicators to track progress on inputs, outputs and outcomes. The various indicators have been and are being generated through surveys and censuses regularly conducted within the framework of the Medium-Term National Statistical Program; the implementation of qualitative instruments/surveys; and use of routine administrative data generated by sectoral Federal line ministries linked to their counterparts at sub national level. Besides, sectoral annual implementation, Monitoring and Evaluation reports serve in generating output and input indicators while reports prepared based on information from surveys conducted by the CSA serves to generate outcome and impact indicators to inform the M & E system.

The outcome indicators which are meant to monitor progress towards targets set in the PASDEP have been informed by the activities undertaken in line with the Monitoring and Evaluation Action Plan jointly formulated by the Ministry of Finance and Economic Development (MoFED) and the Central Statistical Agency (CSA) and being implemented through financial support from the pool fund of the Development Assistance Group (DAG). This was launched in 2004/05 and is currently under implementation and is expected to be extended up to 2010/11. The conduct of the 2004/05 HICES and WMS on the side of the CSA and the analysis on the basis of these surveys data sets coupled with the conduct of the Participatory Poverty Assessment (PPA) surveys on the side of MoFED were the major undertakings since the launching of the Monitoring and Evaluation Action Plan towards the end of 2004. The PPA survey was anchored to the WMS to be able to link qualitative outcomes with quantitative ones and at the same time enable analysts gauge whether the outcomes from the qualitative surveys are reliable or not with in a reasonable margin of error. This helped reasonably avoid common pitfalls of qualitative surveys. The PPA has been already issued and is being widely cited among researchers.

While the CSA's version of both the HICES and WMS has been already issued, the poverty/welfare analysis conducted by the Development Planning and Research Department (DPRD) of MoFED is currently being finalized. The three major actors of the M&E System being the Ministry of Finance and Economic Development (MoFED), Federal Line Ministries, and the Central Statistical Agency (CSA), detail activities and developments by way of implementing the M&E Action Plan as well as streamlining and strengthening the System(developments in sectoral monitoring systems) is outlined below:

6.1. At the Level of MOFED

The MoFED through the DPRD plays an overall coordinating role for the functioning of the M&E System. The detailed poverty/welfare analysis work based on the 2004/05 HICES and WMS data sets were the major activities undertaken by the DPRD of MOFED during major part of 2006/07 and the latter period of 2005/06. Given the delay in data cleaning and management by the CSA, the Development Planning and Research Department (DPRD) of MoFED developed an Analysis Plan for the preparation of the 2004/05 HICES and WMS based Poverty Analysis Report (the third in the series).

The HICES & WMS-based Poverty Analysis has been conducted in two phases. The first phase (Phase I) has to do with undertaking data cleaning in consultation with the CSA and issue basic outcome indicators particularly on Income Poverty Analysis that fed in to the PASDEP along with outcome indicators on the Non-income dimensions of poverty (Chapter II of the PASDEP). The second phase (**Phase II**) has to do with the preparation of the full-fledged Poverty Analysis Report based on the 2004/05 HICES and WMS data sets and also through triangulating findings from qualitative (PPA) as well as quantitative small scale surveys from independent sources as deemed relevant.

Given the backlog of both survey-based quantitative (the three HICES and WMS) and qualitative information (such as the PPA), the DPRD of MoFED was of the view that the contents of the upcoming Report be different from the previous ones: **Development and Poverty Profile of Ethiopia, March 2002 had added value on Poverty Situation of Ethiopia March 1999.** The idea is to once again add value to this Report by going beyond just the profile of poverty through incorporating determinants and dynamics of poverty taking advantage of pooled information from the three HICES and WMS surveys: 1995/96, 1999/00, and 2004/05. As a result, the volume and scope of the Analysis Work was broadened. There was, therefore, a need to team up local and foreign experts to undertake the analysis work. One component of the Analysis Plan in phase II was the training of professional staff from MoFED (DPRD), regional BoFEDs, and the CSA. Thus, identification and selection of consultants, preparation of the TOR for each of the consultants, setting up the analysis team (overall Technical Coordinator, Poverty Modeller, Livelihood Specialist to link qualitative assessments with quantitative HICES and WMS Results, and Trainer along with the coordinator, and renowned poverty specialist to validate the overall results) have been carried out in 2006/07. The Launching Workshop for the full-fledged Poverty Analysis Report preparation was conducted from April 10-19, 2007 (4 staff members of the DPRD, 1 from CSA, and 8 from regional BoFEDs participated in the training workshop. This helps to enhance the in-house technical capacity of the MoFED and its regional counterparts including the CSA.

