

Ethiopia - European Community

Country Strategy Paper and Indicative Programme for the period 2002 – 2007

GENERAL PROVISIONS

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

- (1) The Government of Ethiopia (represented by HE Ato Sufian Ahmed, Minister of Finance & Economic Development, National Authorising Officer of the European Development Fund) and the European Commission, (represented by Mr. Athanassios Theodorakis, Deputy Director-General for Development) hereinafter referred to as the Parties, held discussions in Addis Ababa from 27 February to 1 March 2002 with a view to determining the general orientations for co-operation for the period 2002 – 2007.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Ethiopia were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Ethiopia.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to Ethiopia for the period 2001-2007, an amount of € 384 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EU Partnership Agreement (A-allocation) and of € 154 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EU Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDFs, for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which the Ethiopia benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EC budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the indicative programme.
- (5) Pending the entry into force of the Financial Protocol of the ACP-EU Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the

financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Ethiopia, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the Ninth European development Fund.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EU Partnership Agreement (see Paragraph 5.3 for further details).

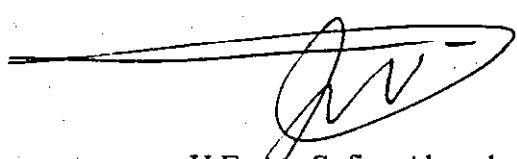
In accordance with Article 5 of Annex IV of the ACP-EU Partnership Agreement the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years and the end-of-term review shall be undertaken within four years from the date of signature of the Country Strategy Paper and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

- (7) The agreement of the two parties on this Country Strategy Paper and the Indicative National Programme, subject to the ratification and entry into force of the ACP-EU Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

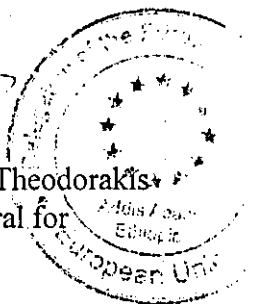

Signatures

For the Government of Ethiopia



H.E. Ato Sufian Ahmed
Minister of Finance and
Economic Development

For the Commission



H.E. Mr. Athanassios Theodorakis
Deputy Director General for
Development

Done in Addis Ababa on this day of 27 February 2002

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PART A
CO-OPERATION STRATEGY

EXECUTIVE SUMMARY

On 23 June 2000, a new partnership agreement between the EU and 77 ACP countries was signed in Cotonou, Benin. Based on the spirit and principles of this agreement the Ethiopia Country Support Paper (CSP) reflects the country's own medium-term objectives and strategies as well as the EC's development policies and priorities. It will be instrumental in guiding, managing and reviewing EC assistance and facilitate an enhanced complementarity of Commission's and the Member States' external support.

The main policy objective of the EC in the field of development co-operation is the reduction, and eventually, the eradication of poverty. As poverty, which includes the notion of vulnerability, results from many interrelated economic, social and political factors, the EC supports integrated poverty reduction strategies. These strategies should contribute to strengthening democracy, to the consolidation of peace and the prevention of conflict, to a gradual integration of developing countries into the world economy, to more awareness of social and environmental aspects of sustainable development, to equality between men and women, and to public and private sector capacity building.

The Country Support Strategy for Ethiopia for the period 2002-2007 reflects these general principles. It dovetails the recently adopted Interim Poverty Reduction Strategy Paper, which during 2001/2002 will be developed into a full strategy paper. The CSP will be amended and modified as the PRSP process advances. The drafting of the CSP took place with the active participation of a wide range of state and non-state actors and the donor community.

The document provides a comprehensive and coherent framework for the EC-Ethiopian co-operation in the medium term future and combines, to the extent possible, all relevant resources and instruments. The indicative allocation in terms of programmable resources (A-envelope) amounts to € 384 million, while the B-envelope, meant to cover unforeseen needs which may arise for instance because of a fall in export earnings, budget deficits or emergency situations, is € 154 million.

The definition of the Commission's support to Ethiopia's development and poverty reduction challenges takes into consideration (i) the development priorities of the government, as reflected in the (I)PRSP and EC development policies and priorities; (ii) the financial requirements and implementation capacities in a particular sector; (iii) the existence of a sector development policy; (iv) the historic development relationship between the EC and Ethiopia and its strengths and weaknesses; (v) complementarity with other donors; (vi) the comparative advantages of the EC as a donor.

Based on these criteria transport, macro-economic support and capacity building for economic reform and food security have been identified as focal sectors for EC support to Ethiopia. These three focal sectors will be complemented by other activities, which will all have a common thematic approach: capacity building for Governance and Civil Society. In all sectors, programmes and projects, co- or parallel-financing with other donors, specifically EU Member States and the Bretton Woods Institutions, will be a distinct possibility.

1. EC CO-OPERATION OBJECTIVES

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

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

These objectives have been confirmed and reinforced in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and Ethiopia shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of ownership of the development strategies by the countries and populations concerned - and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present country strategy paper, in accordance with the principle of national ownership of development strategies.

2. GOVERNMENT POLICY FOR THE DEVELOPMENT OF ETHIOPIA

In March 2001, the IMF and World Bank endorsed an Interim Poverty Reduction Strategy Paper (I-PRSP) submitted to them by the Ethiopian government in November 2000. The interim document is considered a valuable base for the development of a credible and sustainable poverty reduction strategy, largely building on existing initiatives and programs. The I-PRSP consists of four building blocks: *Agriculture Development Led Industrialisation* ADLI, Judiciary and Civil Service Reform, Decentralisation and Empowerment and Capacity Building in Public and Private Sectors. The latter three building blocks are seen as 'second generation' reforms, necessary to supplement the economic reform process. The I-

PRSP further outlines sectoral approaches in Agriculture, Health, Education, HIV/AIDS and Infrastructure, as well as the envisaged macro-economic setting for the next three years.

