

Department for International Development

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- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

WHAT ARE COUNTRY ASSISTANCE PLANS?

Country Assistance Plans set out how we aim to contribute to the achievement of the Millennium Development Goals in various countries. Country Assistance Plans start from the basis of our partner country's poverty reduction strategy and set out in detail how we will work as part of the international development effort to support a country's strategy for reducing poverty. They include a framework for annual assessment of our performance in implementing the plan. Major reviews of Country Assistance Plans are expected to be undertaken every three to four years.

Department for International Development

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Ethiopia: Country Assistance Plan

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** Part 3 and Annexes 1,3,4,and 6 are to be made available electronically on the DFID Website, www.dfid.gov.uk. Part 3 is available now; Annexes will be made available when ready. These are subject to change from time to time. Enquiries can be sent by email to enquiry@dfid.gov.uk*

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Part 1 – Context

A. Summary

- I. Ethiopia has a population of 67 million people but 44% of them live below the national poverty line¹. Income per head is only \$100 per annum², and most health and education indicators are significantly worse than the average for sub-Saharan Africa. Ethiopia is one of the poorest countries in the world, ill equipped to cope with the recurrent droughts to which it is prone.
- II. The Government of the Federal Democratic Republic of Ethiopia in July 2002 published its poverty reduction strategy, entitled the Sustainable Development and Poverty Reduction Programme (SDPRP). This builds on the progress the Government has made in recent years in improving access to basic social services and in improving agricultural technology and infrastructure while maintaining macroeconomic stability.
- III. The SDPRP also seeks to tackle wider issues of Ethiopian society and its approach to political governance and human rights, recognising that sustainable development requires further progress to be made in the democratisation of society and political processes and in respecting the Ethiopian Constitution.
- IV. This Country Assistance Plan describes how DFID intends to help reduce poverty in Ethiopia, based round the SDPRP proposals and working closely with and promoting harmonisation with other donors wherever possible. We intend to provide the bulk of our financial assistance through Direct Budget Support which channels unearmarked funds into the Government's central treasury, committed in a multi-year programme. We intend to use technical co-operation strategically to support key federal level policy and institutional change, and to engage in related project activities at region and woreda (district) level. Local level interventions will be designed not only to improve service delivery to poor people directly, but also to inform our work at federal level, by piloting new approaches, developing our understanding of how decentralisation is working and exposing us to poverty reduction constraints and opportunities at woreda level.
- V. The areas of focus in the DFID programme will be food security, education and capacity building within Government and civil society. The UK will seek to work with the Government and civil society to assist Ethiopia in tackling its political governance and human rights problems.³
- VI. In order for DFID to set our activities in support of the Government's programmes within a transparent mutual commitment partnership, we propose to agree an overarching Memorandum of Understanding (MoU) with the Government. The MoU gives the opportunity for DFID to set out its own undertakings and will formalise the opportunity for dialogue on a wider range of pro-poor governance issues.

1 The most recent World Bank data show 31% of the population in 1995 were below the international \$1 per day poverty line,(calculated using Purchasing Power Parity prices).

2 Gross National Product per capita converted at official exchange rate using the World Bank Atlas method

3 For example through support to capacity building, including support to civil society, and possible support to security sector reform, police reform and the democratisation process.

B. The challenge

1. Ethiopia is one of the poorest countries in the world with 44% of its 67 million people living below the national poverty line. Income per head is \$100 per annum, and most indicators are significantly worse than the average for sub-Saharan Africa. In July 2002, the Government of the Federal Democratic Republic of Ethiopia published its poverty reduction strategy, entitled the Sustainable Development and Poverty Reduction Programme (SDPRP). DFID shares the consensus view among donors that even though the SDPRP discussion of some issues could be stronger, overall the document represents a sound basis for partnership and dialogue with the Government.

Poverty in Ethiopia: What does the SDPRP tell us?

2. Poverty in Ethiopia is a predominantly rural phenomenon with almost 90% of poor people (as against 85% of the population as a whole) found in rural areas. The SDPRP analysis shows that households with larger family sizes, low levels of literacy, and older heads of households are more likely to fall into poverty. Although in rural areas there appear to be no significant differences in income poverty between male- and female-headed households, in urban areas female-headed households suffer higher incidence, depth and severity of poverty than male-headed households. The SDPRP recognises that there is a gender dimension to poverty, which must be addressed to achieve poverty reduction.
3. Food insecurity is identified as a major contributor to poverty. Land productivity is relatively low and is, on average declining. 64% of rural households have access to less than one hectare of land. Fragmentation of land holdings and soil degradation are increasing. Dependence on rain-fed cultivation increases

vulnerability, as rainfall is low in many areas and highly variable in most. Subsistence agriculture and pastoralism are therefore very risky. In addition, the off-farm income share of total income in rural households is low as compared to other African countries. Rural livelihoods are therefore extremely vulnerable to external shocks.

4. Social indicators for Ethiopia are low. There are 7 million children out of school and the overall literacy rate is still only 29%. Poor health is still a major problem. Ethiopia's child mortality rate at 166 per 1000 live births remains one of the highest in the world.
5. The SDPRP notes that HIV/AIDS poses a major challenge to poverty reduction although it does not link it directly to poverty levels. More than 2 million Ethiopians are HIV+. This may increase to 7-10 million by 2010.
6. The poor social indicators for Ethiopia reflect inadequate availability and quality of basic services. Lack of infrastructure such as roads is a major impediment to better food security and to lowering poverty levels. The SDPRP also notes that the Government's development effort has been constrained by capacity deficiencies in the public and private sectors and in civil society. It notes particularly the challenge of developing an efficient, transparent and accountable civil service and a strong judicial, legal and regulatory capacity.
7. The SDPRP uses 1995/96 and 1999/2000 survey data to indicate that some modest improvements were achieved over the 4 year period:
 - the proportion of the total population who were absolutely poor (i.e. unable to meet their basic needs) fell from 45.5% to 44.2%.
 - Poverty incidence fell in rural areas from 47% to 45% although it rose in urban areas from 33% to 37%.