As reported in Chapter II of this Report, it was indeed made possible to add value to the upcoming report which is currently being finalized, by providing new information of policy relevance on the following dimensions (among others) which has never been hitherto produced in any of the previous poverty analysis reports:

- a) Information on the Determinants of Poverty and its Dynamics over time;
- b) More robust outcomes on Growth, Poverty, and Inequality that have interesting implications on Government's Pro-Poor Policy;
- c) More information on Household Vulnerability and Shocks, Coping mechanisms, types and incidence of shocks;
- d) Results on correlates of poverty and the role of shocks; and,
- e) Disaggregated information on poverty and family characteristics

6.2. At the Level of Federal Line Ministries

Sectoral monitoring systems have been and still are the major sources information to monitor progress on PASDEP targets on annual basis through the computation of outcome, output and input indicators. Sectoral monitoring systems have been and still are at different level of development in terms of generating relevant information to monitor progress towards the set targets. Education, Health, Road, Water & Sanitation, and food security in that order have had relatively well functioning systems that are well linked functionally down to the grass root level. On the other hand, the need to strengthen and stream line sectoral Monitoring systems for Agriculture and the rural economy as well as Urban Development and Housing has been noted several times. In this regard, the year 2006/07 has witnessed efforts to strengthen the Monitoring and Evaluation system for the two themes/sectors. In this regard, the following major activities have been initiated in 2006/07 and are still at different levels of development:

- a. Development of the M&E System for Agriculture and Rural Economy well in progress through support from FAO;
- b. Plan Preparation, Monitoring and Evaluation Manual of the Ministry of Works and Urban Development (MOWUD) well underway. The Planning and M&E Manual which is currently in its draft stage seems to be well aligned to the PASDEP and MDGs; and,
- c. Development of Water Sector Monitoring & Evaluation and Management System has been developed.

In this regard, the following major Water Sector Monitoring & Evaluation and Management System activities have been carried out during fiscal year 2006/07.

- The general framework for monitoring and evaluation system for the water sector as a whole including indicative M&E indicators, have been identified. Preliminary discussions have been undertaken with respective Regional Water Bureaus, where by agreed up on at least to start with, and build through time a comprehensive, integrated and standardized water sector M&E-MIS system;
- Capacity building activities have started, and are being carried out to institutionalize the sector M&E-MIS up to the lowest level of management;
- Collection of water supply baseline information at *Kebele* level has already started by Regional Water Bureaus;
- Review and evaluation of the implementation and the progress in water sector development programs has been carried out on quarterly basis for the last two years, mainly in collaboration with all Regional Water Development Bureaus, the Ministry of Water resources and other relevant sector institutions;

- Development of water supply and sanitation program M&E-MIS system has already commenced by national consultant; and,
- First Annual Water Sector Development report has been produced in Amharic, and distributed to different stakeholders and all Regional Water Development Bureaus.

The Health Management Information System (HMIS) has been Reformed.

In this regard, the following actions have been undertaken:

- The Reform of Health Management Information System started with the assessment of the existing situation;
- The findings were shared with all stakeholders of the health sector;
- Indicators were selected(with in the PASDEP framework) that adequately address the monitoring requirement of various key health programs;
- This was followed by the designing of data recording and reporting tools that helped generate the required indicators;
- In order to facilitate the proper utilization of the HMIS tools, training materials and guidelines have been developed; and,
- All these processes have been accomplished through a wide-range of consultative processes including all stakeholders from the Government, health development partners, NGOs and private sector.