As agriculture is the backbone of Ethiopia's economy, it has received priority attention and much effort has been made to increase productivity in the sector. In 1993, ADLI has been adopted as the core long-term development strategy of the country. Its main objective is to achieve productivity growth in the peasant agriculture sector and thereby bringing about an improvement in the standard of living of the rural population. Key elements are: the provision of agricultural inputs (improved seeds, fertiliser), extension, credit to increase agricultural production and the rehabilitation and construction of rural roads in order to better integrate the smallholder sector in the economy. Though ADLI has been in place for over five years, its effect has not been comprehensively assessed. Although some successes have been achieved, e.g. productivity increased in important crops, the country has not reduced its dependency on food aid, and rural incomes in many parts of the country have not increased.

The ADLI strategy has been supplemented with new policies for education, health and other important sectors, for which Sector Development Programmes (SDPs) have been developed or are being developed. At the moment SDPs are in place for Roads, Education, Health and Energy, while a Water Sector Development Programme is in the making. Within the context of ADLI, the Government of Ethiopia in late 1996 adopted the national *Food Security Strategy*, defining three main components: support to economic growth and employment, targeted entitlement and access programmes to poor and vulnerable groups, and finally the development of capacity to cope with emergency situations. A National Food Security Programme was established in 1998, targeting food insecurity in four regions. However, following the outbreak of the conflict with Eritrea envisaged donor support was not forthcoming and the re-activation of a co-ordination platform to discuss food security issues was stalled.

The SDPs are building blocks to achieve global development targets by 2015 like universal primary education and access to essential primary health care services. The sectoral development strategies and programmes are described in more detail in annex 2. The SDPs for Roads, Education and Health have been subject to Mid-Term Reviews in early 2001. The general conclusion is that, though substantial progress has been reported in targets of access and expansion, progress has often been less than anticipated, while quality (particularly in education and health) has not improved or even deteriorated. In addition, capacity problems in planning, implementation, management, monitoring and reporting have been reported throughout, necessitating much more attention and investments.

The government considers its *Road Sector Development Programme* (RSDP) of particular relevance with regards to the challenges of poverty reduction. It is widely acknowledged that the upgrading and extension of Ethiopia's poor and sparse roads network is crucial for overall development and the integration of isolated and remote parts of this big country with its widely dispersed population. RSDP-documents emphasise the importance of an improved transport sector to both agricultural and industrial development (RSDP I, 1996).

A dramatically improved roads network undoubtedly contributes to enhancing the transport of produced goods to local and regional markets. It opens up isolated and disadvantaged areas and contributes to improved standards of living by substantially reducing travel time and costs and improving travel conditions. As a recent study hints, improved accessibility also has an impact on food security (World Development, 2001), and generates higher per capita income. As a consequence, road development and better transport facilities will contribute to reducing food insecurity in Ethiopia.

In terms of macro-economic reform, two medium-term adjustment programmes have been implemented during the 1990s. In March 2001 a new agreement has been concluded with the IMF in order to benefit from the *Poverty Reduction and Growth Facility* (PRGF). Ethiopia is also expected to benefit from the HIPC initiative, reaching HIPC decision point in November 2001. Increasing the share of public expenditure for education, health, agriculture and roads, and thereby reorienting the country's public expenditure from defence to poverty reduction programs, will be the major re-orientation in the Government's budget. Defence expenditure is expected to be reduced from 13,3 % of GDP in FY 1999/2000 to about 4% in the next three years. The government is expected to demonstrate its commitment to development and poverty alleviation by pursuing its economic reform programme, by basing choices on policies related to poverty reduction on widely held discussions with civil society, by sticking to its approach of sector-wide development programs, while ensuring a sufficient expenditure level to implement them, and by developing, in close collaboration with the donor community, a set of indicators which could be used for measuring the impact of public expenditures and progress made in poverty reduction.

3. COUNTRY ANALYSIS^(*)

3.1. Poverty in Ethiopia: Dimensions and Causes

Poverty in Ethiopia is both deep and widespread. With a GDP per capita of US\$ 113 in 1998, it ranks at the very bottom of the world in income terms. 46% of the Ethiopian population lives below the US\$ 1 per day poverty line, while 89% of the population falls below the US\$ 2 per day poverty line. When poverty is measured in terms of the cost of the minimum food requirement per year, 50% of the population falls in the 'food poverty' category. Urban poverty is consistently lower than rural poverty, a finding unaffected by the choice of poverty line. 86 percent of the poor in Ethiopia reside in rural areas and the incidence of food poverty in rural areas (52%) is much higher than in urban areas (36%).

In rural areas poverty is closely related to agro-ecological conditions, while access to land and livestock ownership are considered important indicators of relative wealth (there are few non-agricultural sources of income). Particularly livestock ownership is telling in this respect, as land distribution is rather egalitarian in many parts of Ethiopia, though the incidence of land fragmentation is quickly increasing. Harvest failure often leads to loss of (livestock) assets and a fall into poverty. Poverty in urban areas is related to access to employment as well as to business cycles. The urban poor are also likely to rely on household informal businesses predominantly run by women, activities by children and remittances. In urban areas the poor face a specific problem in terms of lack of access to public services and facilities. While there is no noticeable difference between female-headed households and the probability of being poor, a close relationship between poverty, education, fertility, employment, food consumption and health exists. The relationships are intricate, with poor people tending to educate their children less, and less educated people tending to be disproportionally poor. Enrolment rates vary with consumption patterns. Similarly, poor health can be seen as both a cause and a result from poverty.