- Long-term malnutrition decreased, as evidenced by significant declines in both stunting and severe stunting in children aged 6-59 months (by 10 and 12 percentage points respectively).
- Primary education gross enrolment rose from 36 to 59% and the gender gap narrowed.
- The shifts in social indicators reflect some improvements in access to public services over the four-year period: the average distance of a rural household to a primary school fell almost 1km to 3.4km, and to a health centre by 2km to 8km, while the proportion of rural households with access to safe drinking water rose from 10% to 17%.

Assessment

8. The quality of data collection in the main household surveys is good but would permit broader and more disaggregated analysis than has so far been conducted. The Government recognises the discrepancies between the quantitative analysis (which concludes that poverty is falling) and the SDPRP consultations (in which some participants expressed the opinion that poverty was increasing), and proposes a Participatory Poverty Assessment to gain a more complete picture.
9. Further work is needed on the causes of poverty, which are not always explicitly stated in the SDPRP. In particular, crosscutting issues such as gender, environment and HIV/AIDS – although noted in the SDPRP – are not strongly or consistently mainstreamed throughout the strategy. However, by stressing the importance of democratisation and empowerment the SDPRP recognises implicitly the link between poverty and the centralised, unrepresentative governments which have characterised much of Ethiopia's history. The UK agrees strongly with the SDPRP that democratisation, decentralisation and increasing respect for the human rights of all Ethiopians, especially the poor, is essential for sustainable development, and

will seek to work in partnership with the Government, civil society and people of Ethiopia to support continuing progress in these areas.

The building blocks of the SDPRP

10. The SDPRP recognises that good economic and sector policies depend on effective political processes if they are to be implemented successfully over time. It therefore sets out to tackle some of the deep-rooted developmental and political issues facing Ethiopia, such as the need for food security, democratisation, empowerment and decentralisation through four building blocks (see Box):(1) Agricultural development-led industrialisation and food security; (2) Justice system and civil service reform; (3) Governance, decentralisation and empowerment; (4) Capacity building.

Agricultural development-led industrialisation and key sector policies

11. The SDPRP states that poverty reduction is the Government's core objective and that it is to be achieved through a long-term strategy of Agricultural development-led industrialisation (ADLI). This envisages economic growth and poverty reduction, initially driven primarily by rural development, based on improving agricultural productivity per hectare using labour intensive technologies. Agricultural growth is expected to supply raw materials for industry as well as helping to improve food security. Industry will grow faster than agriculture, but from a small base. Agricultural and manufacturing exports will help to generate resources for investment in services and infrastructure such as roads and irrigation to support rural and urban growth. The SDPRP is clear that ADLI does not infer an exclusive focus on agriculture – it must also encompass support to non-agricultural growth sectors.

THE FOUR BUILDING BLOCKS OF THE SDPRP

(1) Agricultural development-led industrialisation (ADLI) & food security

This is the government's strategy for faster growth and economic development.

(2) Justice system and civil service reform

ADLI depends on having a civil service competent to implement it and a judicial system that imposes respect for the rule of law. The government's second phase civil service reform programme aims to maintain strong coordination across line ministries and tiers of government, provide clear incentives for behavioural change among civil servants and establish benchmarks against which to measure impact.

The Justice System programme aims to strengthen the independence of the Courts and to enable them to handle more cases more quickly.

(3) Governance, decentralisation and empowerment

Ethiopia has decided to shift power from the centre to the regions, making districts the centre of socioeconomic development. This is intended to provide a basis for meaningful participation by the people in local development programmes to ensure that limited resources are spent effectively and efficiently to meet people's needs. It intends to strengthen democratic institutions such as the Human Rights Commission.

(4) Capacity building

This building block represents the means to achieving the others. It is a very significant, long-term programme designed to provide Ethiopian institutions, public and private, federal, regional and district, with the capacity to implement the SDPRP. This includes issues of civil service reform, justice sector reform and public finance management.

12. As described in the SDPRP, ADLI is to be supported by a National Capacity Building Programme and by programmes in a number of key sectors.
13. The capacity building programme has several sub-programmes including civil service reform (which includes public finance management); decentralisation; urban management; judicial system reform; tax reform; technical and vocational training (agriculture and non-agriculture); higher education; capacity building programmes for co-operatives, for information and communication technologies, for various parts of the private sector and for civil society.
14. Among the sectoral programmes, the key elements of *agricultural development* strategy are research, extension (supported by technician and farmer training), water harvesting and small-scale irrigation. A broader range of agricultural technologies will be made available to farmers, tailored to agro-ecological conditions. Rural road investment, improvement of market information and development of credit institutions and marketing co-operatives are expected to encourage farmers to sell more as their productivity rises. The SDPRP proposes special programmes to address the particular problems facing drought prone and pastoralist areas. The Government hopes eventually to eliminate food insecurity and dependence on food aid but in the meantime wishes to use food aid for public works such as building roads and irrigation schemes, and to reverse environmental degradation for instance through soil and water conservation and agroforestry.
15. In the *education sector*, the Government plans to increase its investment to improve quality at all levels; to reduce the primary school gender gap; and to increase access to primary education in remote rural areas. It also plans to expand tertiary and technical and

vocational training as part of the National Capacity Building Programme. Ethiopia has the second largest number of children out of school in sub-Saharan Africa (after Nigeria). Rapid and sustained improvement in Ethiopia is therefore essential to the achievement of the MDGs on education and gender equity in Africa.

16. In *health*, the SDPRP aims to increase access to and quality of health services, giving emphasis to community based health services and preventive health measures, particularly targeting women. To reduce *HIV/AIDS* prevalence, the measures proposed are to strengthen capacities at federal, regional and woreda (district) levels, and to increase voluntary counselling and testing.
17. The emphasis in the *Roads* sector is to continue with the maintenance, rehabilitation and expansion of the trunk network and the launch of a new Rural Travel and Transport Programme, which is expected to improve the access of vulnerable food insecure communities to goods and services as well as to promote agricultural marketing and rural development through integrated woreda plans. The priorities in the *Water* sector are to raise rural access to water supply, to extend sanitation especially in urban areas, and to increase the irrigated area by around 10%, mainly through small scale schemes.

