



Economic Commission for Africa

## **Second Meeting of the African Learning Group on the Poverty Reduction Strategy Papers**

18-21 November 2002  
Brussels, Belgium

### The PRSP Process in Ethiopia



Economic Commission for Africa

## **Second Meeting of the African Learning Group on the Poverty Reduction Strategy Papers**

18-21 November 2002  
Brussels, Belgium

### **The PRSP Process in Ethiopia**

Abebe H. Gabriel

---

The views in this paper are solely the author's; they do not necessarily reflect the views of the Economic Commission for Africa or its officers.

## List of Acronyms

ADLI	Agricultural Development Led Industrialization
CRDA	Christian Relief and Development Association
CSA	Central Statistical Authority
CSO	Civic Society Organizations
DAG	Development Assistance Group
EEA	Ethiopian Economic Association
EEPRI	Ethiopian Economic Policy Research Institute
ESRDF	Ethiopian Social Rehabilitation and Development Fund
EU	European Union
FDRE	Federal Democratic Republic of Ethiopia
FSS	Forum for Social Studies
GDP	Gross Domestic Product
HICE	Household Income, Consumption and Expenditure
HIPC	Highly Indebted Poor Countries
IDA	International Development Assistance
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MDGs	Millennium Development Goals
MEDaC	Ministry of Economic Development and Cooperation
MEFF	Macroeconomic and Fiscal Framework
MTEF	Mid-term Expenditure Framework
MoFED	Ministry of Finance and Economic Development
NGO	Non-Governmental Organizations
PEM	Public Expenditure Management
PEP	Public Expenditure Planning
PRSP	Poverty Reduction Strategy Paper
SDPRP	Sustainable Development and Poverty Reduction Program
UNDP	United Nations Development Program
UN-ECA	United Nations for Economic Commission for Africa
WB	World Bank
WM	Welfare Monitoring

## Table of Contents

**EXECUTIVE SUMMARY** 3

**1.**                    **INTRODUCTION**    0

**2.**                    **THE PRSP PROCESS**        2

**3.**                    **CONTENTS OF THE SDPRP**        6

**4.**                    **PUBLIC FINANCE ASPECTS AND IMPLICATIONS**    12

**5.**                    **CAPACITY BUILDING IMPLICATIONS** 18

**6.**                    **DONORS' SUPPORT OF SDPRP** 22

**7.**                    **SUMMING UP AND SOME IMPORTANT LESSONS DRAWN**  
23

**REFERENCES**        26

**ANNEXES**        27

## **EXECUTIVE SUMMARY**

The government of Ethiopia has prepared an elaborate and comprehensive PRSP that contains description of poverty profile, outline overall macroeconomic as well as key sectoral development objectives and strategies, a three-year macroeconomic fiscal framework and financing plan, and a framework for monitoring and evaluation of its implementation. This report assesses Ethiopia's PRSP from five inter-related perspectives: the processes, its content, public finance aspects, capacity building issues, and donor's involvement.

The PRSP preparation process involved a two-phase exercise: preparation of I-PRSP during the first phase followed by the development of a full PRSP. The full PRSP preparation process has benefited a lot from comments made by various quarters including the donor community on the I-PRSP, as well as from best practices and experiences of other African countries, and therefore revealed significant improvement over the I-PRSP. Broad and meaningful participation of various stakeholders did take place during the consultation processes at various administrative levels including the *woreda* (district), regional, and federal levels. A parallel consultation process that was initiated and organized by various NGOs and civic associations greatly contributed towards ensuring wider ownership as well as enriching the content of the final PRSP.

Ethiopia's PRSP is actually a strategy paper for promoting Sustainable Development and Poverty Reduction Program (SDPRP) in which government expressed its commitment towards poverty reduction by making it the very orbit of development policy – it aims to achieve this by linking poverty with growth process that is fast, broad-based, equitable and sustainable. With a view towards meeting the Millennium Development Goals (MDG) by 2015, the target is to reduce poverty by 10% at the end of the program period while maintaining an average real GDP growth rate of 7%. In view of the magnitude and extent of poverty in Ethiopia, which is widespread, deep and severe, there seems to be little option other than what the government intends to achieve.

Content-wise, the SDPRP begins by providing adequate diagnosis of poverty profile – its trends, dimensions, and determinants as well as a presentation of how these could be related to growth. This analysis is grounded on a fairly rich data-base. Then a detailed presentation is made regarding the government's development goals, policies and strategies – key elements of these include (a) the Agricultural Development Led Industrialization (ADLI) as a strategy for achieving rapid, broad-based, self-reliant development in the context of a growing market economy, (b) the judiciary and civil service reforms, (c) the administrative decentralization and empowerment, and (d) capacity building. This is followed by a detailed discussion of the key-sector development policies and strategies including agricultural and rural development in general and food security in particular, the road and water development programs, and the education and health sector development programs. The link between these development programs and poverty reduction has been fairly adequately established. Issues of vulnerability to

shocks and response capability as well as cross-cutting issues such as environmental concerns, population, gender, private and export sector development, urban development, HIV/AIDS, etc. have been outlined.

The next important item contained in the SDPRP is the medium term expenditure framework that presents resource estimates and its allocation within a three-year macroeconomic fiscal framework as well as financing plan and expenditure management and control aspects. Its sectoral coverage could be considered as fairly broad and comprehensive; it covers both recurrent and capital budgets allowing for greater flexibility in reallocation of resources in response to changed circumstances. Sectoral expenditure frameworks do incorporate sectoral strategy, objectives, activities and outputs. The approach followed is first to make a thorough resource assessment that could be available both from domestic as well as other sources, and then make resource allocation decisions subject to the estimated resource bounds. Government's commitment to broaden its tax-base may help raise domestic revenues, while the end of war with Eritrea helps cuts on defense expenditure, which could be reallocated towards poverty-targeted sectors. However, the resource gap between projected allocation and domestic financing capacity may be so huge as to render donor assistance to play a key and crucial role in achieving SDPRP targets.

Finally, program targets, indicators and a framework for monitoring and evaluation of the SDPRP implementation process is outlined. Underlining on the importance of building on existing monitoring systems, the intention is to exercise institutional responsibilities and participation through the decentralization process, but the institutional and/or organizational link between the various coordinating units and those responsible for implementation, monitoring and follow up at regional levels must be carefully worked out. More importantly, a monitoring strategy will be necessary that clearly indicates the mechanisms of monitoring the SDPRP implementation, its relation to ongoing monitoring systems, the institutions to be involved, options for civil society involvement, and alternative ways of results dissemination to the wider public. Public expenditure management and control covers reforms in budget, accounts and expenditure planning and it helps promote transparency and facilities that could help facilitate tracking of poverty related expenditures. However, attention needs to be given to the timing and sequencing of the reforms; and it is important to keep it reliable, predictable and credible.

Government's acknowledgement of the criticality of capacity limitations and its attempts to systematically address it in a manner that is coordinated and comprehensive is crucial – the package encompasses developing the human resource base, building and strengthening of key institutions, and improving systems and practices. Successful intervention in this regard should improve the capacities of those responsible for the preparation, implementation and monitoring outcomes of SDPRP objectives at various levels. However, phasing, sequencing and gradualism of reforms with continuous, strong and dedicated support from the center to the relatively weaker ones may need to be considered without necessarily compromising the processes of decentralization and devolution. As part of capacity development, the need for enhancement of

public-private-community partnerships must also be highlighted. Institutional development entirely devoted to poverty studies would be necessary.

Donor community's preparation to work with SDPRP as organizing framework for their assistance programs has been appreciated both by the donors and the government alike. The donor community has expressed its readiness to support the SDPRP by providing technical and financial assistance for its preparation as well as pledging to continue to support its implementation. Government strongly expects for such an assistance to improve both in quantity and in quality if SDPRP objectives are to be fully achieved. Particular concern is over the extent to which donor assistance would be flexible in its delivery mechanisms. Government makes a strong case for channeling of donor assistance in the form of budget support and in tandem with national processes and systems. This is expected to be deliberated upon in the upcoming consultative process that is scheduled to take place towards the end of the year.

In conclusion, Ethiopia's PRSP process could be considered as sufficiently participatory; the SDPRP addresses the key developmental challenges that the country has been facing; it is adequately and systematically integrated with the budget process. Key capacity constraints for the successful formulation, implementation and monitoring of the SDPRP at various levels have been identified, and government is attempting to aggressively address them in a comprehensive manner. Also, there seems to exist strong support to the SDPRP from the donors' community in a coordinated manner; however, improvement in both quantity and quality of this support is desirable for a successful implementation of the SDPRP.

## **Introduction**

The Ethiopian economy is predominantly agricultural with about 85% of the population being directly dependent on it for their livelihood. However, the performance of the economy in general and the agricultural sector in particular has historically been very poor. The economy is extremely vulnerable to external shocks such as the recurrent drought. Poverty is widespread with a significant proportion of the Ethiopian population lacking the basic necessities of life, such as lack of food, decent clothing, shelter and suffer from general impoverishment. In addition, lack of access to education and medical care, widespread unemployment and lack of income also exacerbate the magnitude and severity of poverty. Government has been introducing pro-market reforms since 1992 with a view to enhancing overall productivity, thereby improving the economic performance. As a result GDP grew at an annual average rate of 5.8 percent during 1992/93-2000/01 period while inflation stood generally at below 5% - this clearly is significant compared to previous period performances.

According to available data, 45.5 per cent of the total population or nearly 30 million of the country's estimated 65 million people are categorized as absolutely poor, i.e. they are unable to lead a life fulfilling the bare minimum livelihood standard. There are significant variations in poverty levels between rural and urban Ethiopia. For example, the incidence of poverty for urban areas is estimated to be 36.9 per cent while the corresponding figure is 44.2 per cent for the rural parts of the country indicating that poverty is much more widespread in rural areas than in urban areas. Inter-regional disparities in the incidence of poverty are also significant; poverty levels vary from 26 percent for Harari to 61.4 percent for Tigray. Inter-temporal figures also suggest that the incidence of poverty has not improved much as only a 2.9 percent decline has been registered between 1995/96 and 1999/2000. This improvement has been attributed to a decline of rural poverty by 4.2 percent since poverty has worsened for urban areas over the period, i.e., it increased by 11.1% (See Annex 1.)