6.3. At the Level of the CSA

The CSA, guided by the Medium Term National Statistical Program, regularly undertakes surveys and censuses that help generate outcome and output indicators to monitor progress towards the PASDEP and hence MDGs. The following activities have been carried out during 2006/07:

- a) CSA's version of the 2004/05 WMS-based Report was issued in June 2004. CSA's version of the HICES Report has also been issued subsequently in July 2007;
- b) Preparatory work for the formulation of the National Strategy for Development of Statistics (NSDS) through financial support from the World Bank almost completed. The following major activities have been carried out in this regard:
 - Agreement for financial support with the World Bank signed;
 - Recruitment international experts currently underway; and,
 - Five CSA staff trained on Strategic Planning by way of building in- house technical Capacity.
- c) The 2007 Population and Housing Census was undertaken in May 2007(except Somali and Afar). In this regard the following major activities have been undertaken:
 - The Cartographic work for the census has been completed.
 - All the preparatory activities including printing of survey instruments, recruiting of enumerators, training of enumerators, deployment of survey materials and enumerator, budget allocation and transfer, establishment of census commissions at various levels were well under taken.

- All field Questionnaires has been retrieved to the head quarter safe and questionnaire scanning was completed;
 - All *woredas* and *kebeles* of the country were covered;
 - All the necessary network environment with all required server, back-up devices and installation of generator was set; and,
 - The data capturing system was set.
- d) Preparatory Activities for Population and Housing Census of Pastoralist areas was

Chapter VII

Conclusion: Challenges & Opportunities for Accelerated Implementation of PASDEP

This Report (APR 2007) alike the one preceding it (APR 2006) has documented developments in the socio-economic landscape of the country during the last several years culminating in the second year of implementing Ethiopia's Five Year Development Plan (the PASDEP). The strengthened effort in implementing the policies, strategies, and programs as articulated in the PASDEP reinforces the commitment by the Government of Ethiopia to achieve its long-term development objectives (meeting the MDGs at a minimum).

Through the then SDPRP and now PASDEP, the Government has embarked on an aggressive program to accelerate progress as rapidly as possible-including a big push on education to create human capacity, expanding infrastructure to enhance competitive advantage of domestic export-oriented firms, opening the economy, building institutions, and decentralizing Government. Achieving and sustaining broad-based growth through transforming the agriculture sector and encouraging private initiatives founded on small enterprise development and job creation is considered central in the Government's poverty eradication effort. Within the PASDEP framework, agriculture led growth and accelerating private sector growth are taken as important pillar strategies to tackle the poverty and food insecurity challenges of rural areas and unemployment problems of the cities and towns. At the same time, the Government is trying to manage this in the context of continuing food security pressures, and a volatile external and regional environment.

The last four years ending in 2006/07 registered annual average real GDP growth rate of nearly 12 %. This period has also witnessed the beginnings of two peculiar changes in the economic landscape of this country: a shift to a higher growth path and more diversified sources of growth. The principles underlying the PASDEP are that all sectors broadly contribute for the reduction and ultimate eradication of poverty, in effect giving particular attention for the agriculture and rural development. In the past (up until 2002/03), growth has been volatile due to terms of trade effects and weather induced fluctuations in the agriculture sector. However, nowadays growth has been very much sustained and complemented by strong performance in the construction, manufacturing, trade and tourism, banking and insurance, and real estate sectors/sub-sectors. The construction sector has been spurred by the much needed public sector investment in infrastructure (roads, rural infrastructure development including food security, telecom, power, irrigation, etc) and private sector expansion as well.