^(*) This Chapter reflects the vision of the European Commission, which is not necessarily shared at all points by the Government of the Federal Democratic Republic of Ethiopia.

The continued economic growth during the 1990s suggests that some poverty reduction may have taken place. However studies are not conclusive about changes in poverty in Ethiopia in the 1990s, and further studies on the patterns and causes of poverty will need to be undertaken in order to get a complete picture of this multi-faceted phenomenon¹. In the Interim-PRSP the government mainly focuses on the opportunity (economic) dimension of poverty. Examination of other aspects of poverty, like the capability dimension –measured for instance through indicators of malnutrition- or the security dimension –e.g. increased vulnerability to food insecurity, infectious diseases and conflict- may well lead to the conclusion that the quality of life has not improved in recent years for large vulnerable groups of the population.

3.2. Food Insecurity in Ethiopia

Ethiopia has experienced a worsening trend in levels of food security in the 90s. An increasing proportion of the population face chronic food insecurity, malnutrition prevalence continues to rise, especially in rural areas, and this despite increased agricultural production and considerable external aid, much of it provided in the form of food aid. According to a recent review of EC food aid and food security programs, Ethiopia has received between 600,000 and 800,000 MT of food aid yearly over the last fifteen years (Danagro, 2001). This represents about 10% of national cereals production, but about 35% of what is actually marketed (RESAL, 1999). Experience shows that food aid does not provide a sustainable solution for tackling chronic food insecurity. Indeed there are substantial doubts about the impact of 15 years of food aid to Ethiopia. Food insecurity in Ethiopia is mainly a chronic phenomenon due to poverty. Its causes relate to a number of factors: (i) the lack of assets such as land and livestock; (ii) lack of access to markets, as well as to education, health and water facilities; (iii) lack of employment opportunities outside agriculture, because of the general depressed state of the economy and because of formal and informal barriers to employment; (iv) a constrained capacity to increase food supplies because of inadequate resources and technology; and, at a national level, (v) the inability to import food as a result of trade implicit restrictions. Transitory food insecurity is caused by a sharp reduction in the supply of food, because of crop failure (often related to adverse climatic conditions), natural or manmade disasters and interruptions in food trade. Asset depletion and the consequent drop in purchasing power are related causes of transitory food insecurity. Recent works emphasise that food security and poverty in Ethiopia are in most cases a problem of access to food and not of food availability.

An important cause of the inability to tackle food insecurity in Ethiopia in a comprehensive manner has been the Government's insufficient policy response and the sketchy institutional set up. Although in 1996 the Government adopted a National Food Security Strategy, it did not actively implement this policy so far.

Both the food security review and the policy documents call for a paradigm change, moving away from a food aid mentality. Emergency relief should be confined to temporary food deficit problems, arising from disasters, while systematic efforts should be made to address structural poverty and chronic food insecurity in Ethiopia. According to recent estimates, 2,5 million individuals can be considered as chronically food insecure. Various technical

¹ The new Household Income, Consumption and Expenditure (HHICE) survey to be published in 2001 by the Central Statistics Authority will possibly shed more light on recent poverty trend.

solutions to budget food security related public expenditure have been prepared; these should be further discussed with the government of Ethiopia.

Accessibility to markets and social facilities appears closely correlated with the depth and spread of poverty and it can be concluded that a continued emphasis on improving (rural) accessibility is required. At the same time the objective of poverty reduction in Ethiopia calls for a continuation of liberalisation measures for both input and product markets, for an expansion of effective social services and for a drastic increase in non-agricultural employment opportunities.

3.3. Infrastructure

Ethiopia is one of the largest countries in Africa both in terms of land area (1.1 million km²) and population (65 million). Its geography gives transport a crucial role in facilitating development while at the same creating major obstacles to its provision. The population is widely dispersed, mainly around the country's periphery, while the major urban markets are located at considerable distances from each other, and from the ports. With about 0.43 km per 1000 people, the Ethiopian road network is among the least developed in the world. Only 20% of Ethiopia's land area is located within a 10 km range of an all-weather road. Not only is the network limited in outreach, but much of it is also in poor condition. Despite these severe limitations road transport represents by far the most important means of motorised transport in Ethiopia. This situation results in (i) poor accessibility to markets and social facilities, (ii) a continued reliance on time-consuming human and animal transport thereby reducing the time available for income generation, (iii) limited market integration leading to major price differences between deficit and surplus areas, (iv) high vehicle operation and transport costs and (v) difficult and costly relief operations. Transport demand is diffuse and the rugged terrain in the highlands and the drought conditions in the sparsely populated lowlands make the expansion of the road network expensive.

Recognising the critical state of the road transport sector for the country's overall socio-economic development targets the Government launched in 1996 the Road Sector Development Programme RSDP. Improved rural accessibility is a significant element to alleviate poverty and reduce food insecurity in Ethiopia. It is also a prerequisite for cost effective and efficient relief operations. The Government's ambitious agriculture development-led industrialisation strategy is focussed on boosting agricultural productivity. Its success is, amongst others, dependent on a sustainable road network and transport services. The RSDP is to lead to more efficient, reliable and cost-effective transport services, to particularly encourage the extension of transport services to remote and inaccessible areas and to develop an efficient and effective self-sustaining construction industry.