It is against the preceding profile of poverty that the government of the Federal Democratic Republic of Ethiopia (FDRE) submitted an Interim Poverty Reduction Strategy Paper (I-PRSP) to the IMF and the World Bank in September 2000. The I-PRSP outlined the poverty reduction measures that the government planned to implement and policy reform programs and institutional changes that must be put in place to achieve poverty reduction.

The I-PRSP was presented to a nation-wide public debate and discussion by a cross-section of civil society, regional and local governments and the donor community. The policy document was to be developed into a full PRSP by incorporating the views and suggestions of the different stakeholders in poverty alleviation in Ethiopia. Observations and comments for improvements were provided by independent institutions of civil society, including Christian Relief and Development Association (CRDA), Forum for Social Studies (FSS), the Ethiopian Economic Policy Research Institute (EEPRI), and the donor community as represented by the Development Assistance Group (DAG). Some of the initial suggestions provided by these organizations have helped in preparing the full PRSP.

The government initiated the PRSP process following the decision by the IMF, the World Bank and other donors which required HIPC wishing to secure loans and debt relief to formulate and implement a poverty reduction strategy. Like all other African countries, Ethiopia's PRSP was to be country-owned and participatory involving a wide cross-section of civil society, including the private sector, Non-Governmental Organizations, civil society institutions and the donor community in the process of its preparation. As a result, a nation-wide consultative process was organized by the government involving the various sectors of the community throughout all

---

regions of the country between 6 and 18 of February 2002 with the exception of the regions of Afar and Somali where it took place respectively between 9-11 March and 26-28 March of 2002.

Side by side with the government's consultative process, various independent civil society institutions launched their own series of consultative processes between December 2000 and March 2002. The consultative process that took nearly two years was culminated by the launching of the Federal PRSP Consultation that was held from 28-30 March 2002. The national conference on the full PRSP brought together representatives from among the federal government, regional governments, prominent citizens, journalists, religious leaders, representatives of the donor community, NGOs, professional associations, and the business community. Following this national conference, government officially released the full PRSP to its development partners, including the World Bank, IMF, foreign governments and the wider public.

The full PRSP was quite an improvement over the I-PRSP both in content and in terms of addressing the multi-faceted nature of poverty and measures to ameliorate the problem. What contributed to the qualitative improvement in the content of the PRSP is the fact that the National Secretariat on the PRSP has, to a large extent, accommodated into the policy document the divergent views and suggestions forwarded by civil society and the donor community; and this has rendered the policy document to be a meaningful anti-poverty strategy.

The deep involvement and active participation of civil society as well as the commitment of the government were essential conditions to improve the quality of the PRSP. The combined efforts of the government and civil society greatly helped in transforming the final PRSP into a more thorough and comprehensive analysis of the poverty situation in the country along social and spatial dimensions, i.e. an analysis of the incidence, depth, and severity of poverty along gender, age and rural and urban dimensions. Poverty analysis in the full PRSP was grounded on much more reliable empirical data than the I-PRSP. Further, the policy recommendations and action plans as embodied in the final PRSP have originated from the analysis and have incorporated the suggestions and views forwarded by the different stakeholders involved in the consultation process.

To summarize, the government followed a two-phase consultative process in preparing the full PRSP. In the first round, immediately after the government published its I-PRSP, independent civil society institutions and the donor community organized a series of public discussions and consultations. In the process, both the donor community and civil society institutions provided suggestions on core issues and shortcomings that must be addressed in the final PRSP. In addition, the federal government also simultaneously conducted public consultations on the I-PRSP at regional and *woreda* levels. The inputs gained from these preliminary public discussions and consultations were used to prepare the final PRSP, which was launched in March, 2002.

The second round of public discussions and consultations on the PRSP came with the official launching of the Federal consultation from March 27-30, 2002. As explained earlier, this conference brought together a diverse cross-section of civil society, including representatives from the private sector, independent research and policy institutes, chambers of commerce, professional associations, parliamentarians, community and civic leaders, trade unions, NGOs, federal, regional and *woreda* government officials and representatives of the donor community. All actively participated in the public discussions and forwarded suggestions that were later to

be incorporated in the full PRSP. Further, many participating organizations submitted consolidated written reports and recommendations to the National Secretariat on the PRSP, and requested the government to include these recommendations in the full PRSP. The SDPRP document that was launched by the government in July, 2002, is a culmination of a two-phase process of public consultations and discussions.

It is against the preceding foreground that this evaluation on the process of preparing Ethiopia's SDPRP is being undertaken. The objective of this report is to assess the consultative process, the contents, public finance aspects, as well as capacity concerns and the extent of donors' support and assistance for poverty reduction as formulated in the SDPRP. The remaining part of this document addresses five major issues. Section II and III respectively provide a review of the consultative process in preparing the SDPRP and its contents. Then Part IV presents an evaluation of the public finance aspects of the SDPRP; while Part V reviews the extent to which donor policies and resources are realigned in preparing and implementing the SDPRP. Part VI deals with capacity building issues. Finally a summary of major points and lessons drawn is presented.

## **The PRSP Process**

A diverse group of institutions of civic society, including NGOs, the private sector, independent research and policy institutes, professional associations, trade unions, women groups and donor organizations have formally participated in Ethiopia's PRSP process. As was indicated earlier, the PRSP consultative process involved a two-phase exercise. The focus of the first round of the consultative process was the I-PRSP, which served as a sounding board for the interests and concerns of the different stakeholders in poverty and poverty alleviation. The second round of public consultations and discussions concentrated on the full PRSP, which was finalized by incorporating the priorities as well as policy and resource concerns put forward in the series of public consultative processes. These two rounds of public consultative processes on the PRSP have generated strong commitment to reduce poverty and created an enhanced sense of ownership and broad national consensus on the urgent need to tackle poverty.

Public participation in the PRSP preparation process was mainly in the area of agenda and priority setting. In this exercise, different stakeholders attempted to persuade the government to include their interests and concerns in the national anti-poverty strategy as a priority agenda. Many of them lobbied and pressured the government to allocate sufficient resources to address some of these concerns and needs within the framework of the PRSP. This process had helped to make the PRSP broad-based and representative of the concerns and interests of a wide cross-section of civil society.

The PRSP process has yielded some key lessons and observations. There were also challenges and constraints that had to be overcome in order to establish broad national consensus by making the policy document transparent and inclusive of the competing interests and demands of society. More than any thing else, the PRSP process provided a platform for an active engagement of civil society in the public policy process. The following is a summary of the key lessons and experiences learnt in the PRSP process in Ethiopia.

### *2.1. A strong coalition of civil society and the donor community helped formulate a broad-based PRSP*

Despite their notable contributions, many civil society organizations (perhaps with the exception of EEA/EEPRI and the FSS) that were actively engaged in the PRSP process had limited capacity to engage in rigorous socio-economic research to the extent of influencing the economic policy-making process and outcomes. This deficiency had to be corrected by forging a strong coalition of institutions of civil society and the donor community to be actively engaged in the consultative process to design the PRSP. The involvement of the different stakeholders in the PRSP process lent legitimacy to the PRSP, earned it broad acceptance by the community and enhanced sense of ownership by the different actors in the policy process. The contribution of these actors mainly took the form of lobbying and pressuring the National Secretariat on the PRSP to add new inputs into the PRSP that have a direct impact on poverty alleviation. Many of them took the initiative to submit written suggestions and policy recommendations that helped improve the draft PRSP. The cumulative effect of this kind of active engagement has been an improved and broad-based PRSP that has earned the trust and confidence of civil society and the donor community.

## *2.2. Government's commitment to a participatory policy process was the key to success*

The commitment of both the federal and regional governments to a wide public involvement in the PRSP process was a key to the success of the PRSP process. At the beginning, the government did not seem to be particularly keen about subjecting the I-PRSP to wide public discussion and consultation. However, a gradual shift in government's stance and conviction on the need for public participation and consultation in the process and the realization that civil society can make meaningful contribution to the PRSP helped to formulate a policy that reflected a broad constituency. Apart from improving the contents of the PRSP, the consultative process enhanced sense of public ownership of the SDPRP and thereby improved the chance for its effective implementation. More importantly, the process imparted key lessons in engaging informed civil society in the public policy process – an aspect of democratic and participatory governance.

## *2.3. Broad-based public interest and commitment to generate policy ideas with a view to improving the PRSP contributed to success*

The various civil society institutions who were involved in the consultations used different innovative methods to influence the PRSP process. Many of them created an effective network of institutions and umbrella associations to persuade the government to include major policy concerns and demands of their constituencies. This arrangement not only helped them to exchange information and experiences but also increased their leverage in influencing the PRSP as united advocacy groups.

Apart from effective networking, some civil society organizations used programs and methods to engage the different stakeholders in the public discussions and consultations in the PRSP. Worth mentioning in this regard is the Poverty Dialogue Series conducted by the FSS, an independent policy research institute. FSS ran a program of public debates and consultations involving government policy makers and representatives from the private sector, professional associations, religious organizations, the NGO community and the poor for nearly two years. At each of the public workshops organized by the FSS, these different actors discussed the severity and magnitude of poverty and exchanged experiences on how to tackle it. The main policy issues

pertaining to poverty and poverty alleviation discussed at the workshops were submitted in the form of a 'Consolidated Report of FSS' Public Debates and Consultation' to aid the PRSP process (EEA/EEPRI & FSS, 2001).

#### *2.4. Innovative ways of involving the poor in the public debate on poverty and its alleviation*

Some civil society institutions experimented with innovative and creative ways of involving the poor themselves in the public debate on poverty and poverty alleviation. For example, the FSS provided a forum to the poor to tell their own story to the public and the government to learn about poverty from the poor themselves. It is not usual for the poor to talk about themselves. Quite often, poverty debates are undertaken among people who themselves are not poor, and the subject of the debates and consultation are not consulted. This innovative approach represented a significant break from this tradition and gave the poor the chance to participate in the discussion about poverty and poverty reduction.