The assessment of performance to date clearly shows substantive progress being made by Ethiopia during the last several years ending in 2006/07. This period has witnessed acceleration in economic growth (e.g., annual average real GDP growth rate of about 12 percent during the four years ending in 2006/07), positive human development outcomes (e.g., Gross Primary Enrolment Rate increased from about 80% in 2004/05 to 91.6% in 2006/07), expansion in infrastructure (e.g., road density increased from 33.2/1000 in 2004/05 to 38.6/1000 in 2006/07), decline in poverty (e.g., poverty head count declined from 38.7% in 2004/05 to 34.6 in 2006/07), and institutional framework for enhanced empowerment and devolution (further devolution to *Woredas* and improved service delivery).

A number of evolving opportunities have helped for enhanced implementation of the PASDEP: implementation of the-ongoing National Capacity Building Program, existence of successful on-going sector development programs, the success of the domestic resource mobilization effort including social mobilization (of and grassroot communities taking advantage of the ongoing devolution process), the momentum effects of past investments on human development and physical infrastructure, the deepening of the environment for private investment and business activity, the global initiatives for scaling up aid to LDCs and debt relief.

However, despite these achievements, there have been and still are serious challenges to be addressed to make the achievement of Ethiopia's long-term development objectives (MDGs at a minimum) a reality, instead of being a possibility. The challenges are considerable and need the Government's continued attention in the short, medium, and long-term perspective.

Addressing the consequences of the current inflationary and balance of payment pressures has remained to be an immediate challenge for policy makers. Although the Government has taken steps to address the immediate economic policy challenge of inflationary pressure (such as the purchase and distribution of grains to low income groups in urban areas), the way out in the medium and long-term is to further enhance productivity of the agriculture sector and improving and streamlining the marketing system.

Another emerging immediate challenge is the current record of oil price increase which exacerbates domestic inflationary pressure, constrained BoP and increased developmental cost. As has been already noted, there have been and still are programs that are already in the pipe line to address the various challenges in a coordinated and concerted manner. The National Capacity Building Program particularly the Civil Service Reform Program is meant to address limited implementation capacity (both public and private entities) and improve access and quality of service delivery; the development of irrigation infrastructures to insulate small holder farmers from drought shocks; private sector development and export diversification to address term of trade shocks; the tax reform program to revamp domestic resource mobilization efforts; expansion of education of farmers (enhanced labor productivity); improved access to menu-based extension (increase productivity of land); efforts to streamline and strengthen the marketing system for agricultural outputs and inputs(through commodity exchange system); and the on-going small and medium enterprise(SMEs) development complemented by the formulation and implementation of women and youth packages to address the unemployment and underemployment problems. Given these ongoing efforts, the challenges may not be insurmountable.

However, in the short and medium term, the issue of low level of external development finance and its unpredictability which we have experienced during the first two years of implementing the PASDEP has still remained a critical challenge. In 2006/07, although an external grant that constitutes the resource envelope has increased from its level in the preceding fiscal year by a little over 3%, it still stood at 86% of the total 2006/07 budget. The domestic effort should have been complemented by scaled up foreign financing to insure full-scale implementation of programs articulated in the PASDEP. Although Ethiopia has benefited from the debt cancellation, scaling up (in terms of additional aid) has not gone beyond rhetoric except only very few donors. Hence, there is an urgent need to scale up Official Development Assistance

(ODA) towards full-scale implementation during the remaining years of the PASDEP and beyond consistent with Monterrey, Millennium Summit, Gleneagles, and Blair's Commission Report.

The current growth momentum could not be maintained without enhancing Ethiopia's stock of human and physical capital. The country's Human and Physical capital has not yet reached its critical minimum. Ethiopia's infrastructure investment expansion needs to be seen from the standpoint of enhancing and sustaining pro-poor growth which is a necessary condition for poverty reduction and its ultimate eradication.