The Ethiopian Road Authority (ERA) conducted a comprehensive mid-term review of the RSDP in February 2001 with the active participation of all stakeholders, including the major donors. This review confirmed that the RSDP policy and strategy, as defined in 1996, is still valid. EC and WB funded studies on crucial policy reforms (e.g. road safety, road transport regulations, development of domestic construction industry) are progressing albeit some of them slower than planned. The elaboration of concise plans of action for the various policy areas and their swift implementation are considered essential for an increased efficiency of transport services and developments will be closely monitored and supported by involved donors. The institutional reform and capacity building efforts are clearly marked by the successful establishment and operation of the Road Fund, which was commended for its

transparent resource allocation and transfer, and the progress made in restructuring ERA towards becoming a manager and purchaser of services and work.

However, the main concern on the donors' side, and for the EC in particular, is the limited capacity of the implementing agency in managing sizeable programmes. ERA does not yet have the capacity to deal efficiently with the considerable workload it faces and continues to suffer from past centralised decision-making practices. On the understanding that capacity building is an on-going process rather than a measure, it was agreed that donor support should continue to be provided and expand on specific areas of concern (contracts administration, roads design, etc) and that ERA will elaborate proposals on how to address the problem on a more proactive and planned manner. A large number of problems related to shortcomings in project preparation, ranging from poor designs to poor contract documents, which were mostly only revealed during the works contracts implementation. These issues have been clearly identified and are to be addressed in the formulation of the future projects of the RSDP.

There is only one railway in the country, connecting Addis Ababa with the port of Djibouti. The railway is in a deteriorated condition, in terms of track, rolling stock and management. Potentially it could attract a significant share of the transport along the Djibouti corridor, but drastic physical and organisational improvements are a first prerequisite. Electricity supply is quickly increasing with the construction of a number of hydro-electric schemes. There is a potential for much wider expansion and exports of electricity to other countries in the region. In terms of telecommunications, Ethiopia lags seriously behind. Telephone services have limited outreach, internet access is severely restricted and the quality of services rendered is poor. The Government monopoly on telecommunication services hinders its expansion and quality improvement.

3.4. Economic situation and the reform process

Ethiopia's economy is largely based on agricultural activities. In 1999 agriculture contributed 52.3% to the country's GDP (industry 11.1%; services 36.5%), agricultural products (coffee, chat, pulses and hides & skins) account for more than 90% of total exports and 83% of the total population of 65 million live in rural areas and are mainly dependent on income generated through agricultural activities. This big dependence on agriculture makes the country extremely vulnerable to external shocks like a shortage of rainfall or declining commodity prices (coffee) on the international markets.

Since 1992 major steps were taken towards liberalisation and putting public finance management on a sound footing. Important structural measures were taken, including the abolishment of most price controls, the removal of a number of barriers to competition, a gradual liberalisation of foreign exchange controls, the reduction and harmonisation of trade tariffs, the privatisation of selected state-owned enterprises and the permission for private commercial banks to operate alongside the dominant public Commercial Bank of Ethiopia. Although the results of this economic reform package were considered encouraging the country's economy remained still fragile with growth rates heavily dependent on rainfall levels, foreign exchange inflows strongly dependent on fluctuations in world prices and donor assistance, and external trade still constrained by an insufficient level of liberalisation. From the mid-90's onwards a strong partnership between the government and the donor community developed, particularly as regards the conception, preparation and, to a certain extent, implementation of the multi-annual sector development programmes for health, education and roads. Unfortunately, however, much of the progress made in donor-

government co-operation on the SDP's was stalled by the outbreak of hostilities between Ethiopia and Eritrea in May 1998. In such conditions, donor agencies faced a growing concern about the fungibility of budget support to the SDP's.

In general, the border war has entailed important setbacks in economic reform and in poverty alleviation. The huge military expenditures needed to mobilise and maintain a sizeable and well-equipped army (one third of total public expenditures in FY 1999/00), considerably reduced the room for development-focused expenditures. Particularly the private sector –still a fragile segment of the economy– suffered intensely. Access to foreign exchange became difficult, a temporary 10%-surcharge on imports was introduced and investor confidence reached its lowest levels since the beginning of the 1990's. The problems for the private sector were aggravated by sharply deteriorating terms of trade. Additional costs of warfare included: the costs of assistance to displaced people and returnees; the re-routing of road freight from Assab to Djibouti-Port and the loss of confiscated goods in Assab Port. The Public Expenditure Review (PER) 2000 made an attempt to quantify the fiscal impact and some of the second round costs of the war.

With the conclusion of the Peace Agreement in December 2000 the prospects for a renewed attention for economic reforms have definitely improved. The 2001/2002 budget is a clear expression of the Government's commitment to return to a development agenda in which economic and financial reform will again be major focal areas². Following the elaboration of an Interim-PRSP in late 2000, the government has reached an agreement with the IMF on a three-year reform programme (2000/01-2002/03), supported by a Poverty Reduction and Growth Facility (PRGF) arrangement. Although the I-PRSP was considered a solid enough basis for the development of a coherent strategy for poverty reduction, the EC identified major gaps such as the lack of integration of the food insecurity issue within the poverty analysis and strategy, the unclear role of SDPs as building blocks of the strategy and the still insufficient level of consultation/participation in the preparation of the document. In 2001, Ethiopia is expected to get access to the HIPC debt relief facility³, which will free additional amounts of public resources (up to 900 million USD over a 20-year period) to be used for poverty alleviation purposes. In 2001/02 the Full-PRSP will be adopted and the government expects the donor community to widely contribute to the implementation of the poverty reduction agenda.