#### *2.5. Best practices and experiences from other African countries helped improve the PRSP participatory framework*

The PRSP process in Ethiopia has benefited from the experiences and best practices of other countries that went through the same exercise earlier on. In this regard, an examination of the participatory framework adopted by selected countries in East Africa, has helped Ethiopia to draw lessons on how to engage civil society in the PRSP process. In particular, a round table discussion of the experiences of Kenya, Tanzania and Uganda jointly organized by the FSS and the EEA/EEPRI imparted important lessons for Ethiopian civil society organizations in the design of the national PRSP. Being held just as Ethiopia launched the I-PRSP, the round-table discussions provided a platform for mutual exchange of experiences, and thereby inspired the PRSP process in Ethiopia. More important, it helped Ethiopia learn from the success and failures of other countries.

#### *2.6. Some important concerns aired during the PRSP process are not taken into account*

Major existing development strategies and policies remained intact despite long and sustained public discussions by way of attempting to convince the government to revisit some of them to aid poverty alleviation in the country. For example, the ADLI development strategy, the state (public) ownership of land and land lease policies, were subjects of contention that generated a lot of debate and controversy by different stakeholders. Despite arguments for revision of these and other similar policies so that poverty could be reduced through enhancement of private sector development, government however remained incessant by keeping these policies intact for an alleged reason that the suggested alternatives would go against the objective of bringing about a broad-based development and poverty reduction.

#### *2.7. The Participatory Framework for the PRSP process*

The preceding discussion presented the key lessons and experiences learnt in the PRSP process in Ethiopia. It also highlighted issues that contributed to success and identified constraints that had to be overcome to advance the process further. Thanks to the government's commitment to an open decision-making process, the entire process followed a well-thought plan of action that

involved a broad spectrum of civil society participation and donor organizations and governments. The participatory framework was consisted of a number of committees that were assigned activities that led to the successful accomplishment of the PRSP process. It is important to narrate the list of activities undertaken to finalize the PRSP in order to understand the extent of civic engagement in formulating the final PRSP.

(a) *PRSP Federal Steering Committee*

This was the national committee that provided strategic leadership for the successful formulation of the SDPRP. This committee consisted key sector ministries, including ministries of education, health, and agriculture and was coordinated by the Ministry of Finance and Economic Development (formerly Ministry of Economic Development and Cooperation). This committee was supported by a Technical Committee and a National Secretariat.

(b) *PRSP Regional Steering Committee*

This committee provided leadership for the preparation of the PRSP at the regional, zonal and woreda levels and facilitated the consultation processes at all these levels of administration. It consisted of sector regional bureau heads, including heads of education, social affairs, health, agriculture and was coordinated by the head of the Bureau of Planning and Economic Development of each region. It too is assisted by a regional technical secretariat committee consisting of key sectoral areas of development.

(c) *Government (Public) Consultative Forums*

On the government's side, the series of public consultation at the federal, regional, and woreda levels greatly aided the PRSP process. These formal consultations took place among relevant government departments and sectors that have an important bearing on the success of the PRSP. In particular, the woreda consultations directly involved the people in debating the nature and magnitude of poverty in rural and urban areas of the country. Equally important, it gave chance the people a platform to forward policy ideas on how to reduce poverty. The main thrust of the PRSP process was the series of public consultations that were conducted in 117 woredas out the 550 or so woredas of the country. The three-day woreda consultations gave different sections of the community to discuss key issues of poverty, including the nature and causes of poverty; trends of poverty over the past five years; factors that contribute to poverty; people's livelihood and associated problems; problems of socio-economic service delivery; cultural and individual practices contributing to poverty; administrative problems and other governance issues with direct bearing upon poverty and poverty alleviation; and poverty reduction measures that need priority attention. Altogether, about 6000 people participated in the woreda public consultations. The participation of women was relatively high thanks to the exerted efforts of the regional technical secretariat and sector bureaus.

This was cumulated by a regional level consultation process that involved about 2000 people. The process culminated by a federal level consultation in which about 450 persons representing government at different levels, distinguished personalities, journalists, religious leaders, the donor community, the private sector, civic associations, and NGOs participated. A parallel consultation with representatives from pastoral communities, and discussions at the Ethio-Forum organized by the Ethiopian Social Relief and Development Fund (ESRDF) provided vital inputs to the PRSP process.

(d) *Civil Society Forums*

Side by side with the government's consultation process, many civil society institutions have also organized their own independent forums to give the public an opportunity to debate poverty and its alleviation. The series of public workshops and consultations enabled representatives of the various civil society organizations to discuss the severity and magnitude of poverty, and exchange experiences on how to tackle it. In addition, the consultations enhanced public awareness about the multi-dimensional character of poverty and the need to involve several stakeholders, including the government and civil society, to overcome it. More than any thing else, the PRSP exercise provided an opportunity for civic society to engage in the public policy process thereby making the policy making process more transparent and participatory. Needless to say, these are essential conditions for genuine democracy and empowerment.

## **Contents of the SDPRP**

Ethiopia's version of PRSP is termed as 'Sustainable Development and Poverty Reduction Programr (SDPRP). To a large extent, the SDPRP contains the most important policy issues that need to be implemented to reduce poverty. Its contents largely reflect the concerns and interests of a diverse cross-section of civil society institutions and donors that participated in the process of preparing the policy document. To this extent, it can be characterized as country-owned and transparent, involving wide participation by interested stakeholders in the PRSP process. It is hoped that this consultative process will be sustained through the implementation process as well monitoring and evaluating its impact in reducing poverty.

The SDPRP presents an authoritative poverty profile of the country supported by empirical and statistical data. It provides sufficient analysis of the magnitude and severity of poverty throughout the country. It is also a comprehensive policy document that suggests a carefully thought out set of measures to reduce poverty. A general overview of its important contents is presented below.

The introductory section and that on poverty profile set out the vision and broad development strategies to transform the Ethiopian economy. In addition to providing a general poverty profile supported by empirical evidences, the sections provide an overview of the performance of the Ethiopian economy since the early 1990s, and present a discussion of the major problems that the economy had to overcome to bring about sustainable development and poverty reduction.

Sections on consultation process and their outcomes review the extent of public participation in the formulation of the PRSP at the Woreda (district), regional and federal levels of government. The active involvement and participation of a wide cross section of civil society, including NGOs, independent research institutes and policy tink-tanks, private consultancy and advocacy organizations, professional associations, chambers of commerce and trade unions, is well documented.

Then the major development goals, policies, strategies and targets are addressed. The development strategy is *'to promote rapid, broad-based and equitable growth by focusing on rural development and improvement in physical and human capital, and deepening the devolution process to empower the people and expand the choices and control that people have over their lives'*. Four core policies and strategies have been identified as **'building blocks'** for poverty reduction: (a) ADLI, (b) Judicial and Civil Service Reform, (c) Decentralization and Empowerment

and (c) Capacity Building. A general description of these key elements is in order to show how they are linked to the SDPRP.

- (a) According to the Ethiopian Government, **ADLI** is a strategy in which agriculture and industry are brought into a single framework of development, wherein the development of agriculture is viewed as an important vehicle for industrialization by providing raw material, a market base, surplus labor and capital accumulation (in the short to medium term). A priority to agricultural and rural development is believed to address both objectives of growth and poverty reduction simultaneously since the majority of the poor resides within the rural sector employed in a poor productivity agriculture. Hence, improving the performance of the agricultural sector is believed to enhance the productivity of the majority of the population (85% of total).
- (b) Ethiopia's SDPRP considers **judicial and civil service reform** within the context of the broad economic policy reforms deemed necessary for the establishment of a market economy and attainment of macro-economic stability. The improvement of the judiciary and the civil service systems are considered second generation reforms that will make a qualitative change in governance, transparency and accountability within the public sector. Reforming the judiciary will strengthen enforcement of contracts and property rights, while the civil service reform will reduce transaction costs and non-commercial risks. All these will play an important role in the development of the private sector, and also facilitate the development of social capital.
- (c) The SDPRP strongly argues that **decentralization and empowerment** are essential for the successful implementation of anti-poverty programs and policies. In a relatively big country such as Ethiopia with a large and widely dispersed rural population, decentralization is an effective means of bringing decision-making processes closer to the people. Over the past decade or so, the electorate, politicians both at the federal and regional levels, civil servants and association of civil society have all gone through a steep learning curve about the workings of democracy, and valuable experience has been gained on federalism and devolved government.
- (d) Finally, **capacity building** is an essential component of the SDPRP. Capacity building is taken to comprise the development of human resources, building and strengthening of institutions, and establishment of effective working practices. The program is to be implemented in relation to smallholder agriculture, the private sector, and the public sector, including the judiciary. Training of farmers, supporting micro-financing institutions, and strengthening public and private sector organizations involved in the development of agriculture will run parallel to judiciary and civil service reform programs. Taxation will receive priority within the civil service reform. The strategy and program framework for capacity building is designed to feed into the reformulated ADLI Strategy, judiciary and civil service reforms, and decentralization and empowerment; hence, it is an integral part of the country's poverty reduction strategy.

The next important section of the SDPRP picks up the key sector development policies that are identified as poverty related including agriculture, food security, roads, water resources development, education and health. Pastoral development is also included with particular focus on encouragement of voluntary settlement through provision of improved water, pasture and social services. A common feature cutting across the treatment of these sectors, as we shall see later, is the issue of how their development could be linked with poverty reduction. This is followed by a detailed outline of issues surrounding private sector and export development (such as the need to create conducive investment climate, finance, HRD, infrastructure, export markets, institutions, etc), extent of vulnerability to various kinds of shocks (natural or manmade, local or external, etc) and response capability (by way of absorbing the shocks as well as successfully coming out of it). Important cross-cutting issues such as environment, population, gender, urban management (governance, infrastructure, housing, land,

jobs), and HIV/AIDS (focusing on prevention of the spread, decreasing vulnerability of individuals and communities, caring for those living with the disease, and reducing the adverse socio-economic consequences of the epidemic) have also been addressed in detail highlighting on the importance of implementing the respective policies that the country adopted. The bottom-line is that these concerns need to be addressed in a systematic and coordinated manner if the effort of poverty reduction is to be successful. It is noteworthy to state that most of these concerns could as well be addressed through the key poverty-related sectors such as for example, girls education, mother and child health care, etc.

Then comes the section on the macroeconomic fiscal framework and financing the program. It presents estimates of program costs by sector hence determining the resource envelope, identifies likely sources for financing including the HIPC debt relief, allocates resources to sectors within the MEFF. The approach used is to estimate program costs first, then to seek financing through various channels. Details are provided in part four of this report.