Assessment

18. The ADLI strategy is appropriate, given the scarcity of capital, the importance of subsistence agriculture in the economy, the small size of the industrial sector and the proportion of poor people living in rural areas. Similarly, the emphasis on a broad ranging capacity building programme makes good sense in view of the scarcity of skills, and strengthening government capacity at the district level will be vital to achieving sustained improvements in basic services.
19. However, progress in implementing ADLI and achieving

poverty reduction is unlikely to be smooth, not least because of the impact of recurrent widespread drought on agricultural production and rural livelihoods. While the Government's efforts to promote livelihood diversification, expand irrigation and build industrial capacity are sound responses to this vulnerability, they will take many years to reduce the risks posed to the economy by climatic variability.

20. The Government's public spending plans are broadly consistent with ADLI, recognising the need for programmes to improve access to and quality of a range of rural services: agricultural advice, health, education, water supply, roads. The SDPRP affirms the Government's commitment to private sector development and export diversification, but says little about trade strategy and the constraints posed by difficult and costly access to seaports. In a number of areas, such as agriculture and private sector development, the SDPRP policy matrix needs more clarity about priorities and specific timetabled actions. There is also some uncertainty about how far decentralisation of public spending decisions to woreda level, through the new block grant system, will deliver the increased resources to enable higher spending on basic services.
21. The attention in the SDPRP to urban development, export expansion, area-specific agricultural technology packages, pastoralism and chronic food insecurity is important; these issues have been neglected in some past Government documents. However, the SDPRP says little about policy responses to some of the issues that condition agricultural growth and its linkage to the wider economy and poverty reduction – such as environmental degradation, perceived insecurity of access to land and land fragmentation. It also fails to consistently highlight the risks posed to the Government's programmes by HIV/AIDS, for instance because of the increasing incidence among the teaching

profession. The recognition of gender inequality in Ethiopia is welcome but, as noted earlier, gender issues are not systematically addressed within the SDPRP: for example, women's literacy and maternal health are prioritised but the rural development section does not recognise the importance of women's empowerment.

Macroeconomic projections and the MDGs

22. The Government is committed to making progress towards meeting the Millennium Development Goals (MDGs), which is estimated to require 5.7% annual GDP growth to 2015. By 2004/5, the SDPRP envisages reducing the poverty headcount from 44% to 40%, requiring 7% annual GDP growth over the three-year period, based on 7.5% growth in agriculture and assuming high levels of public spending on poverty-oriented sectors.
23. The SDPRP contains two sets of fiscal and macroeconomic projections for the three-year period. The high case envisages spending Birr 52.4 billion in poverty-oriented sectors and the low case almost one third less (Birr 37.3 billion). The first year of the low case is in line with the International Monetary Fund's Poverty Reduction and Growth Facility (PRGF) but the two outer years assume faster GDP growth, more external borrowing and a wider fiscal deficit than the PRGF.
24. The SDPRP gives some indications of prioritisation within the lower spending total. Some planned activities and new investments would be postponed or rephased, the emphases will be: in *agriculture*: on extension and training; in *water*: on water supply, sanitation and small scale irrigation; in *roads*: on ongoing projects; in *education*: on the primary level (slowing the expansion of secondary, higher and technical and vocational enrolment); in *health*: on inputs, at the expense of construction of new facilities.

Assessment

25. The macroeconomic programme underlying the SDPRP

is optimistic. The 7.5% annual growth assumption for agriculture looks high in the light of performance in recent years, the increasingly severe environmental constraints and the relatively limited progress in identifying proven new technology particularly for drought-prone areas. It will be hard for Ethiopia to sustain the GDP growth rates needed to achieve the MDGs.

26. However, the underlying thrust of macroeconomic policies is sound; there is a commitment to control inflation and rebuild international reserves, a thorough tax reform effort to boost domestic revenues (from 14.3% to 17.7% of GDP in four years) and a rising share of spending allocated to poverty oriented sectors (from 15.6% of GDP in 2001/02 to 19.9% in 2004/05) while keeping defence spending flat and reducing the overall fiscal deficit to 6.7% of GDP.
27. The Heavily Indebted Poor Countries (HIPC) Debt Sustainability criterion limits Ethiopia's external borrowing. In view of the Government's sound pro-poor policies, and the country's poverty, vulnerability, and difficult export prospects, there is a very strong case for grant aid to help fund public spending. This is particularly the case if the grant flows can be provided predictably to allow them to be a sound base for the Government's medium term budget planning. There is also a case for loosening the PRGF macroeconomic programme to allow more Government spending, provided macroeconomic stability can be sustained.

Governance, democratisation and empowerment

(see box on SDPRP building blocks)

28. The SDPRP contains strong commitments to building a system of democracy and good governance. It recognises the links between functioning political processes, accountable and representative government and the provision of basic services, and seeks to strengthen them through decentralisation to woreda (district) level. In particular the SDPRP aims to:

- empower local communities by transferring resources and spending authority to district councils, with associated training to strengthen the capacity of councils to manage funds, prepare district plans with the community and to implement projects;
- promote the role of civil society at a local level in supporting development;
- strengthen federal institutions to enable better financial and personnel management and longer-term planning and policy-making in support of district and regional councils;
- improve the functioning of democratic institutions such as local and regional councils, the Ombudsman and Human Rights Commission;
- strengthen the capacity of institutions to ensure respect for the rule of law at all levels of administration;
- improve the environment for the media to play its part in the democratisation process.