For the near future, many challenges in the area of economic reform remain. Annual joint donor-government Public Expenditure Reviews showed room for improvement in expenditure planning, management and control, despite the fact that many reform processes (including fiscal decentralisation to the regions) were simultaneously started. Improvements in the financial management of public resources were therefore included as possible triggers for the HIPC Completion Point. These concern e.g. improved expenditure tracking, internal/external control capacity and an impact evaluation through performance indicators. Challenges defined in the I-PRSP are amongst others: making the banking sector more efficient and competitive, reducing the overarching importance of coffee in the country's exports, revising the tax system in order to generate more government revenues, attracting more foreign investments by creating the right incentives, strengthening the private sector by

² Major changes compared with estimates for FY 1999/00 (Ministry of Finance and IMF, October 2000): reduction of defence expenditures by 38.5%, appropriations to the regions (responsible for a big share of expenditures in agriculture, health and education) increased by 40% and minimised domestic borrowing that was so prominent in the recent past.

³ Ethiopia's total external debt stock is estimated at US\$ 2.4 billion in Net Present Value terms which equals 38% of GDP and 243% of export of goods and non-factor services

adopting the right policy mix and through improving the legal framework, dramatically improving access to modern information and communication technologies, liberalising its trade regime and continuing privatisation. In all these necessary efforts the government is likely to solicit financial support, capacity building and policy advice from its external partners.

Despite enabling measures taken by the government to create a more favourable business climate, Ethiopia's *private sector* remains fragile. Private entrepreneurs continue to face numerous constraints, like an underdeveloped culture of entrepreneurship, difficult access to information and communication technologies, poor quality of economic infrastructure, a small home market of consumers, limited access to credit and foreign exchange, lack of skilled manpower, bureaucracy and institutional inefficiency. Many entrepreneurs use old-fashioned production techniques and run their businesses below capacity. Ethiopia only attracts very limited amounts of Foreign Direct Investment FDI. Though consecutive improvements have been introduced in the Investment Code over the last few years, foreign investors still tend to consider the investment regulations not conducive enough. In general, Ethiopia suffers from a negative image abroad, which certainly impacts on investor interest. Foreign investors are still barred from some major sectors like banking, telecommunications and power supply. A project to modernise the country's business law (e.g. Commercial Code) is ongoing, while a World Bank sponsored study, identifying the legal impediments to private sector development, will start soon. In the framework of the privatisation process, the government has already sold more than 200 companies previously owned and managed by the state and has recently added another 111 to the list. It also has made micro-and small enterprise development one of the spearheads of its private sector development policy.

Over the last few years the government has gradually reduced the number of *trade tariffs* and lowered their rates. Between 1993 and 1999 the maximum import tariff rates have been reduced from 80 to 40% and the average rate from 29,5 to 19,5 %. Ethiopia is a member of COMESA, but has decided to postpone its adherence to the Free Trade Area, established in October 2000. Ethiopia has observer status in WTO but has not yet officially applied for membership. The government wants to assess carefully all the pros and cons of membership, particularly in relation to the supposed lack of competitiveness of Ethiopian businesses and its infant manufacturing industries.

Ethiopia has welcomed the recent "Everything But Arms-EBA" initiative, taken by the EU in February 2001, eliminating all barriers to imports from the world's least developed countries. However, given its very one-sided export package (coffee in particular) and its weak private sector, it may take a while before the country will be able to significantly increase its exports to the European market.

3.5. Social Development

In line with the poverty profile presented in the previous section, Ethiopia's indicators on social development are among the lowest in the world. On the 2000 Human Development Index, Ethiopia ranks 171 out of 174 countries (UNDP, 1998). The life expectancy at birth of 43.4 years, the adult literacy rate of 36.3%, the combined education enrolment ratio of 26%, and the GDP per capita all score considerably lower than the average of the Least Developed Countries in the world⁴. Although the picture is still very bleak, most social indicators have actually improved during the 1990s. This has offset a negative trend during

⁴ See also Annex 5.

much of the period the Derg regime was in power (1975-1991). The education system is characterised by low but increasing enrolment rates at all levels. Regional and gender disparities are high, with urban areas having higher enrolment ratios than rural ones. In the latter considerably fewer girls attend school than boys. The quality of education is a continuing problem contributing to high and increasing dropout and repetition rates, especially for girls. The poor quality is linked with lack of strategic deployment of teachers, insufficient and inadequate facilities, lack of teaching materials, inadequate teacher training and a lack of practical applicability of the curriculum.

In health, the potential health service coverage⁵ increased from 46% in 1993 to over 50% in 2000. The coverage of the expanded programme of immunisation as well as for mother and childcare initially increased between 1993 and 1997, but dropped subsequently. The regress in a number of health indicators in recent years is related to implementation problems in the Health Sector Development Programme and to budgetary constraints for health care during the military conflict with Eritrea (WB/PER, 2000). Related is also the loss from the public health system of qualified medical personnel, mainly because of low levels of remuneration. Over the last three years alone, the number of physicians dropped by 15.5%. Shortage of trained health manpower remains a critical problem throughout the system.