Thus, there is still a need to expand investment in human development and infrastructure expansion to improve competitive advantage of Ethiopia's emerging private sector and to be able to attract foreign direct investment which has been steadily increasing in recent years. Ethiopia well recognizes that external resources will have complementary role-though a critical one- at this stage of its development. As such, it is making concerted efforts to mobilize domestic resources: a) continued tax reform; b) continued improvement in effective tax administration; c) continued improvement in investment environment to enhance private sector savings and investment (both domestic and foreign); and, d) continued implementation of the devolution and empowerment process – creating the foundation of enhanced social mobilization to address particularly services delivery.

In regard to the Monitoring and Evaluation (M&E) System of the PASDEP, seeking results through learning is the new emphasis on evaluation. Accordingly, efforts have been made and are being made to render the Monitoring and Evaluation System more result-oriented and effective with a sharper focus on outcomes. This has been well reflected in the following M & E activities, among others: the added value to the poverty analysis work based on the 2004/05 HICES and WMS data sets (disaggregated information & information on the dynamics and determinants of poverty through triangulating various sources of data), the strengthening of weak links of Sectoral Monitoring Systems through the development of an M&E System for Agriculture and Rural Economy and M&E System for Urban Development, Housing, Construction, and the conduct of the 2007 Population and Housing Census, etc. In line with the results agenda, efforts will be geared towards re-orienting surveys to capture the dynamism of sectors (particularly the rural economy) given the change the Ethiopian economy is experiencing. Thus, we would like to continue emphasizing the strengthening of the Monitoring and Evaluation system.

Annexes

**Annex Matrix Table 1: Selected MDGs Indicators Synchronized with PASDEP
Targets and Progress to Date (2006/07)**

MDGs	Component	Selected Targets	Base Line (2004/05)	2005/06	2006/07	PASDEP Target (End of 2009/10)
Goal 1	Eradicate Extreme poverty and Hunger	GDP growth rate	10.6	11.6	11.4	7.3(Period average)
		Percentage of people who are below the poverty line	39	36.6	34.6	29.2
		Percentage of people who are below the food poverty line	38	35.6	33.5	27.6
		Percentage of Stunted Children	47	40.5	-	22.6
		Percentage of wasted children	8	5.9	-	1.5
Goal 2	Achieve Universal Primary education	Gross Primary enrolment (1 to 8) (%)	79.8	91.3	91.6	109.7
		Grade 5 completion rate (%)	57	63	65.2	136.6
		Grade 8 completion rate (%)	34	42	42.9	62.7
		Pupil: text book ratio	2:1	1.5:1	1.25:1	1:1
		Primary 1-4 Student Section Ratio	71	70	64	50
		Primary 5-8 Student Section Ratio	55	68	63	50
		Pupil: Teacher Ratio				
		• Primary 1-4	71	64	65	54
• Primary 5-8	55	55	54	45		
Goal 3	Promote gender equality and empower women	Girls: boys ratio				
		• Primary 1-4	0.87	0.90	0.93	0.97
		• Primary 5-8	0.69	0.74	0.78	1
Goal 4	Reduce child mortality	Child mortality	140/1000 (2003/04)	123/1000	-	85/1000
		DPT 3 Coverage	70	75.6	73	80
Goal 5	Improve Maternal Health	Maternal mortality	871/100,000 (2003/04)	673/100,000	-	600/100,000
		Proportion of birth attended by trained health personnel	9	15.1	16	32
		CPR	15	35.6	33	60
		Percentage of HIV positive pregnant women receiving complete course of ARV	42	-	36	50
Goal 6	Combat HIV/AIDS, Malaria and other diseases	Percentage of people with advanced HIV receiving ART	10	-	37.1	70
		Proportion of households in malaria exposed areas with 2 bed nets, properly utilized. (%)	1	43	91	100
		TB treatment success rate (%)	76	78	85	85
Goal 7	Ensure Environmental Sustainability	Access to safe drinking water	42	47.3	52.4	84.5
		Percentage of land covered by forest	3.6	-	-	9.0
		Provision of housing and basic services (%)	30	-	-	65
		Reducing slum areas (%)	70	-	-	35
Goal 8	Develop a Global partnership for Development	Net ODA to LDCs, as percentage of OECD/DAC donors' gross national income	0.2	-	-	-