Assessment

29. The SDPRP recognises that action needs to be taken to improve political governance and correct failure by authorities to respect the rule of law. This is a long-term process as a culture of centralised, unrepresentative government is deeply rooted in Ethiopian history, and has been too often accompanied by systematic abuse of human rights at all levels of government and society. Significant progress has been made in comparison with the recent past, but worrying incidents of abuse of human rights continue to occur including violent handling of political protest.⁴ It should be noted, however, that corruption in Ethiopia is generally considered to be lower than in other countries: Ethiopia comes 59 out of 102 countries surveyed as part of the 2002 Transparency International Corruptions Perception Index⁵.

30. We believe the focus on improving local service delivery through decentralisation, democratisation and local empowerment to be the right one to achieve improvements in political representation and respect for political as well as social and economic human rights, recognising the long-term nature of the problems to be tackled. The recognition in the Civil Service Reform programme of the need to improve management as well as professional skills is an important one.

31. In our view, a stronger partnership between Ethiopia and external development agencies could help speed up development and fulfilment of the human rights, social and economic as well as civil and political, of all the country's people. To achieve progress will require a sustained commitment to reform and improved governance, and agreement between the partners on how progress is to be measured and assessed, both on key SDPRP actions and on wider governance issues for example democratisation/elections, security sector reform or regional security.

Participation in the PRSP process

32. During preparation of the SDPRP, the Government sought views through consultations in around 20% of woredas (160), as well as at regional and federal level, and also received and reviewed proposals and comments from non-governmental organisations (NGOs) and the private sector. It was the first time that such a comprehensive consultation had been undertaken on the government's overall development strategy.

33. The SDPRP recognises the need for a partnership with "non-state actors". NGOs are described as important partners whose experiences and resources the Government wants to be better integrated into SDPRP planning and implementation. The Government also intends to deepen the nascent dialogue with the private sector. The Government wishes to see non-state actors involved in monitoring the programme.

⁴ For example events in the Southern Region towns of Tepi and Awassa in 2002 which Southern Region authorities are currently investigating. A number of local officials have been arrested.

⁵ See <http://www.transparency.org/cpi/2002/cpi2002.en.html>.

Assessment

34. The comprehensive scope of the consultations is welcome. It is not clear how far the consultations led to a reshaping of the Government's policies and programmes. But the main priorities which they indicated are addressed by substantial SDPRP programmes, such as primary health and education, agricultural extension, civil service reform, rural roads, water supply, urban management, justice and security, service delivery, decentralisation, and programmes for pastoralists. The Government's commitment to continue in the spirit of the consultation process and involve non-state actors in implementation, monitoring and evaluation is welcome. Work is underway to clarify the mechanisms for institutionalising participation by NGOs, civil society and the private sector, which were not set out in detail in the SDPRP.

Management of development assistance

35. Although the SDPRP appeals for donors to increase resource flows and improve delivery of development assistance, especially by providing budget support, very little was said about how the Government intends to improve dialogue with development partners on aid management or coordination. Subsequently a joint government/donor task force on harmonisation has been established and government gave commitments at the December 2002 Consultative Group meeting to revitalise mechanisms for government donor dialogue and coordination.

Assessment

36. Since publication of the SDPRP, and partly through the December 2002 Consultative Group meeting, the Government has taken significant steps to improve dialogue with development partners and to facilitate harmonisation and coordination. Important processes, which the Government have initiated are: work on a common monitoring framework for Direct Budget

Support donors (associated with IDA's Poverty Reduction Support Credit), the formation of a joint government-donor Task Force on harmonisation, and proposals to restructure government-donor dialogue arrangements.

Monitoring and evaluation

37. Proposals for monitoring and evaluation (M&E) emphasise the need to pull together information from various sources including sectoral programmes and regional systems, to undertake faster analysis of survey data, and deeper disaggregation and wider dissemination of results, to make greater use of qualitative and participatory information, and to strengthen analysis and use of data at regional and sub-regional levels, including data on service delivery. It is envisaged that the Annual SDPRP Report will not only help the Government to adjust SDPRP implementation, but will also be useful to other stakeholders within Ethiopia and reduce the need for extra reports to development partners.

Assessment

38. The SDPRP proposals are sound and will build on the strengths of the existing systems. However the Government will need to clarify how to address the substantial capacity building needs for monitoring and evaluation, especially at woreda level, how civil society will participate in monitoring and evaluation, and how donors can support these processes.

C. The risks

39. As section B sets out, Ethiopia is a very poor country facing considerable challenges in making progress towards the Millennium Development Goals. This means that Ethiopia is facing some real risks to implementing its poverty reduction strategy. Some risks are internal, related to the poverty reduction strategy itself and the government's plans for implementing it. Other risks, notably drought, are external, and outside the control of the Ethiopian Government. The development programme set out in this document outlines DFID's intended contribution to assisting Ethiopia to manage these risks.

Internal risks

Policy risks

Understanding and improving agricultural policies

40. Most poor people in Ethiopia are smallholder farmers who depend on subsistence agriculture; 95% of cultivated land is under smallholder agriculture. Although the Ethiopian Government's agricultural policies have succeeded in boosting productivity in areas of sufficient rainfall, farmers in some of these areas have been pushed into debt when prices of staple crops fell; domestic cereal markets work poorly, partly due to high transport costs reflecting the undeveloped road system. In drought prone areas, government-promoted technology packages have not resulted in productivity increases and are largely irrelevant for pastoralist areas. As now recognised in the SDPRP and Rural Development Strategy, the Government needs to establish better systems for measuring the impact of its agricultural policies under different conditions and for adapting its programmes to take account of regional variation and changing market conditions. Without these improvements, there is a risk that agricultural productivity will not improve in drought prone zones and poverty levels among communities living in these key target areas will not be reduced.

Economic and private sector development policies

41. Progress in poverty reduction requires rapid economic growth. But entrepreneurs, domestic and foreign, have tended to perceive Ethiopia as a difficult place to do business. Infrastructure indicators are significantly poorer than sub-Saharan averages, the financial sector offers only a narrow range of service, bureaucratic regulations are onerous, and secure land tenure tends to be elusive. The Government has recently taken steps to address several important constraints, and there is evidence of growing investor interest in some areas, such as export horticulture and garments, but it is hard to judge how quickly this will translate into faster investment and growth.