The foremost threat to Ethiopia's development is now posed by HIV/AIDS. Globally, Ethiopia has the third largest population of people living with HIV/AIDS. Already, an estimated 3 million Ethiopians are living with HIV/AIDS, while up to 900,000 children may have been orphaned by AIDS. Though the prevalence rate was low during the 1980s, it increased quickly during the 1990s and had reached 10.6% of the adult population by the end of 1999 (WB, 2000). The epidemic threatens to seriously undermine the country's efforts in economic development and poverty reduction – especially its investments in human resources, health, education and rural development. Response strategies have been inadequate to address the scale of the problem and strong commitment and significant resources will be required to halt the further spread of the disease.

Conflicts in the Horn of Africa have caused important population movements with severe social consequences. Ethiopia still hosts a large number of refugees, mainly people who fled the conflicts in Somalia and Sudan and live in camps along the border with their countries of origin. Following the independence of Eritrea in 1991, about 200,000 Ethiopian nationals were displaced from that country. Many of them still live in camps or halls under harsh circumstances. The recent conflict with Eritrea caused the displacement of about 360,000 people from the conflict area in the northern regions of Tigray and Afar. Furthermore, about 110,000 Ethiopians were evicted from their places of work in Eritrea and need to build up a new life in Ethiopia. In addition to the needs for rehabilitation of conflict-affected areas and for integration of displaced persons into society, Ethiopia is again faced with the need for partial demobilisation of its army.

3.6. Gender

Although the National Constitution clearly stipulates the rights of women – including their entitlement to affirmative measures related to enabling them to compete and participate on an equal basis with men in political, social and economic life – it should be noticed that the gender balance still largely swings in favour of men.

⁵ Defined as the share of the population residing in a catchment area of health centres and health stations.

Women in the Ethiopian context are constrained with socio-culturally limitations that deny them the right to have access to and control over productive resources, thus hampering women's ability to fight poverty. Confirming this, the GDP per capita for Ethiopian women is estimated at only half of that of men.⁶ At the same time women's contribution to household income and production is crucial for fighting poverty. Women and girls are also responsible, particularly in rural areas, for fetching water and fuel wood.

Health and education indicators show a picture unfavourable for women, for instance with high death rates among women giving birth and enrolment ratios lower for girls than for boys. Culturally rooted societal discrimination and violence against women and abuse of children remain problems; female genital mutilation is widespread, despite active Government support for groups opposing such practices. Early marriage remains a serious problem for women, though appropriate legislation has been passed in many regions.

The Government has recognised the gender imbalance already in 1993, when a National Policy on Ethiopian Women was issued. To implement this policy, structures have been set up, among which a Women's Affairs Office within the Prime Minister's Office and gender focal points in 17 ministries and offices. A strategic framework, based on the National Policy and the Beijing Platform for Action, has been designed and agreed upon between the Government, NGOs and community-based organisations. A comprehensive Women Development Initiative Project, funded by World Bank and executed by the Women's Affairs Office, has been launched. The Interim-PRSP pays substantial attention to gender issues, under the heading of empowerment.

3.7. Environment

Contrary to gender, environmental aspects lack almost completely in the Interim-PRSP document, despite the crucial character of the environment for Ethiopia's fight against poverty. Indeed, poor people depend on the environment for food, fuel and water and their coping mechanisms are, to a large extent, dependent on bio-diversity. A degraded environment, therefore, cannot but deepen poverty.

While Ethiopia still is one of the world's treasures in biodiversity, many environmental problems exist, caused in part by the daily struggle for survival and intensive use of arable land. Soil erosion and deforestation are taking place at a rapid pace, affecting the country's biodiversity and flora and fauna.

To fight environmental degradation, the Government has adopted the Conservation Strategy of Ethiopia as well as an Environmental Policy. The Strategy states that "there is a clear and urgent need to integrate environmental protection and sustainable resource management with development policies, strategies and their implementation".⁷ The Government has also established the Environmental Protection Authority. Lack of human resources and institutional capacity, however, are constraints for a swift implementation of environmental policies and action plans.

Nevertheless, some progress has been made in soil protection through watershed management in agricultural production. The promotion of eco-tourism, offering potential for

⁶ Human Development Report, UNDP, 2001.

⁷ Conservation Strategy of Ethiopia, Volume II, page 2.

a dual benefit of extra income opportunities for local communities and conserving biodiversity, is still in its infant stage.

3.8. Governance, Political Developments and Human Rights

The Federal System has been enshrined in a new and modern Constitution (adopted on 8 December 1994), which also guarantees important fundamental rights and freedoms of the population. It separates the legislative, executive and judicial powers, instituted parliamentary democracy and underlined the importance of cultural identity through the fundamental equality of languages. The new Ethiopian Constitution is often hailed as one of the most enlightened ones in the world. Yet, the practical implementation of the Constitution remains a challenge to the authorities. In addition, many of the laws of the country, often dating back to the 1960s, still need to be aligned to the Constitution.

In the justice sector the new Constitution has resulted in numerous challenges for further reform and strengthening of a legal system, which is shaped by strong traditions. At the same time the system lacks sufficient legal practitioners and capacity constraints hamper timely and adequate information flows and efficient court administration. More efforts will have to be made to expand civic education on the fundamental rights of citizens. In comparison to most other countries the level of corruption is relatively low. The size of the civil service is modest yet at the same time, its productivity is less than expected. In order to equip the country with a more efficient and accountable civil service, organised on the basis of the new constitutional provisions, the Government has embarked on a comprehensive Civil Service Reform (CSR) programme. After a promising start, the implementation of this ambitious programme has slowed down in the last couple of years.