The final section of the program is that deals with program targets, monitoring and evaluation system. Among other things, by presenting the institutional responsibilities and links, it reviews the existing monitoring and evaluation systems and argues for building on this capacity for better and integrated mechanisms. In fact this is very important in view of the valuable experiences gained in such important process. It also proposes an outline a framework for preparation of SDPRP progress report and other dissemination plans in a multi-actor setting.

In more concrete terms, a close examination of the contents of the SDPRP brings out the following experiences and observations:

### *2.1. The SDPRP is grounded on adequate poverty diagnostics*

One of the requirements of an effective PRSP in reducing poverty is that it should be based on adequate analysis of the magnitude and causes of poverty in the country. In this regard, Ethiopia's SDPRP fares well in terms of being grounded on adequate poverty diagnostics. The document has a major focus on the incidence, trends and severity of poverty across geographical and social dimensions, i.e. among the different regions of the country and gender and age dimensions respectively. In addition, the magnitude, severity and incidence of poverty in both the cities and the rural areas have been adequately treated and their causes and manifestations analyzed in the SDPRP with much more rigor and intensity than in the original I-PRSP. Indeed, the contribution and the commitment of a wide spectrum of civil society institutions and the donor made all the difference.

Prior to starting the preparation phase, the government had conducted an extensive research and collected data on the severity, causes and manifestations of poverty throughout the country in both the rural and urban areas. Not only had the Government made use of existing socio-economic data generated by the Central Statistical Authority (CSA) over the years, new projects to gather enough socio-economic and poverty data that will assist in preparing the SDPRP were undertaken. In this connection, suffice to mention the Household Income Consumption and Expenditure (HICE) and Welfare Monitoring (WM) Surveys conducted by the Ministry of Finance and Economic development for two periods - 1994/95 and 1999/2000. The results of these two data collecting exercises were the basis for preparing the SDPRP - no doubt enhancing the effectiveness of the policy in reducing poverty.

### *2.1. Adequate emphasis is given to key sector development policies and strategies*

An effective assessment of a national PRSP must cover key development policies and strategic issues that will improve the poverty situation in the country. The examination of these policies and strategies in a national context is crucial for the success of the anti-poverty program. From this perspective, the Ethiopian SDPRP has placed sufficient emphasis on key sector development policies and strategies that can help the country pull itself out of poverty. These include education, health, water resources development, infrastructure and roads, food security, pastoral development, etc. It has been articulated in the SDPRP that significant resource investments and major improvements in these areas would be made to decrease the extent of rural and urban poverty in the country.

*2.2. Important policy reforms needed for the success of the SDPRP are undertaken and fully addressed in the document*

A major strength of Ethiopia's SDPRP is that key policy and institutional reforms required for the successful implementation of the anti-poverty policy have either been implemented or are addressed as important policy parameters. The SDPRP fully addresses civil service and judicial reform, decentralization and empowerment and capacity building as core institutional foundations for the successful reduction of poverty in rural and urban Ethiopia, and outlines measures to deepen the process of institutional and administrative transformation throughout the country. Further, the document also reiterates that the Government has already taken a number of significant steps in these areas and is currently focusing on how gains achieved in these and other policy concerns can be integrated into the national anti-poverty effort.

*2.3. The SDPRP is properly anchored in Ethiopia's overall development goals, policies and strategies*

Ethiopia's SDPRP is well anchored within the overall development goals, policies and strategies of the government. The country's overall development strategy accords primacy to agricultural and rural development, which provides livelihood and employment to about 85 per cent of the population. In this connection, the policy paper puts special emphasis on rural and agricultural development as a national priority area and points to a policy direction that projects the development of other sectors including urban and industrial growth to be driven by the agricultural development led industrialization strategy. Since the goal of agricultural and rural development is accorded centrality of the country's development strategy, much of the country's resources including foreign aid will be channeled to promote the rapid growth of this sector. The government of Ethiopia argues that improvements gained in this important sector of development will make a significant contribution towards poverty reduction for the vast majority of Ethiopians.

*2.4. Key issues needed for the successful implementation of the SDPRP are incorporated*

Appropriate tools and techniques of public expenditure management and control are built into the SDPRP. This will no doubt guarantee efficient and proper use of public resources in the process of implementing anti-poverty plans and programs. Apart from efficiency considerations, the public finance management and control tools put in place will also enhance accountability and transparency in the disbursement of much needed resources for development and poverty reduction. At a minimum, these are required for the legitimacy and continued support of the policy.

Another key element included in the SDPRP is the monitoring and evaluating mechanism built into the policy to assess the extent of poverty reduction with the progressive implementation of the anti-poverty action plans and programs. The evaluating and monitoring techniques and procedures will be used to generate periodic reporting of the successes as well as timely identify policy constraints that might have hampered progress in implementation.

The SDPRP recognizes that donor support and assistance is needed for its financing. In this regard, the policy paper presents a clear and realistic outline of the sources and means of financing the different programs and activities as being from both domestic and external sources. While expressing the government's preference for budget support in realizing the goals of the SDPRP, it also calls upon all development partners to facilitate market access, trade, and foreign investment flows to contribute to the realization of Ethiopia's development and poverty reduction objectives.

### *2.5. Cross-cutting issues of development are adequately addressed in the SDPRP*

Ethiopia's SDPRP has adequately addressed cross-cutting issues of development and poverty reduction. The link between environment and development, population and development, and gender and development has been well articulated in the policy program and action recommendations have been provided to integrate these legitimate development concerns within the overall framework of the anti-poverty strategy. Further, realistic and implementable strategies have also been built into the SDPRP so that interventions in any of these areas support the complementary development goals.

In addition, other important issues, such as private sector development, export sector development HIV/AIDS and how this scourge affects national development are also addressed in the SDPRP. In the area of private and export sector growth, the document underscores the importance of promoting these two activities to aid overall economic growth, and outlines policies that the government needs to put in place in order to foster a working public-private sector partnership to speed up the achievement of the country's long-term economic development and poverty reduction objectives.

In the area of containing and preventing the HIV/AIDS pandemic, the SDPRP recognizes the government's responsibility to allocate sufficient amount of resources to defeat this national menace. Equally, it recognizes the role and contribution of different organizations, including NGOs, religious organizations, civil society and foreign governments and multilateral aid organizations, as being indispensable in fighting the disease affecting an increasing number of Ethiopians as each day passes.

### *2.6. The Government's Approach towards Poverty Reduction*

The Ethiopian government boldly states to directly target poverty reduction as its core objective – not just going around it through first achieving economic growth. It hopes to achieve that through 'promotion of rapid, broad-based and equitable growth by focusing on agricultural and rural development and improvement of the physical and human capital, and deepening of the devolution process to empower the people and expand the choices and control that people have

over their lives'. It identifies investment in education and health as crucial areas to achieve a pro-poor economic growth pattern since these enhance the productivity of land and labor (particularly rural labor) of those who are poor. This makes sense in view of the heavy weight of the rural population (85 percent of total) and the high poverty concentration ratio (incidence<sup>1</sup> - 45.4 percent compared to urban 36.9 percent). Important and huge resources are tied up within a low productivity sector rendering returns on agricultural employment to be very low. If successful on these fronts, then the strategy would also have a food-security improving effect through enhancement of productivity. There is a lot to be desired on both counts, i.e., education and health, for Ethiopia as a whole and for its rural population particularly. Thus, given the relatively basic egalitarian structure that prevails in rural areas on the one hand and the current low level of productivity of labor as well as land on the other, any investment to enhance the productivity of these two factors should have a direct poverty reducing impact.

However, in view of the fact that urban poverty has increased by about 11 percent while it declined by 4 percent in rural areas between 1995/96 and 1999/00, consistent with the government's avowed stance to combat poverty directly, a more direct and targeted intervention would be necessary to address the specific nature of urban poverty. This is because, notwithstanding the growth linkage effects of rural and agricultural development on non-agricultural patterns of development, the potential risk and cost of excluding the urban poor could be quite high. Urban poverty is strongly linked with absence of productive employment opportunities – which is apparently a structural problem in Ethiopia – that cannot be easily assumed to be indirectly addressed through achieving agricultural development. For instance, one of the things that an agricultural growth would bring about is improving the adequacy and stability of food supplies and reduction in food prices (through increased productivity), i.e., improving food security. However, even under market condition of extremely depressed food prices, what has been observed in the recent past is that farmers could not sell their produces for the simple reason that there was little effective demand due largely to weak purchasing power of the market dependent population the majority of which are absolutely poor. Hence, reduction of urban poverty is instrumental not only in its own right, but even for a successful agricultural growth and rural poverty reduction to occur. The PRSP document addresses reduction of urban poverty in the framework of an urban development process. The element of 'strengthening employment opportunities' revolves around design and implementation of public work programs, skill development for self-employment, expansion of pro-poor micro-credit facilities, etc. It doesn't seem to be strongly and explicitly linked with 'private sector' development. Hence, in this respect, the link between major development policy and poverty reduction doesn't seem to be direct. Hence, it is necessary to establish how gains in agricultural and industrial growth can contribute to effective poverty reduction both in the short- and long-term. Also, the SDPRP needs to be translated into detailed and concrete action plans so that smooth implementation could be facilitated. The process of monitoring and evaluating the impacts of the SDPRP can be aided by a clear definition of operational goals which sets out how a particular anti-poverty policy and its components will be translated into action that can reduce poverty in the long and short-term. Obviously this is what would follow when it is broken down by sectors and regions.

---

<sup>1</sup> Based on head-count ratio. The over-all poverty incidence in 1999/2000 is estimated to be 44.2%

## Public Finance Aspects and implications

### *4.1. MTEF as Instrument of Public Expenditure Planning*

PRSPs are translated into public expenditure programs using the instrument of Mid Term Expenditure Framework (MTEF). The later provides the linking framework (which is a coherent multiplayer macroeconomic, fiscal and sectoral framework) that allows expenditures to be driven by policy priorities and disciplined by budget realities (WB, 1998). It links policy-making, planning and budgeting, reflecting government's capacity and willingness to prioritize expenditure programs, thus integrates the top-down resource envelope with the bottom-up sector programs.