A safety net to help the poorest out of poverty more quickly

42. Each year a minimum of around four million people in Ethiopia require emergency assistance to enable them to have enough food. The SDPRP contains plans to provide sufficient opportunities for these people over time while they continue to receive emergency assistance in the short- to medium-term. We believe faster progress could be made towards helping them by replacing annual "emergency" assistance by a longer-term safety net programme to help people conserve their assets (such as animals) during difficult periods. Without progress on this issue there will be no improvement in the Government's response to recurrent drought and the vulnerability of the predictably food insecure will not be reduced.

Environmental degradation could limit food production

43. The poor are heavily dependent on natural resources for their livelihoods. Extreme poverty combined with a number of localised issues has led to land degradation, and associated problems of deforestation, overgrazing, loss of soil fertility and disruption of the water cycle. If this decline is not reversed, through concerted efforts at reforestation and soil and water conservation, there is

a high risk that rural people will be unable to meet their domestic food and energy needs and government objectives of improving agricultural productivity as a means of reducing poverty will not be achieved. Although the SDPRP contains some policies to address these issues, we believe that capacity constraints to their implementation represent a serious risk. Some key policies, in any case, imply the widespread adoption of technologies, which will require significant capacity development, particularly at regional and district level, and are as yet unavailable or locally untested. Also, the Government's plans for large-scale hydropower and irrigation schemes need to build on international best practice for integrating technical, environmental, and social issues to ensure long-term sustainability.

HIV/AIDS could limit economic growth and erode Ethiopia's already scarce human capital

44. UNAIDS estimates that 2.1 million Ethiopians are HIV positive, although accurate statistics are difficult to obtain. The great majority of these are aged between 20 and 45 and the normal expectation is that most of them will die in the next 10 years. Although HIV/AIDS experts have been fully involved in the design of HIV/AIDS policies in Ethiopia, and significant resources are available – notably a \$60 million World Bank credit, implementation has not been effective so far. There is a risk that the epidemic will reduce the rate of growth of the economy by 1–2 % each year.

Financial risks

Insufficient financial assistance from international donors

45. Ethiopia needs development partners' assistance to be able to implement its SDPRP. All things being equal, if development agencies do not provide enough resources more people will stay in poverty. Partners will be heavily influenced by progress Ethiopia can demonstrate on implementing its SDPRP and on improving human rights for its people and the conduct of elections. We

believe partners should examine performance by Ethiopia on these issues on the basis of the Ethiopian Government's own commitments and its progress against international indices, taking account of appropriate representation from civil society.

Slow export growth limiting external borrowing

46. The scope for Ethiopia to borrow externally to finance the SDPRP is limited by export growth if the re-emergence of unsustainable debts (after creditors have provided irrevocable debt relief) is to be avoided. Ethiopia's exports per head of population are almost the lowest in the world (10% of the sub-Saharan Africa average) and are dominated by coffee. Although the Government is promoting export diversification, rapid export growth presents a challenge, given the narrow base of the economy, the shortage of skills, and the high costs of doing business in the country.

Failures in financial management

47. Ethiopia's public financial management is generally considered to be comparatively good and a number of important improvements are underway. Until these improvements are fully operational, some areas of concern will persist; decentralisation entails larger public finance management risks especially while the capacity at local level remains weak. Donors and the Government are jointly undertaking a Country Financial Accountability Assessment (CFAA) and a Country Procurement Assessment Review (CPAR) which will lead to a strengthened programme of financial management reform and will assist Ethiopia in managing the fiduciary concerns of donors that provide funds directly to the government.

Management risks

Capacity constraints

48. Ethiopia's poverty reduction plan requires rapid increases in education, health, and water services to

poor people. These depend on trained people, such as teachers and health workers in the towns and villages to provide them, which in turn depends on the government working with local communities, to draw up and manage service expansion plans, and to provide sufficient resources at the local level. At present, many people in local government lack the skills needed to manage this expansion plan and services adequately, and others are unwilling to be transferred from urban centres to rural woredas. The Government has developed the National Capacity Building Programme to tackle this constraint, but the scale and complexity of the programme means there is a substantial risk that the Government will not be able to deliver as quickly as envisaged. Donor and civil society support to capacity building at regional and woreda (district) level should help address this risk. Innovative service delivery models involving partnership between Government, civil society and private sector should also be explored.

Failure of donor harmonisation efforts

49. The SDPRP requires increased aid inflows. If donors fail to harmonise with each other and with Government procedures, the transactions costs of working with a multiplicity of donor systems will overstretch the Government's administrative capacity, especially at sub-regional level, and slow down implementation and dampen effectiveness of development assistance.

Risks associated with a lack of democracy and empowerment

50. DFID shares the Government's view expressed in the SDPRP that:

"Although years have elapsed since we (the Ethiopian Government) approved and started enforcing a fully democratic constitution, it does not mean that the people at large and administrative bodies at various levels of government fully appreciate this constitution and are totally committed to it. It cannot be said that

people are using their constitutional rights to participate widely and actively in the economic, political and social life of the country."

51. We agree with the SDPRP that development will progress more rapidly and poverty reduction will be more successful if the government drives forward its commitment to:

"make unstinting efforts to promote a democratic culture and ensure the ascendancy of the democratic ideas and principles enshrined in the constitution."

52. Weakness in existing governance systems mean there are a number of risks for poverty reduction in Ethiopia including: -
- a. Internal conflict between different groups and/or between different groups and the government;
 - b. Difficulty in making significant improvements to basic service delivery where local authorities do not involve local people in planning services and are not properly accountable to them. It will be important that the plans for satisfactory processes of downward accountability are implemented as woreda resources increase;
 - c. A reduction (or slow growth) in financial support from donors, particularly bilaterals.