The transition to a parliamentary democracy has been marked by national multi-party elections in 1995 and 2000. While the 1995 elections were largely boycotted by opposition parties on grounds that they had no fair basis to compete more opposition parties and independent candidates participated in the 2000 elections for the House of People's Representatives and for Regional (State) Councils. The Ethiopian Peoples' Revolutionary Democratic Front EPRDF won with a great majority. The elections were widely acclaimed to be well organised and marked an important step forward on the path towards a more mature democracy⁸. Severe irregularities have however occurred in the South, where opposition is strong, and in Somali Region. The local elections in early 2001 are widely seen as a step backward with opposition parties pulling out after large-scale intimidation and harassment. The political scene in Ethiopia remains dominated by the EPRDF, a coalition of regionally based parties, which has set-up an efficient countrywide organisation. It is dominated by the Tigray People's Liberation Front (TPLF) and with parties from other regions in a subordinate role. Opposition parties are generally divided, often along ethnic lines, and lack financial and operational strength to pose a serious threat to the ruling party.

Ethiopia's Human Rights record has much improved compared to the situation prior to 1991. Nevertheless, serious violations of human rights continue. Reports indicate problems related to the treatment of detainees and to the arrest and indictment of citizens, to extra-judicial killings, prosecution of political opponents and restrictions in press freedom. The slow progress in the Red Terror trials is a concern, with suspects having been detained for

⁸ There were arrangements for opposition party finance, there was lively campaigning, there was better opposition participation than ever before and people in general have learned more about democracy and elections.

many years without the trials having reached their final stages. Though press freedom is guaranteed in the Constitution, differences of interpretation of its concept have led to the imprisonment of a significant number of journalists. Most were arrested on charges of inciting ethnic hatred, committing libel or publishing false information in violation of the 1992 Press Law. The judiciary is trying to establish its independence from Government interference, while the prosecution and the police are clearly influenced by the Government. The approval by Parliament on 4 July 2000 of the legislation for the Human Rights Commission and Ombudsman Office meant a potentially important step in the further improvement of human rights conditions in the country. However, the continuing delays in the establishment of both institutions cast doubts on the commitment to actually improve human rights conditions.

Civil society in Ethiopia is fragmented and because of ethnic and linguistic diversity mainly confined to operating at local or regional levels. Amongst others the churches (mainly Ethiopian Orthodox) and the mosques are important traditional institutions. Nation-wide institutions of professionals (economists, lawyers), private sector organisations, human rights organisations and NGO's have only recently increased their prominence in society. Structural dialogue with government institutions is weak and representation underdeveloped. The government is currently making attempts to have a more structured dialogue with civil society organisations, also in view of the required country-wide PRSP consultation.

In geo-political terms, Ethiopia occupies a pivotal position in the Horn of Africa. In the 1990s relations with Eritrea gradually deteriorated, culminating in the 1998-2000 border war between the two countries. Normalisation of relations is not expected in the short to medium term. As a result, the use of Djibouti-port became imperative for Ethiopia, and tensions remain around the implementation of various transport and commercial regulations. Ethiopia's relations with the self-declared republic of Somaliland are good, given in by Somaliland's desire to get formal recognition and Ethiopia's stake in the port of Berbera. Ethiopia has repeatedly interfered in Somalia through actions justified as self-defence. Tensions among the Ethio-Kenyan border, related to cross-border cattle-rustling and operations of the Oromo Liberation Front (OLF) have somewhat eased after a joint committee met to discuss the problems. Relations between Sudan and Ethiopia improved since the start of the war with Eritrea. However, the combination of an ill-defined border and the recent discovery of oil in the border region, are potential sources for renewed conflicts between the countries. Conflict prevention should be an area of particular attention for both government and donors. The risk of (re)new(ed) international and domestic conflicts remains present, given the huge number of refugees, disadvantaged ethnic groups, mostly low-intensity but persistent rebellious activities along its borders and fragmented and unstable government structures in the Horn of Africa. Support to Ethiopia clearly recognises the importance of utilising all existing instruments for conflict prevention, peace building and reconciliation. Regional funds and CSFP resources have been provided in support of the OAU's role in finding a peaceful solution to the Eritrea/Ethiopia conflict. The fight against poverty is crucial in dealing with the underlying causes of conflict.

4. EC SUPPORT TO ETHIOPIA AND DONOR COMPLEMENTARITY

4.1. Previous EC Assistance to Ethiopia; historic overview

EC assistance dates back to 1975, when Ethiopia became party to the Lomé Convention. Over the years, Ethiopia has been the largest beneficiary of EC support among the ACP states. The assistance has taken several forms. The various European Development Funds have contributed most to this assistance (Total EDF 4-8: € 1.397 billion), both in the form of programmable resources (National Indicative Programmes) and non-programmable resources (mainly Stabex and Structural Adjustment Facility). Very substantial assistance has also been forthcoming in the form of food security/food aid, which has taken about 40% of the total value of EC assistance to Ethiopia since 1975.