However, it is important to note that MTEF alone cannot deliver improved Public Expenditure Management (PEM) in situations where other key aspects of budget management, notably budget execution and reporting, remain weak. It does not cover all relevant budget formulation issues such as budget comprehensiveness; it must be preceded by a comprehensive, detailed diagnoses of budget management systems and processes in order to ensure appropriate design of reform programs (hence the issue of reform sequencing must be addressed); and it should be seen as a package of bundled reforms (Houerou and Taliercio 2002).

The major purposes of MTEF include that it leads towards greater macroeconomic balance including fiscal discipline to be attained through good estimates of the available resource envelope; it Improves inter- and intra-sectoral resource allocation to be attained through effective prioritizing all expenditures and dedicating resources only to the most important ones; it leads to greater budgetary predictability for line ministries to be achieved through commitment to more credible sectoral budget ceilings; and a more efficient use of public monies to be achieved through allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs; greater political accountability for public expenditure to be achieved through more legitimate decision making processes (see WB, 1998:46)

In a nutshell, MTEF has three pillars: projections of the aggregate resource envelope, cost estimates of sector programs, and a political-administrative process that integrates the two. It is important that MTEFs need to be adapted to the particular institutional and political circumstances. The objective of this section of the paper is to assess the quality of budgetary process and the degree to which the PRSP objectives and the MTEF are linked institutionally in the Ethiopian context.

### *4.2. Scope of MEEF, targets, costing and financing of SDPRP*

The instrument of MTEF is partially derived from a three-year Macroeconomic and Fiscal Framework (MEFF) on the basis of which revenues and expenditures are projected. Public Expenditure Planning (PEP) that helps program expenditures by sectoral envelopes has yet to be fully implemented. Nevertheless, reliability and simplicity are two important considerations to take into account in making projections. The macroeconomic framework of renewed economic reform and recovery program that is included in the SDPRP seem to be somewhat ambitious but it is consistent with the poverty reduction objectives – it aims to attain sustained economic

growth and poverty reduction (also by significantly increasing expenditures on poverty reducing sectors), in a stable macroeconomic environment. There is an objective to achieve targets (in the medium term) of an annual average real GDP growth of about 7% (a bit higher than the average for the last decade which is 6%), maintaining stable prices (containing inflation to below 5%) and foreign exchange reserve to cover 4-5 months of import of goods and non-factor services, as well as reduction of fiscal deficit (including grants but excluding special programs) from 6.1% of GDP in 2002/03 to 5.2% by the end of 2004/05.

In terms of coverage, the four major priority sectors identified to have the most direct impact on poverty reduction are included in MEFF – these include agriculture (food security) and water resources, health, education and infrastructure (road network). Consistent with government's development strategy, the aim is to reduce poverty through enhancing the productive capacity of the poor. As stated above most of the poor are found in rural areas depending on a low-productivity agricultural sector for their livelihood. Incidence of food insecurity (proxied by food-poverty correlates) is also very high. The target is to reduce general poverty from 44.2 in 1999/00 to 38% by 2004/05 (reduction by about 2 percentage points per annum for three years), and food-poverty in rural areas from 41.9% in 1999/00 to 36% by 2004/05. These targets seem to be a bit ambitious; but if attained, this should reduce both overall poverty as well as food-insecurity significantly due to the effect largely of mere numbers; i.e., the heavy weight of rural population in total. Moreover, linking poverty alleviation with empowerment of the poor and increased agricultural productivity should lead to increases in income while improving food availability, stability and access via the wider growth linkage effects – namely, improved agricultural performance impacting upon the performance of the overall economy, not just limited to rural areas. Expenditure forecast suggests that agricultural and water resources would absorb about 16% of the total expenditure in the medium term.

Improvement of clean water supply is singled out as priority area with a target of increasing access to clean water from 30% to 39.4% at a national level - breakdown into rural and urban areas indicates that this would increase from 72% to 82.5% for urban areas and from 24% to 31.4% for rural areas. Budgetary allocation including for small-scale irrigation is estimated to be about 938 million in the first year, 950 million in the second year and 1.2 billion in the third year.

The focus on health sector has a target of reducing mortality rates (infant mortality rate from the current 97/1000 to 85/1000 – a target which again seems to be ambitious; child mortality rate from the current 167/1000 to 160/1000; and maternal mortality rate from 500-700/100,000 now to 400-450/100,000). It aims to achieve these through improving access to health services, immunization of children and reducing transmission and prevalence of HIV/AIDS. This is backed by a budgetary allocation that is projected to increase from 6% in 2000/01 to an average of 8% of total annual budget in 2003/04 and 2004/05. This is a growth rate of about 57.7% over a four-year period, also amounting to 14.4% growth per annum, which is deservedly quite substantial.

The education sector emphasis is on primary, tertiary and vocational training. As far as the primary education is concerned the target is to increase gross primary enrollment ratio from 57.4% (2000/01) to 65%, reduce grade 4-8 repetition rate from 10.3% (2000/01) to 6.4%, increase girls/boys students ratio from 40.6% (2000/01) to 45%, and reduce primary school dropout rate from 17.8% (2000/01) to 8.9% by 2004/05. These imply a growth rate in gross primary enrollment of 13.2% (3.3% per annum), girls/boys students ratio of 10.8%

(2.7% per annum), and decline of grade 4-8 repetition rate by 38% (9.5% per annum) as well as that of primary school dropout rate by 50% (12.5% per annum). Technical and vocational education and training (TVET) is expected to expand so as to accommodate an annual 55,000 intake. The target for tertiary education is to expand annual intake capacity of 30,000 at undergraduate level and 6,000 at postgraduate levels. These are extremely large figures and are unprecedented. On the other hand, the education budget share is projected to increase from 14 percent of total in 2000/01 to an average of 18 percent per annum for the next three years; i.e., an increase between 2000/01 and 2004/05 by 37 percent (9.4 percent per annum). In terms of GDP share, expenditure on education tends to increase from 5 percent in 2001/02 to 7.4 percent in 2004/05.

The road sector improvement component has a target of increasing road density from 29km/1000km<sup>2</sup> to 47km/1000 km<sup>2</sup>. It is estimated that this sector would absorb about 15% of total expenditure. Share of government expenditure relative to GDP is estimated to amount 8% in the first year, 8.3% in the second and 8.7% in the third year. The significant projected increase in the first year compared to the base (initial) year could be noticed, i.e., from 3.6% in 20001/02 to 8% in 2002/03.

Ethiopia's MEFF sectoral coverage could be considered as fairly broad; however, the capacity demands may be quite large. MEFF covers both recurrent and capital budgets – this is one of its strong sides compared to those covering only recurrent<sup>2</sup> ones, since it would allow for greater flexibility in reallocation of resources in response to changed circumstances. It is also comprehensive in a sense that it encompasses spaces for donor funding, user fees (e.g., tertiary education), etc., and contains some information on intra-sectoral resource allocation – for example, expenditure on health sector has allocations for HIV/AIDS, etc. This is important for guaranteeing efficient and effective resources utilization at implementation phase.

Since the budgeting process in Ethiopia involves cross-sectoral as well as cross-regional dimensions, it is important that the MEFF reflects the political as well as the fiscal decentralization process. Sectoral expenditure frameworks do incorporate sectoral strategy, objectives, activities and outputs. A detailed program costing seems to be carried out sector by sector for the priority sectors in general as well as identifying the intra-sectoral priorities. For example, the budget requirement for the agricultural sector is intended to finance programs such as agricultural research and supply of improved technologies, extension and credit services, resettlement programs, etc., that are otherwise difficult to be covered by the farmers themselves.

The estimated total cost of the SDPRP program (high scenario) for the first three years (2002/03 – 2004/05) amounts to 52.5 billion birr which is about 2/3 of projected total government expenditure including domestic and external debt amortization. There is a notable budgetary expansion for the poverty related expenditures compared with actual budgetary allocations for 2001/02; i.e., expenditure forecast for 2002/03 shows a growth rate of about 80% over the actual budgetary allocation for 2001/02 for these sectors. Similarly, the relative share of poverty related expenditure in total has jumped from 46% in 2001/02 (budgetary allocations) to an average of 56% for the three years. In terms of GDP shares, the poverty related sectors are projected to receive expenditure to the order of about 21.8%, 22.5%, and 23.3% of GDP in the three successive years – which is significant compared to budgetary allocations in 2001/02; thus increasing the relative allocations from

---

<sup>2</sup> Commonly much recurrent budget is wage-bill which may not be changed in the short to medium term.

13.9% of GDP in 2001/02 to 23.3% by 2004/05 most of which reflecting expenditure on road network.

These projected poverty related expenditures are expected to be financed largely from budgetary adjustments including savings on budgetary cuts in administrative and government service delivery and maintaining a constant (in absolute terms) or declining (in relation to GDP) expenditure on defense.

Clearly a substantial resource gap is generated between projected allocation and financing capacity which even after applying HIPC resources is quite big. Government realized the difficulty to realize this, and accordingly made downward expenditure adjustment for priority sectors to match resources that could be generated. This exercise resulted in a low scenario estimate of total cost of the SDPRP for medium term that amounts to 37.4 billion birr which is now about 56 percent of projected total government expenditure including domestic and external debt amortization. It could be seen that forecasted expenditure on poverty related sectors tends to increase steadily both in absolute terms as well as in relation to total government expenditure for the medium term. Total expenditure is forecasted to grow by 13% in 2002/03, 3 percent in 2003/04 and 10 percent in 2004/05. On the other hand, the corresponding projected growth rates for total revenue and grants are 10 per cent (2002/03), 11 percent (2003/04) and 12 percent (2004/05). These growth rates are higher than that registered in the preceding year which is 8 percent.

The MEFF presumes the likelihood of prevalence of high domestic resource mobilization and moderate inflow of external support. These two plus the gains from budgetary restrains in non-priority sectors are expected to increase expenditure on poverty targeted sectors. Government seems to be committed to broaden its tax-base; this should be possible with the new tax reform in place (which include improving the efficiency of the tax system through streamlining income tax legislation and refocusing on indirect taxation, as well as revamping tax administration), which may raise tax revenues. On the other hand, the end of war with Eritrea and the subsequent peace deals entered into has facilitated budgetary reallocation towards poverty-targeted sectors. Defense is projected to receive a constant absolute amount and a declining share relative to GDP growth. Hence, it is logical to expect for resource mobilization efforts (generating as well as saving) to meet an important portion of the MEFF requirements. Donor assistance and government's commitment to allocate these resources on poverty-targeted sectors should complete the cycle.