External risks

Drought

53. Ethiopia, like other countries in the Horn of Africa, is subject to highly variable and erratic climatic conditions. Drought is a recurrent problem. Most parts of the country "normally" have at least two rainy seasons in a year, but one or even both of these frequently fail. When this happens harvests are poor and livestock may die. During prolonged droughts many households exhaust their own food supplies and have to sell what

assets they have to buy more. When their assets run out they become dependent on food aid and if this does not reach them deaths from starvation result. Unless action is taken to contain the spread of HIV/AIDS then the effect of drought on populations affected by the pandemic can be devastating. The combination of HIV/AIDS and frequent drought is therefore a significant risk to poverty reduction.

Low prices for Ethiopia's main exports

54. The SDPRP assumes improvements in the terms of trade (as coffee prices slowly recover). If export prices are depressed this will dampen economic growth and progress in reducing poverty, especially if prices of coffee and hides and skins exports are adversely affected, because of the large numbers of rural households directly or indirectly dependent on sales of these products.

Conflict

55. Conflict in the Horn of Africa has caused considerable suffering to large numbers of people and greatly contributed to current poverty levels. We are hopeful that a peace deal for Sudan will be reached by the end of the year. Greater effort is needed from all stakeholders in the region to put an end to conflict in the Horn. If that does not happen, there is a high risk that poverty reduction in Ethiopia will be seriously impeded.

D. What we have learnt

56. The Government has strong commitment to its policy programme as set out in the SDPRP. It has a thorough approach to policy-making partly based on hard evidence, with a small but potentially growing role for civil society. This puts a premium on effective monitoring and review mechanisms to track policy impact. For example in the food security sector fruitful dialogue has been possible when trust has been built between senior Government officials and a small core of interested development partners, when policy dialogue is based on evidence, and the commitment of partners to move beyond dialogue into piloting new approaches has been agreed with the Government. On the other hand, we have learnt that Government urgency to finalise policies can curtail such dialogue.
57. *This implies DFID support to policy-making can be most useful when applied in support of government and civil society policy research and debate, and in supporting monitoring and evaluation.*
58. Sector Development Programmes in education, health and roads have made good progress in developing coherent sector plans and joint donor/ Government review mechanisms. However, development partners still show less flexibility than the Government wishes in the modalities of their support or the requirements they attach to it.
59. *DFID should use opportunities to build on the strengths of the Sector Development Programmes, and to encourage greater flexibility among other donors.*
60. Historically, the Government have preferred to conduct policy dialogue with the international financial institutions (IFIs). However, since mid-2001 the Government's relations with the wider development community have been improving, particularly round the SDPRP process. Donor harmonisation proposals have received fresh impetus in late 2002 as a result of World Bank and joint donor work.
61. *DFID should therefore continue to work closely with the IFIs, encourage policy dialogue with a broader group of stakeholders and participate actively in donor harmonisation efforts.*

Part 2 – UK assistance plans over poverty strategy period

E. UK development partnership

Working strategically to tackle poverty

62. To maximise DFID's effectiveness in supporting poverty reduction in Ethiopia, we need to be able to make well-informed contributions to dialogue with the Government alongside other partners. Therefore, we should develop a portfolio which makes strategic use of technical co-operation (TC) to support key federal level policy and institutional change, and to engage in related project activities at region and woreda (district) level, even if our financial support to the Government is provided using a Direct Budget Support instrument. Local level interventions should be designed not only to improve service delivery to poor people directly, but also to inform our work at federal level, by piloting new approaches, developing our understanding of how decentralisation is working and exposing us to poverty reduction constraints and opportunities at woreda level.

A Memorandum of Understanding and Direct Budget Support

63. In order for DFID to set our activities in support of the Government's programmes within a real partnership based on mutual commitment, we have agreed an overarching Memorandum of Understanding (MoU) with the Government. The MoU document and structure offers a number of advantages to both parties. Firstly, it builds trust between the partners by improving transparency about mutual expectations. Secondly it improves the predictability of UK support.

64. In the MoU the UK proposes to give undertakings which respond to the Government's wishes in several important respects:

a. **Budget support.** The Government has clearly stated its preference for receiving donors' financial assistance in the form of Direct Budget Support (DBS), disbursed into the federal government

central budget and not linked to any specific item of expenditure. We agree that this is an appropriate mechanism for a country committed to poverty reduction and with adequate public finance management. The UK will therefore aim to provide the bulk of our financial assistance in this form. In preparation for DBS we will assess the risks it entails using the Country Financial Accountability Assessment and other tools and will seek to agree with the Government on measures required to address any serious weaknesses that study identifies. We wish to link disbursement of our DBS to progress against important undertakings in the SDPRP, but will also explore the scope for coordinating with similar instruments planned by the World Bank, EU and other partners such as Sweden. The triggers to which our budget support is linked are likely to include progress on key governance and public finance issues, as well as achievement of targets in key poverty focused sectors.

b. **Donor harmonisation.** The Government wants donors to use coordinated approaches for delivering development assistance, and to rely on Government systems for monitoring, reporting on and auditing such assistance, in order to reduce transactions costs. The UK will work actively to promote this agenda following on from discussions in the October 2002 Harmonisation Workshop and the December 2002 Consultative Group meeting. This is likely to mean increasing UK use of coordinated and pooled approaches to channelling funds, as well as providing technical assistance to strengthen key Government systems such as the SDPRP monitoring system. We will seek to minimise the extra burden imposed on the Government by any stand-alone projects (for

instance for piloting innovative approaches) or by any additional safeguards required to ensure adequate accountability to the UK taxpayer for assistance provided.

- c. **Disbursement information.** The Government wishes to improve the flow of information from donors on their future disbursement plans, in order to allow proper incorporation into the budget. We recognise that the Government's budget management reforms have gone further than in many countries in developing a medium term expenditure planning approach which incorporates aid flows, and therefore requires detailed disbursement forecasts. The UK will seek to improve the flow of information to the Government on our disbursements to meet its requirements.