Annex Matrix Table 2: Overview of PASDEP Targets

Sector/Indicator	Base Line (Achievements by end of 2004/05)	PASDEP Target (2009/10)
Macro Economy		
GDP growth rate (%)	10.6	Period average of 7.3% per annum
Gross domestic investment as % of DGP	20.5	26.1
Gross domestic saving as % of GDP	3.7	13.1
Export of goods & services as % of GDP	15.8	19.7
Imports of goods & services as % of GDP	34.3	31.2
Domestic revenue as % of GDP	15.8	18.7
Tax revenue as % of GDP	12.5	17.0
Total expenditure as % of GDP	25.2	27.0
Total poverty-oriented expenditure as % of GDP	14.2	22.3
Capital expenditure as % of GDP	11.8	15.8
Poverty/Welfare		
Total poverty head count (%)	39	29
Food poverty head count (%)	38	28
Agriculture		
Growth of agricultural value added (%)	13.4	Period average of 6.2% per annum
% Share of agriculture & allied activities in GDP	46.2	43.9
Major crops production (million tons)	16.7	38.2 (level by end of 2009/10)
Meat production (1,000 metric tons)	566	837 (level by end of 2009/10)
Meat export (1,000 metric tons)	8	62 (level by end of 2009/10)
Industry		
Growth rate of industry value added (%)	8.1	Period average 11.5% per annum
Share of industry in GDP (%)	13.6	16.5
Export		
Revenue generated from agricultural exports (in US\$ millions)	546	1,515
Revenue generated from industrial export (leather and leather products) (in US\$ millions)	63.73	500
Revenue generated from mining (in million Birr)	20	44.7
Human Development		
Gross primary enrolment (1 to 8) (%)	79.8	109.7
Primary school completion rate (%)	34	63
Ratio of girls to boys (in primary school)	0.84	0.97
Pupil: text book ratio	2:1	1:1
Pupil: class room ratio	1:69	1:50
Grade 1 drop out rate	22.4	6.3
Primary health services coverage (%)	70	100
Infant mortality rate	77/1,000	45/1,000
Maternal mortality rate	871/100,000	600/100,000

Sector/Indicator	Base Line (Achievements by end of 2004/05)	PASDEP Target (2009/10)
CPR (%)	15	80
Pregnant women with access to treatment to prevent mother to child transmission of HIV/AIDS (%)	0.56	0.52
DPT 3 vaccination coverage (%)	70	80
Share of births attended by skilled health personnel (%)	9	32
Population with access to potable water in rural areas (within 1.5 km) (%)	35	80
Infrastructure Development		
Average Time taken to all-weather road (hours)	5.0	3.2
Road density (km/1,000 km ²)	33.6	54.1
Roads in acceptable condition (%)	64	84
Population with access to electricity (%)	16	50
Mobile users density (per 100)	0.56	8.1
Telephone density/fixed lines (per 100)	0.85	3.87
Population with access to telecommunication center/services (within 5 km radius) (%)	13	100
Number of <i>kebeles</i> with telephone access	3,000	15,000
Fixed telephone subscribers (in millions)	0.62	3.23
Mobile Telephone subscribers (in millions)	0.411	6.761
Internet service subscribers	17,375	193,100
Irrigated land out of the total irrigable land (%)	5	8
Mining		
Increase regional geological mapping coverage (%)	38	53
Increase hydro geological mapping coverage (%)	27	42
Increase engineering geology coverage (%)	7	15
Increase geophysics/gravity coverage (%)	65	80
Urban Development		
Reduce urban unemployment rate in towns with 50,000+ populations (%)	40	20
Provision of housing and basic services (%)	30	65
Number of new houses built		100,000 (Annual average)
Provision of land and infrastructure		3,800 hectares/annum
Reduction of slum areas (%)	70	35
Number of micro and small enterprises		12,000 per annum