The assumption of high domestic resource mobilization, though desirable, seems to be somewhat ambitious in the medium term. This is particularly so when one considers the extent to which tax-base has historically been narrow and low in absolute terms (tax/GDP ratio equals 14%). The tax reforms introduced are comprehensive and somewhat radical<sup>3</sup>, but they are also recent and definitely take some time to take firm roots. Apparently, tax/GDP ratio is expected to increase by 0.8 percentage points only during the three-year period in which MEFF is projected. Tax revenues may rise in absolute terms provided that there is high rate of economic growth over the period – which is projected at about 7% in real terms. Over the past few years the economy grew on average by 6% per annum (UN-ECA, 2002). However, the likelihood of sustaining such a growth rate depends on the most important factor that has been explaining economic

---

<sup>3</sup> These include introduction of VAT, tax law, Tax Identification Number, presumptive tax assessment, and improvement of tax administration.

growth in Ethiopia – i.e., the availability of good rains both in amount and distribution. One should also need to keep an eye on the factors affecting the growth of the private sector, which apparently is at its primordial stage. And, the institutional capacity building requirements for a smooth administration of the tax reform that is being implemented could be insurmountable especially when one considers the fact that its launching having to coincide with the beginning of the MEFF period. Add to this, Ethiopia's desperate dependence on the flow of foreign resources does not lend much to expectation of a dramatic turn-around in a short period of time to which the MEFF refers. Hence, external support, including the interim enhanced HIPC relief, should make substantial inputs to raise expenditures on poverty-targeted sectors in the short to medium term.

#### *4.3. Institutional Responsibilities and Participation*

The macroeconomic Policy and Planning Department of the Federal Ministry of Finance and Economic Development is the central body responsible for PRSP and its MEFF component including drafting progress report. Implementation follows the logic of both political as well as fiscal decentralization that have been taking shape and depth at lower levels of tiers – woreda (district) has been identified as the key development administrative unit and efforts are underway to improve the capacity of woredas to be able to manage the PRSP process at the local level. In view of the wider and profound political and economic powers that regional governments enjoy vis-à-vis the central government, the institutional and/or organizational link between the various coordinating units and those responsible for implementation, monitoring and follow up at regional levels must be carefully worked out. More importantly, a monitoring strategy that sets out elements of how it proposes to monitor the implementation of the poverty reduction strategy, how it will relate to ongoing monitoring systems, which institutions will be involved, whether there will be any participation by civil society, or how the results will be made available to the public will be necessary.

Logically, it seems, the regional planning and finance bureaus are going to be responsible for managing PRSP at regional and sub-regional levels. The assumption is that regional states would wholeheartedly adopt the federal government's MEFF and commit themselves to it. Fiscal decentralization in Ethiopia hinges on ensuring a system of taxation that allows some revenue collection by the regional governments and some revenue sharing with the central government. It also provides for the majority of revenue to come under central government's authority with budgetary subvention to the regions. On the other hand, it grants the regional governments full autonomy in budgetary expenditures, which is believed to have created considerable space for effective tracking of poverty directly at grass-roots level.

It is anticipated to give block-grants directly to woredas – which, based on wider and active public participation, would be used for implementation of local development programs including primary education, primary health care, rural water supply, rural roads and agricultural extension – no doubt these are the same priority sectors identified by government at the macro level. These steps are crucial but not necessarily sufficient for ensuring adequate budgetary allocations by regional governments to sectors as prioritized in the PRSP document nor would it necessarily lead to an efficient and effective utilization of the already allocated resources. It requires substantial implementation capacity, commitment but also ownership and accountability at all levels.

#### *4.4. Public Expenditure Management and Control*

One of the five programs that have been covered within the broader civil service reform programs underway is that of public expenditure management and control. It contains several sub-programs including, among other things, reforms in budget, accounts, and expenditure planning.

The budget reform aims to introduce new chart of accounts, new formats, and automation. The new chart of accounts introduces a consistent set of budget categories for both the capital and recurrent accounts, while the new formats for budget presentation provide columns for source of finance - these are believed to promote transparency and facilities that could help facilitate tracking of poverty related expenditures.

Similarly, the accounts reform aims to reduce the backlog in the closure of annual accounts and introduces modified cash double entry bookkeeping as well as backing it up through providing in-service training for those working in the accounts departments in the regional governments mostly woredas. Substantial progress has been reported here.

On the other hand, the expenditure planning reform aims to introduce an MTEF through the instruments of MEFF that provides a three year forecast of fiscal aggregates and Public Expenditure Programme (PEP) that programs expenditures by sectoral envelopes. PEP has yet to be fully implemented.

In a nutshell, Ethiopia's government is putting the necessary reform packages in place. Some of the reforms are far-reaching. There is little doubt that the proposed reforms in the area of public expenditure management are adequate and valuable for tracking expenditure and evaluating their impacts on poverty. The concern however would be much on the timing and sequencing rather than the contents of the reforms as such. Some components of the reform programs are being implemented (e.g., accounts) others have yet to be put in place (e.g., automation). Moreover, implementation is to be staggered as between federal and regional government levels with the latter taking some time. Obviously, inevitable delays in implementation of the reforms would not correspond with the MEFF timing that is to start from 2002/03. Hence, it is to be expected that this would have some impacts on successful implementation of the SDPRP and the first MEFF at lower levels (woreda level).

MTEF must rest on a good, realistic macro-fiscal projection by way of quantification (costing) of PRSPs and a solid budgetary management foundation. Consistency between budget and its execution (actual expenditure) is a precondition for transparency, predictability, and accountability. Ethiopia has a relative advantage by just stepping into the MTEF process so that useful lessons could be drawn from experiences of others; and it is important that it keeps it reliable, predictable and credible. Otherwise, there is always the risk of running a wide discrepancy between budget formulation and actual allocations, which could be a source for concern and commitment. That is why it is important to strengthen capacities at various levels and stages of the budgeting and implementation process, however important the formulation stage might be even for a better implementation performance.

## Capacity Building Implications

### *5.1. General Aspects of Capacity Gaps*

A systematic and detailed analysis of the nature, extent, causes and impacts of poverty is a recent phenomenon in Ethiopia despite the grim reality of the fact that the country and the majority of its population are poor by any standard. Absence of sufficient local capacity to do these may be cited as the reason; but one could also argue that it is the consequence. Despite the magnitude and severity of the problem, to date, there exists no single specialized research and training establishment in the country that gives special emphasis to poverty studies, nor is there any higher education institution for that matter which seriously lends itself to poverty analysis by way of including it in its training curriculum. The Central Statistical Authority and the Welfare Monitoring Unit of Ministry of Finance and Economic Development collect data periodically on household income, consumption and expenditure and on aspects of welfare – but very limited use have been made out of it largely due to lack of institutional, conceptual and analytical deficiencies. The few and scattered poverty studies that are available are initiated and/or conducted mainly by expatriates.

More recently, the Economics department of the Addis Ababa University in collaboration with foreign universities (Oxford in the UK and Gothenburg in Sweden) has been collecting and compiling useful data on aspects of poverty and some attempts have been made to systematically analyze it. The postgraduate students (and of course the faculty members) of economics have been the prime beneficiaries of the availability of these data as part of their thesis preparation – consequently it could be said that some capacity is in the making process however limited it may be. It is important to note that the SDPRP preparation process have benefited significantly from this capacity.

### *5.2. Specific Areas of Capacity Needs*

Actual preparation, implementation, monitoring and evaluation of outcomes of SDPRP objectives are the responsibility of regional governments and the sectors within them. The Macroeconomic Policy and Planning Department of the Federal Ministry of Finance and Economic Development has an overall responsibility of coordination these activities. So, in effect, practically almost every government institution at various levels, federal, regional, and woreda, that is related to the identified priority sectors are responsible for preparation, implementation and monitoring outcomes of SDPRP objectives. Moreover, since public participation is key towards a successful design, implementation and evaluation of local development programs that have a bearing on the poverty reduction strategy, these are also other related areas of capacity needs; i.e., capacity needs are not limited to government institutions.

Any meaningful setting and monitoring targets and indicators to measure the impact of policies on poverty reduction require the availability of sufficient and up-to-date data in desired quality. This is dependent on the existence of local capacities to collect data, compile, organize and analyze it on a continuous basis.

One cannot over emphasize the need for continuous support and training at different level and stages of the SDPRP implementation process including that of MTEF. This is crucial especially if we have to seriously think of sectoral and regional autonomy and decentralization process. Experiences elsewhere indicate that implementation has been problematic especially in the context of a weak basic public expenditure management systems (i.e. comprehensiveness, execution and auditing).

Perhaps the single most important factor seriously undermining the success of SDPRP implementation process in Ethiopia would be the capacity constraints particularly at the woreda (district) level that is considered as the center of socio-economic development. Capacity needs vary from one level to another, but it is most severe at lower levels than at higher levels even though much remains to be desired at the higher levels of administrative tiers themselves. This is without mentioning the significant capacity differences that prevail among various regions and woredas. Some of the regional states such as Afar, Benishangul-Gumuz, Gambella and Somali (otherwise known as ‘emerging regions’) are seriously constrained. Many woredas even in the better capacity regional states also face same or even worse scenario.

This concern has been clearly identified and highlighted in the SDPRP document. Recognizing the importance of capacity building, government has developed in 1998 a national capacity development strategy – which encompasses developing the human resource base, building and strengthening of key institutions, and improving systems and practices. A new ministry (the Ministry of Capacity Building) has been established to coordinate these in an integrated and harmonized manner with a view to enhancing the implementation capacity of the development strategies including that of poverty reduction. Its key elements include:

(a) The focus on ‘building capacity to build capacity’

One of the reasons responsible for lack of implementation capacity at various levels is that the institutions catering for such demands could not live up to expectations. Particularly, tertiary education did not expand as much - until very recently, there have been only two universities and few colleges turning few hundred graduates every year, and these clearly did not match with the dire need for trained human power. Of the more than 300,000 civil servants in the country, those with qualifications of college diploma and above do not exceed the 17% mark; hence the Ethiopian civil service is basically staffed with uneducated, ill-trained personnel. Decentralization inevitably demands massive trained human power. So government has identified the expansion and development of tertiary education including universities, colleges, vocational training institutes, research and consultancy service enterprises as crucial areas of priorities – this is because unless domestic capacity is built to sufficiently address the implementation capacity of regional governments by way of training the required personnel on a sustainable fashion, the objective of poverty reduction cannot be achieved. Though efforts have been underway, much remains to be desired to meet the expectations.