65. In addition to support for the SDPRP, there are other factors which could affect progress in reducing poverty and the strength of Parliamentary support in Britain for providing taxpayers' money in support of the Ethiopian Government's poverty reduction plans. We therefore intend that there should be a constructive dialogue between our Governments on a wider range of issues than the SDPRP discusses
66. We would welcome raising issues relating to poverty reduction but beyond the SDPRP, which they would wish to discuss with the UK.
67. Many of the commitments in the MoU are long-term in nature, requiring sustained political effort and development assistance, and therefore there should be periodic reviews of progress under the Memorandum, especially after significant developments. To inform such a review, independent experts may be commissioned in advance to provide an assessment of progress under the MoU and of the MoU process itself.

Technical co-operation

68. As well as providing resources directly to the Government in the form of budget support, we plan to provide technical co-operation (TC) and project assistance. UK resources would obviously be overstretched if we were to be involved in too many policy areas. To maintain our effectiveness while our programme is rapidly expanding, we need to concentrate our effort on a manageable number of activities, selected where DFID and other UK Government departments can add most value, and working as much as possible alongside development partners and with the grain of Government policies. In the light of the SDPRP, the UK's experience of providing development assistance and comparative advantage, and the opportunities for working productively with the Government, we agree with the Government that the three main areas of focus for the the UK should be food security, education and capacity building. These three areas also make sense in terms of DFID's own Public Service Agreement and Service Delivery Agreement (see Annex 1). At this stage (2003), we do not have the capacity for major engagement in the health sector, and the Government have not requested any, but the case for this will need to be kept under review as our programme grows.
69. **Food security.** Food insecurity is a key aspect of poverty and vulnerability in Ethiopia. We will build on our existing strong engagement with the Government, other donor agencies [notably World Bank, the European Union (EU) and the United States Agency for International Development (USAID)] and civil society on food security policy and programmes, including:
- a. Working with the Government and other development partners to realise recent joint commitments to longer-term solutions to food insecurity rather than short-term dependence on annual appeals for food aid.

- b. Exploring practical options with the Government and other development partners for a social protection approach to meeting the food needs of the chronically food insecure, as a stepping stone to enabling such groups to enter the development process.
 - c. Paying particular attention to reducing the vulnerability of pastoralists to food insecurity. This includes trying to close the gap between pastoralist voices and the policies of The Government and international agencies. It also involves trying to base policies on a better understanding of how livestock markets interact with traditional pastoralist coping strategies, and the options for livelihood diversification open to pastoralists.
 - d. Helping to implement the Government's Rural Travel and Transport Programme (working with Ireland Aid) as a means to reducing the vulnerability of those in remote areas and of improving their access to goods and services.
 - e. Supporting monitoring and evaluation in the World Bank funded Food Security Project.
70. We will also explore possibilities for dialogue and interventions on agricultural productivity and rural marketing policy as opportunities emerge for engagement between development partners and the Government about the recently developed Rural Development Policy, which articulates the Agricultural development-led industrialisation (ADLI) strategy underlying the SDPRP.
71. **Education.** Quality education empowers people to participate in the transformation of their lives and the societies in which they live. There is a need to tackle the core issues of access, affordability, quality, inclusion and the effective application of modern technology. However, there is a long way to go to meet Millennium

Development Goals for education in Ethiopia, and these gaps contribute significantly to the education challenge for Africa as a whole. Our major contribution to financing the Education Sector Development Programme (ESDP) is likely to be through direct budget support linked to education indicators (among others). However, we will also strengthen the ESDP process more directly, by participating actively in ESDP management alongside other donors such as World Bank, EU, USAID, Germany, Sweden, as well as through providing a flexible package of technical assistance to build capacity at central, regional and local government levels. We hope to contribute with others to a pooled TC mechanism currently being designed. In addition, we will provide small-scale support for community led approaches to tackling the challenges of remote rural areas, in particular among the pastoralist communities. The UK is working to try to make a success of the Education For All fast-track initiative, which includes Ethiopia as a first-phase country.

72. **Capacity building.** Implementation of the SDPRP and achievement of the MDGs will require a sustained, intensive and broad capacity building effort. Working with other development partners and UK government departments, we will explore scope for providing technical co-operation in a range of areas, integrated wherever possible within the Government's National Capacity Building Programme. Priorities for us to consider include:

Strengthening government systems to make DBS more effective:

- public finance management (including budget process reform, tax reform and aid management);
- monitoring of service delivery (and of SDPRP impact), including through support to civil society organisations;
- Civil Service Reform (including DFID funded inputs

from the UK Cabinet Office to work closely at a strategic level with the Ethiopian Ministry of Capacity Building to support the implementation of the civil service reform programme);

- transparency and downward accountability including at woreda level;
- strategic interventions in support of government plans for service delivery, for example in the area of rural water supply for remote and/or vulnerable communities. This could build on work we started in 2002 with the United Nations Children's Fund (UNICEF) and the World Bank;

We will examine how we could work through the major Ethiopian Government/World Bank Public Service Delivery Capacity Building Programme (PSCAP), which will cover many of these issues and which we are providing consultants to help prepare.

Strengthening civil society at all levels to support democratisation, accountability and service delivery

- Civil society strengthening and empowerment (including at woreda level);
- Access of poor people to security and justice;

Strengthening government capacity to respond to key risks to poverty reduction

- strengthening of the national HIV/AIDS response, (building on current work through the International Partnership Against AIDS in Africa) ;
- private sector development. We will focus initially on following up work in 2002 on the scope for horticulture export promotion. We will also look out for opportunities to add value to processes being started by other donors, including World Bank, EU and the multi-donor Integrated Framework trade study.

- security sector reform - the Ethiopian Government has asked us to provide training for police and security forces to assist them with the democratisation process and respect for human rights. The Ethiopian military are keen to strengthen links with the UK. We plan to send a UK joint Ministry of Defence/DFID/Foreign and Commonwealth Office scoping mission in early 2003 to examine with the government the best ways we can provide support.
- Regional Conflict Reduction/economic integration. As a contribution to reducing long-term risks of regional conflict we will continue to support the work of the Nile Basin Initiative through the Eastern Nile Technical Regional Office in Addis Ababa. We will continue to engage with countries in the region and in international fora to promote peace and security in the Horn of Africa.