(b) Reform programs and capacity building initiatives

As part of overhauling the system of its public services, government has formulated the Civil Service Reform Program that aims at transforming the civil service both at federal and

regional levels. The reform contains five inter-related components – human resources management, expenditure management and control, service delivery, ethics, and top management systems improvement. Some of these are being implemented while others are at preparatory stages. Other capacity building programs include tax system reform, urban management capacity building, district level decentralization, judicial sector reform, agriculture and rural development, higher education reform, private sector development, civil society and NGO capacity building, Information and Communication Technology.

Since successful implementation depends on the extent to which the key development center, i.e., the woreda, has a minimum capacity, the district level decentralization program was initiated that focuses on local government institutional capacity building, fiscal decentralization and community development and has the objective of supporting decentralization and democratization process through capacity building at woreda level towards poverty reduction and overall economic and social development. At the moment, government is deploying the available human trained power at higher levels (zonal, regional) to woreda level with a view to enhancing its capacity of implementing development activities.

#### (c) Reform Outcomes for Private Sector Development

Among the important impulses for private sector development outcomes are the various reform programs that would include the enforcement of contracts and property rights, reduction of transaction costs and non-commercialized risks, ensuring qualitative change in governance, transparency and accountability within the public sector, harmonized policies and practices at different levels and tiers of government. However, these are more of expectations rather than realities on the ground at the moment as most of the reform programs are in their initiation stages and therefore their impacts have yet to be seen.

### *5.3. Strengths and some Areas for Improvement*

It may be proper to comment on some of the strong areas including government's acknowledgement of the criticality of capacity limitations and its attempt to systematically address capacity building in a coordinated manner as well as the comprehensiveness of the content of capacity building programs cutting across sectors and government levels extending down to that of woreda. Restructuring of key ministries has taken place leading towards streamlining of inter-related activities under them for a better coordination and responsibility. Thus, the Ministry of Rural Development is created to coordinate activities related to agricultural and rural development; the Ministry of Infrastructure is created to coordinate activities related to infrastructural activities such as power, transport networks, water works, communications, etc. The Ministry of Federal Affairs is established with the responsibility of coordinating federal and inter-regional affairs as well as urban development. All, these should lead to a better implementation of SDPRP. When implemented fully, this will improve the capacities of those responsible for the preparation, implementation and monitoring outcomes of SDPRP objectives. Clearly the poverty reduction strategy forms an integral part of the overall development strategy. This ensures ownership and commitment on the part of government since poverty reduction is inherent within the development strategy and not grafted from outside.

At the same time, some of the weaknesses and potential risks emanate from the fact that a successful implementation of the poverty reduction strategy, particularly in the medium term, strongly hinges on the availability of a tolerable minimum level of implementation capacity on the ground and at different levels, but particularly so at woreda level since the later is identified as the center of economic and social development. Decentralization and devolution of power must be supported by trained personnel, institutions and systems that effectively deliver the poverty reduction strategy objectives.

Perhaps a distinguishing feature of the Ethiopia's case is that both processes – the poverty reduction strategy and capacity building strategy - are at their initiation stages. While poverty reduction strategy has yet to be implemented, excessive reliance on 'devolution of power' to deliver desired outcomes may need to be balanced against the risk of faltering the whole process. It is known that substantial relocation of personnel from regional and zonal levels towards woreda level has been recently taking place – it is hoped that this may loosen the tight demand for trained human power at the lowest level. Phasing, sequencing and gradualism of reforms with continuous, strong and dedicated support from the center to the relatively weaker ones may need to be considered without necessarily compromising the processes of decentralization and devolution.

Similarly, it is obvious that the capacity of either the public sector, the private sector or Civil Society Organizations/Non-Government Organizations taken in isolation is so weak that each cannot afford to miss the opportunity of joining hands with a view to enhancing implementation capacities. There is a nascent private sector whose current capacity is weak; there is also some capacity in the CSO/NGO sector. These need to join hands with the public sector with a view to enhance capacity for achieving the poverty reduction objectives. Hence, the crucial significance of enhancing public-private-community partnerships must be highlighted.

A key gap for poverty analysis and implementation of poverty reduction strategy on a systematic and sustainable basis is the absence of institutional ownership for analyzing the different aspects of poverty. At the moment the Welfare Monitoring Unit within the Ministry of Finance and Economic Development seems to be playing a surrogate role by way of commissioning research activities. This cannot really make a viable substitute for a dedicated training, research and consultancy establishment that caters specifically to poverty study needs at all levels and for all actors in a sustainable manner. Hence, the creation and strengthening of an institutional capacity that focuses on training of those responsible for design, implementation and monitoring of poverty reduction strategy objectives and outcomes at all relevant levels must be accorded due consideration. Circumstances have made it very clear for the training needs gap to be very wide and can scarcely be addressed in any meaningful manner (e.g., ad hoc arrangements) other than this. The training function of such an establishment could be integrated with a research and consultancy mandates which are not only complementary to the training function but also constitute yet other crucial area where local capacity is next to non-existent. Hence, these must constitute one of the focal areas of the capacity building endeavor since no other problem is more important and fundamental than poverty as far as Ethiopia is concerned.

## **Donors' Support of SDPRP**

Government recognizes the donor community's strategic partnership roles in the development process and appreciates their persistent assistance of Ethiopia's development effort. Government also would like the support and assistance to continue (financial as well as technical assistance) and for the aid delivery mechanism to be improved for an effective implementation, monitoring and evaluation processes of the SDPRP. It is clear that without the support and assistance of the donor community, the SDPRP objectives will not be fully achieved. In particular, government expects donor assistance in three inter-related areas: (a) increased inflow of multilateral resources (IDA) in view of the fact that the country has been receiving IDA resources far below the sub-Saharan Africa average; (b) increased flexibility and harmonization in aid delivery mechanisms and procedures to suit government budgetary processes as relates to the SDPRP – in this case government's clear and strong preference is for budget support in fine tune with decentralization process; and (c) increased facilitation of market access, trade and foreign investment flows to Ethiopia. A consultative process is scheduled towards the end of 2002 to put these agenda on the table.

The donor community has been active in the PRSP process, provided technical assistance and emphasized the need to focus on the Millennium Development Goals. About 12 countries including Austria, Belgium, Canada, Finland, Germany, Ireland, Italy, The Netherlands, Norway, Sweden, UK, USA, and the UNDP as well as the EU pledged USD 50,000 each for the PRSP process between July 2001 and July 2002. Similarly, the WB/IDA/Japan provided USD 825,977 most of which being in terms of technical assistance, while the ADB provided assistance to the order of USD 300,000 (MoFED, 2002). No doubt, this assistance has been valuable, but most importantly it reflects the interest and commitment that the donor community has revealed towards poverty reduction endeavors in Ethiopia. When the government tabled the draft PRSP for federal level consultation in March 2002, the consultation was highly supported with over 450 participants from government, civil society, parliament and development partners. The Donor Assistance Group (DAG), represented by the UNDP in Ethiopia, expressed their commitment to further the PRSP process as this is considered to have a strong potential to serve as a bridge for strengthening more effective relationships among development partners. They also suggested a regular joint forum for monitoring and managing the PRSP process so that such kind of multi-stakeholder forum could be sustained and institutionalized.

Multi-lateral development partners (notably the WB and IMF) have expressed their satisfaction that the I-PRSP of the Ethiopian Government provides a sound basis for the development of a fully participatory PRSP, and for Bank and Fund concessional assistance. They considered the macroeconomic framework of Renewed Economic Reform and Recovery Program that is included in the PRSP to be somewhat ambitious but consistent with the poverty reduction objectives – aiming at attaining sustained economic and poverty reduction (also significantly increasing expenditures on social sectors), in a stable macroeconomic environment. They also expressed confidence over Ethiopia's track record of implementing reforms aimed at growth and poverty reduction, and government's commitment to the policies described in poverty reduction paper.

The IMF provides multilateral support for the Renewed Economic Reform and Recovery Program under a three-year Poverty Reduction and Growth Facility arrangement, and IDA through the Economic Recovery Programs and the Economic Rehabilitation Support Credit.

Other members of the donor community also are willing to channel resources to back up the PRSP process. A number of them are already into it. In addition to expressing their preparedness to work with PRSP as organizing framework for assistance, a number of them have already used to work with various sectoral development activities. It is anticipated that through a continuous and constructive engagement with government in the upcoming consultative process, the donor community would find it more appropriate to channel their support through national processes and in the form of budget support. There are some indications that some of them have been into buying these recommendations.

In some crucial sense, Ethiopia's SDPRP is fused with the overall development strategy. Such a fusion automatically ensures donor support to back the SDPRP. This is especially the case where the priority sectors correspond with the strategic ones to make a meaningful and desirable change vis-à-vis poverty reduction as well as economic development in general. Similarly cross cutting issues are also areas for which donor support could easily be tapped. Generally, the donor community seems to be committing resources to provide support (financial, material and expertise) for the SDPRP.

However, it is important to note that government's concern over the manner in which donor assistance need to be channeled is quite legitimate if the SDPRP is to be effectively implemented and its objectives to be achieved. This is because, as discussed above, PRSPs are translated into public expenditure programs using the instrument of Mid Term Expenditure Framework (MTEF) that provides the linking framework allowing expenditures to be driven by policy priorities and disciplined by budget realities. An integrated budgeting framework is a precondition if MTEF is to do the trick. Significant as it were, both the quantity and quality of donor's support have potential areas for improvement.

## **Summing up and Some Important Lessons Drawn**

This report provides an assessment of Ethiopia's SDPRP from five inter-related perspectives: the processes, its content, public finance aspects, capacity building issues, and donor involvement. The following conclusions could be reached from which important lessons could be drawn.

When it comes to the PRSP process, clearly government's commitment to a participatory policy process was the key element to the success of the PRSP process as was a broad-based public interest and commitment to generate policy ideas to improve the PRSP. A strong coalition of the civil society, despite capacity limitations of individual institutions, and the donor community helped in the formulation of a broad-based PRSP. On the other hand, innovative ways of involving the poor in the public debate on poverty and its alleviation did shed light on better understanding of poverty and its multi-dimensional aspects. Similarly, best practices and experiences from other African countries helped improve the PRSP participatory framework. However, much more could have been achieved had it not been for the limited capacity of most of civil society institutions – which are really nascent and did not take firm roots.

In terms of its content, Ethiopia's SDPRP is grounded on adequate poverty diagnostics. Adequate emphasis is given to key sector development policies; and strategies in which important policy reforms needed for the success of the SDPRP are undertaken and fully addressed. The SDPRP is

anchored in the overall development goals, policies and strategies while key issues needed for successful implementation of the SDPRP are incorporated. And, such cross-cutting concerns as gender, HIV/AIDS, the environment, etc. are adequately addressed. However, the link between major development policy and poverty reduction (particularly that of urban poverty) doesn't seem to have come out quite boldly and clearly.

Ethiopia's MEFF sectoral coverage could be considered as fairly broad; it covers both recurrent and capital budgets allowing for greater flexibility in reallocation of resources in response to changed circumstances. It is also comprehensive. Sectoral expenditure frameworks do incorporate sectoral strategy, objectives, activities and outputs. Program costing seems to have been projected based on sectoral requirements in line with their goals and strategies. Clearly, substantial resource gap is generated between projected allocation and domestic financing capacity rendering donor assistance to play a crucial role. Government's commitment to broaden its tax-base may help raise domestic revenues, while the end of war with Eritrea helps cuts on defense expenditure which could be reallocated towards poverty-targeted sectors. Institutional responsibilities and participation are intended to be exercised through the decentralization process, but the institutional and/or organizational link between the various coordinating units and those responsible for implementation, monitoring and follow up at regional levels must be carefully worked out. More importantly, a monitoring strategy that sets out elements of how it proposes to monitor the implementation of the poverty reduction strategy, how it will relate to ongoing monitoring systems, which institutions will be involved, whether there will be any participation by civil society, or how the results will be made available to the public will be necessary. Public expenditure management and control covers reforms in budget, accounts and expenditure planning and it helps promote transparency and facilities that could help facilitate tracking of poverty related expenditures. However, attention needs to be given to the timing and sequencing of the reforms; and it is important to keep it reliable, predictable and credible.

With regard to capacity development, government has acknowledged the criticality of capacity limitations and attempts to systematically address it in a manner that is coordinated and comprehensive – the package encompasses developing the human resource base, building and strengthening of key institutions, and improving systems and practices. Successful intervention in this regard should improve the capacities of those responsible for the preparation, implementation and monitoring outcomes of SDPRP objectives, and this involves the various actors at different levels. However, phasing, sequencing and gradualism of reforms with continuous, strong and dedicated support from the center to the relatively weaker ones may need to be considered without necessarily compromising the processes of decentralization and devolution. As part of capacity development, the need for enhancement of public-private-community partnerships must also be highlighted. Institutional development committed to poverty studies would be necessary.

Finally, crucial as it were, donor community's preparation to work with SDPRP as organizing framework for their assistance programs has been appreciated both by the donors and the government alike. The donor community has expressed its readiness to support the SDPRP by providing technical and financial assistance for its preparation. Government insists that donor assistance should improve both in quantity and in quality if SDPRP objectives are to be fully achieved. Particular concern is over the extent to which donor assistance would be flexible in its delivery mechanisms. Government makes a strong case for channeling of donor assistance in the

form of budget support and in tandem with national processes and systems. This is expected to be deliberated upon in the upcoming consultative process that is scheduled to take place by the turn of the year.

## References

- EEA/EEPRI & FSS, (2001) Proceedings of the Regional Experience Sharing Workshop on the PRSP Process, Nazareth, Ethiopia, September, 13-15.
- FDRE (2000). Ethiopia: Interim Poverty Reduction Strategy Paper 2000/01- 2002/03. Addis Ababa.
- FDRE (2002a). Civil Service Reform Program. Ministry of Information. Amharic Version. Addis Ababa.
- FDRE (2002b). Ethiopia: Sustainable Development and Poverty Reduction Program. Ministry of Finance and Economic Development. Addis Ababa.
- FDRE (2002c). Implementation Capacity Building. Ministry of Information. (Amharic Version). Addis Ababa.
- FDRE (2002d). Rural Development Policies, Strategies, and Implementation Instruments. Ministry of Information. (Amharic Version). Addis Ababa.
- FSS (2001-2002). Poverty Dialogue Forum, Consultation Papers 1-6. Addis Ababa.
- FSS (2002). Poverty Dialogue Forum. Consolidated Report on FSS's Program of Public Debates, Consultations and Research on Poverty and Poverty Reduction in Ethiopia. (edited by Meheret Ayenew) Submitted to the National Secretariat, MoFED. Addis Ababa.
- Houerou, P. L and R. Taliercio (2002). Medium Term Expenditure Frameworks: From Concept to Practice: Preliminary Lessons from Africa. Africa Region Working Paper Series No. 28.
- IMF and IDA (2001). Ethiopia: Interim Poverty Reduction Strategy Paper. Joint Staff Assessment. Washington D.C.
- UN-ECA (2002). Economic Report on Africa 2002: Tracking Performance and Progress. Addis Ababa.
- World Bank (1998). Public Expenditure Management Handbook [Especially Chapter 3, "Linking Policy, Planning, and Budgeting in a Medium Term Framework". Washington D.C.
- World Bank (2000). Partners in Transforming Development: New Approaches to Developing Country-Owned Poverty Reduction Strategies. Washington D.C.

## Annexes

(Source is MoFED, 2002 unless specified otherwise)

Annex 1: Trends in Poverty Head Count Indices (Po) by Region

Region	1995/96			1999/00			% Change in Po		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Tigray	0.579	0.457	0.561	0.616	0.607	0.614	6.39	32.82	9.45
Afar	0.518	-	0.331	0.680	0.268	0.560	31.27	-	69.18
Amhara	0.567	0.373	0.543	0.429	0.311	0.418	-24.34	-16.62	-23.02
Oromiya	0.347	0.276	0.340	0.404	0.359	0.399	16.43	30.07	17.35
Somalie	0.346	0.016	0.309	0.441	0.261	0.379	27.46	1531.2	22.65
Benshangul-Gumuz	0.476	0.345	0.468	0.558	0.289	0.540	17.23	-16.23	15.38
SNNP	0.565	0.459	0.558	0.517	0.402	0.509	-8.50	-12.42	-8.78
Gambella	0.418	0.244	0.343	0.546	0.384	0.505	30.62	57.38	47.23
Harari	0.133	0.291	0.220	0.149	0.350	0.258	12.03	20.27	17.27
Addis Ababa	0.404	0.300	0.302	0.271	0.362	0.361	-32.92	20.67	19.54
Dire Dawa	0.366	0.246	0.295	0.332	0.331	0.331	-9.29	34.55	12.20
Total	0.475	0.332	0.455	0.454	0.369	0.442	-4.42	11.14	-2.86

Annex 2: Trends in Consumption Poverty Indices among Major Towns

Major Towns	1995/96			1999/00			% Change over 1995/96		
	P <sub>0</sub>	P <sub>1</sub>	P <sub>2</sub>	P <sub>0</sub>	P <sub>1</sub>	P <sub>2</sub>	P <sub>0</sub>	P <sub>1</sub>	P <sub>2</sub>
Mekele	0.464	0.137	0.054	0.428	0.124	0.048	-7.8	-9.5	-11.1
Gonder	0.339	0.106	0.045	0.175	0.048	0.018	-48.4	-54.7	-60.0
Dessie	0.719	0.292	0.150	0.313	0.082	0.030	-56.5	-71.9	-80.0
Bahir Dar	0.382	0.093	0.032	0.223	0.048	0.017	-41.6	-48.4	-46.9
Debrezeit	0.442	0.140	0.058	0.367	0.099	0.036	-17.0	-29.3	-37.9
Nazreth	0.290	0.070	0.024	0.285	0.090	0.036	-1.7	28.6	50.0
Jimma	0.292	0.077	0.029	0.370	0.105	0.041	26.7	36.4	41.4
Harar	0.291	0.074	0.025	0.350	0.079	0.025	20.3	6.8	0.0
Addis Ababa	0.300	0.087	0.035	0.362	0.097	0.036	20.7	11.5	2.9
Dire Dawa	0.246	0.056	0.020	0.315	0.078	0.027	28.0	39.3	35.0

Note: P<sub>0</sub>= head count index; P<sub>1</sub>= normalized poverty gap index; P<sub>2</sub> = squared poverty gap. P<sub>0</sub> measures the number of people below the poverty line. P<sub>1</sub> reflects the depth of poverty as it refers to the difference between the income (expenditure) of the poor person and the poverty line. P<sub>2</sub> being the square of P<sub>1</sub> reflects the severity of poverty -gives more weight to the poverty of the poorest.

**Annex 3: Trends in the Contribution of Rural and Urban Areas to Total Poverty Incidence**

Location	Population Contribution (%)		Contribution to Poverty Head Count Index (%)	
	1995/96	1999/00	1995/96	1999/00
Rural	86.5	85.0	90.0	88.7
Urban	13.5	15.0	10.0	11.3
National	100.0	100.0	100.0	100.0

**Annex 4: Comparison of Poverty by Gender and Areas of Residence**

Survey Year	Poverty index	Sex of HH head	National		Rural		Urban	
			Index	SE	Index	SE	Index	SE
1995/96	P0	Male	0.461	0.012	0.477	0.013	0.329	0.026
		Female	0.425	0.016	0.460	0.019	0.337	0.030
	P1	Male	0.131	0.005	0.135	0.005	0.096	0.009
		Female	0.123	0.006	0.129	0.007	0.106	0.013
	P2	Male	0.051	0.002	0.053	0.003	0.039	0.004
		Female	0.049	0.003	0.051	0.004	0.046	0.008
1999/00	P0	Male	0.444	0.013	0.455	0.014	0.339	0.020
		Female	0.434	0.015	0.447	0.019	0.492	0.014
	P1	Male	0.120	0.005	0.123	0.005	0.086	0.006
		Female	0.115	0.006	0.118	0.007	0.134	0.006
	P2	Male	0.045	0.002	0.046	0.003	0.030	0.003
		Female	0.043	0.003	0.044	0.004	0.051	0.003