Humanitarian assistance.

73. We will maintain our willingness to respond to humanitarian needs (both food and non-food).

Ethiopia/Eritrea peace process

74. We will maintain our willingness to support the Ethiopia/Eritrea peace process.

F Programme resources

	UK Financial Years. £ millions			
	2002/03	2003/04	2004/05	2005/06
DFID technical co-operation and project aid (1)	7*	10**	10**	10**
Direct budget support	10	***	***	***
HIV/AIDS through International Partnership Against AIDS in Africa (IPAA)	1.25****	1.25	1.25	-
Direct assistance to civil society and government ("Partnership Fund") – included in (1) above.	0.35	(0.35) (subject to review)	(0.35)	(0.35)
Humanitarian assistance (in response to needs)	£25m (forecast estimate)	In response to need	In response to need	In response to need

* Currently expected outturn for 2002/03; balance reprioritised to humanitarian.

** Minimum figures on current plans.

*** Indicative figure of £60m over three years starting 2003 expected to be minimum amount. £10m support in 2003 confirmed.

**** Our IPAA commitment is £5.7m from 2001 to 2004

Annex 2

Summary of consultation process

1. The Ethiopian Team in DFID completed a helpful consultation process in the course of preparing the draft Country Assistance Plan (CAP) for Ethiopia.
2. The consultation process was undertaken by the Ethiopian team in DFID. It began with the circulation of the draft CAP within DFID and other UK Government Departments on 11 September, with a request for comments by 18 October. The other Government Departments that were approached included the Cabinet Office, Foreign and Commonwealth Office, Home Office, Ministry of Defence, HM Treasury and the Department of Trade and Industry. This culminated in a meeting on 17 October 2002, which was attended by a wide range of DFID staff and representatives from other Government Departments.
3. The Ethiopian team in DFID then sent a copy of the draft CAP to the Ethiopian Government on 8 November 2002, to give them an opportunity to comment on it and discuss during Development Talks which were held on 14 January 2003.
4. Shortly after presentation of the draft to the Government, the CAP was placed on the DFID website with a deadline for comments to be submitted by 29 November 2002. At the time that it was placed on the DFID website we notified all NGOs registered with BOND as having interests/activities in Ethiopia. We also notified the House of Commons Library, the British Ethiopia All Party Parliamentary Group, the Ethiopian Embassy in London, academia, the World Bank/IMF, EU - including other member states, other donors, and the Ethical Trading Initiative - which covers many of the major retailers in the UK.
5. We also gave it a wide circulation to various groups and donors in Ethiopia. This was followed up with an in-country consultation, which was held on 2 December 2002 in Addis Ababa. Some forty people participated.
6. Seven prominent members of civil society (including one international NGO) gave short presentations on our CAP.
6. The Ethiopian team in DFID has taken careful note of all comments received in the consultation process and will bear them in mind for future planning; adjustments have been made to the text where necessary in order to take account of the comments.

Annex 5

Ethiopia Country Assistance Plan statistical annex

Region

	1990	1995	1999	2000	Sub Saharan Africa
1 Eradicate extreme poverty and hunger					
Population below \$1 a day (%)	..	31.3	..	..	48.1 ¹⁹⁹⁹
					<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>
2 Achieve universal primary education					
Net primary enrolment ratio (% of relevant age group)	..	27.9 ⁽¹⁾	31.1 ⁽¹⁾	..	54.4 ¹⁹⁹⁹
					<i>2015 target = net enrolment to 100</i>
3 Promote gender equality					
Ratio of girls to boys in primary and secondary education ((%))	68.3	59.7	61.5	..	79.9 ¹⁹⁹⁹
					<i>2005 target = education ratio to 100</i>
4 Reduce child mortality					
Under 5 mortality rate (per 1,000)	213.4	166.2 ⁽²⁾	..	178.9 ⁽²⁾	161.6 ²⁰⁰⁰
					<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>
5 Improve maternal health					
Births attended by skilled health staff (% of total)	8.0	3.0	..	..	..
6 Combat HIV/AIDS, malaria and other diseases					
Prevalence of HIV, female (% ages 15-24)	..	..	11.9	..	9.2 ¹⁹⁹⁹
					<i>2015 target = halt, and begin to reverse, AIDS, etc</i>
7 Ensure environmental sustainability					
Access to an improved water source (% of population)	22.0	..	..	24.0	55.4 ²⁰⁰⁰
					<i>2015 target = various (see notes)</i>
Aid Need and Resources					
UK bilateral aid (£m)				7.5	
UK share of total bilateral aid (£m)				3	
Total aid from all sources (£m)				447.80	
Total aid per poor person (£)				22	
Number of DFID staff directly involved				..	
Poor people per DFID staff member (thousands)				..	
General Indicators					
Population (millions)	51.2	56.5	62.8	64.3	658.9
GNI per capita (\$)	160.0	110.0	100.0	100.0	480.0
Life expectancy at birth (years)	45.0	44.1	42.4	42.3	46.5

Source: World Development Indicators Database, April 2002, Statistics on International Development

Notes

- (1) Results from the Welfare Monitoring Surveys 1995/96 and 1999/00 (Central Statistics Authority) show the net primary school enrolment rate for grades 1-6 (ages 7-12) to be 19.4% and 33.8% respectively. The Ministry of Education which uses a definition of grades 1-8 (ages 7-14) for primary schooling reports gross enrolment rates of 35% (1996/97), 51% (1999/00) and 57% (2000/01).
- (2) Results from Demographic and Health Survey, 2000 (Central Statistics Authority) show the under 5 mortality rate to have been 166.2 for the period 1996-2000, 211.4 for 1991-1995 and 216.5 for 1986-1990.