In terms of programmable assistance (NIPs), infrastructure (water, energy, roads) has featured as an important orientation in EC-Ethiopia co-operation⁹. This was supplemented in the 1970s and 1980s by projects to increase agricultural exports (coffee, cotton) and later by integrated rural development programmes. In the 1990s a gradual shift occurred –following a policy and programming re-orientation- from agriculture & rural development under EDF 6, towards roads in EDF 7 and 8. If all EDF instruments (including Stabex and the Structural Adjustment Facility) are considered, a striking feature of EC assistance to Ethiopia over the past fifteen years has been the continuous importance of the various macro-economic support mechanisms.

During the period 1990-2000, the EIB signed credit agreements for over € 100 million. The EIB supported projects in the fields of telecommunications, aviation and energy (Gilge Gibe Power Project). In addition, a global loan was provided to the Development Bank of Ethiopia (DBE) for on-lending to private small and medium sized enterprises. Ethiopia benefits from financing from EDF Regional Funds, mostly in the fields of agriculture (farming in tsetse controlled areas), livestock (rinderpest campaign, control of epizootic) and transport infrastructure. The latter mainly deals with improvements in the Addis Ababa – Djibouti transport corridor (both roads and rail), while studies are under preparation to possibly include the transport links with Somaliland and Kenya.

The funds from the European Development Funds have been supplemented by support from EC budget lines¹⁰. The most significant of these has been the food aid and food security budget line. Between 1996 and 2000, the EC allocated to Ethiopia more than € 370 million from this budget line, including over a million metric tons in food aid. This has been a significant amount (surpassing the NIP funds) and is a reflection of the food aid emergencies in recent years as well as the chronic food insecurities that several millions of Ethiopians face every year. In addition to the food aid, much attention is nowadays paid to Integrated Food Security Programs at regional level, including Employment Generation Schemes as 'safety nets'.

Under the NGO Co-financing budget line, about 40-50 NGO projects are continuously under implementation (reflecting an annual EC contribution of approximately € 4 million). Most NGO funded projects are in the fields of Rural Development, Health, Education and Water Supply. Other budget line support of significance to Ethiopia has come from the Human

⁹ Main EDF allocations to Ethiopia and sectors of concentration under the NIPs of EDF 4-8, which have been under implementation in Ethiopia, are given in Annex 3.

¹⁰ Figures and information about budget line disbursements have been provided by the EC-Delegation in Ethiopia.

Rights and Democratisation budget line for the preparation in establishing a Human Rights Commission and an Ombudsman Office. From still other budget line sources, campaigns against female genital mutilation, for mine risk awareness and for improved environmental management were financed.

Combining EDF and budget line resources, the EC has obtained a pivotal position in the areas of Roads, Economic Reform and Food Security, while gaining more prominence in Education. The EC is an important donor in the Roads Sector, through investments in infrastructure, policy advice and technical assistance. The EC chairs the donor group that co-ordinates efforts in food security as well as the one on private sector development and it sits on the Central Joint Steering Committee of the Social Sector Development Programmes. It has been closely involved in Economic Reform with World Bank and IMF, through macro-economic support, policy advice and through the participation in the annual Public Expenditure Reviews.

4.2. Donor Support to Ethiopia

External assistance to Ethiopia has peaked in the early 1990s, when peace returned and the newly formed Government implemented an Emergency Recovery Programme. Since then the assistance has gradually levelled off to approximately US\$ 700 million per annum.

External assistance remains crucially important for the development of the country. ODA averaged 44% of the federal budget during the 1996-1999 period (though 31% was actually captured in the budget). The 2000-01 budget counts again on about US\$ 700 million in external grants and loans (38% of the budget). This excludes foreign assistance in rehabilitation and demobilisation, as well as support for food aid and projects implemented by NGOs. The largest donors to Ethiopia in the last five years have been the World Bank, the EC, USA, the African Development Bank and Japan. These five donors have accounted for slightly over 50% of all development assistance to Ethiopia. The EC is the second largest donor to Ethiopia (after the World Bank), providing annually 10-15% of all external assistance.

4.2.1. EU Member States

Nearly all Member States operate in Ethiopia in their capacity as bilateral donors. The most significant EU donors –in terms of finance- are Germany, The Netherlands, Sweden, Italy, Ireland and France. *Germany* has for the past period concentrated its co-operation assistance in four areas: (i) economic and social reform; (ii) roads and water supply; (iii) agriculture and food security; including environmental protection and (iv) education. It is presently engaged in a strategic planning exercise for the near future, which may result in a re-orientation of priority sectors. The *Netherlands* has for several years focused on two sectors of co-operation: rural development and health care. In the near future education will probably form the third priority sector. The assistance from *Sweden* to Ethiopia has significantly decreased during the war with Eritrea. Future assistance will most likely concentrate on natural resources, education and health, but the exact choices and sector concentration are still under discussion. *Italy* is in the process of implementing a 3-year program for the period 1999-2001 concentrating on four sectors: rural development & food security, education, infrastructure (roads) and health. *Ireland* is currently preparing a new co-operation strategy for Ethiopia. The present Irish country programme supports area-based programmes in Eastern Tigray, Sidama and Gurage zones and Sector Development Programmes in Education and Health at federal and regional levels. Assistance will furthermore be provided to the Road Sector Development Programme. *France* channels

most of its investment support through the Agence Française de Développement (AFD). Sectors of concentration for AFD are irrigation and infrastructure (water and railway). Outside the AFD portfolio, France concentrates on education and legal reform.

4.2.2. Other donors

The assistance programme by the *World Bank* is very wide ranging, but has an increasing focus on economic reform, food security, economic infrastructure (Roads, Energy) and the social sectors. End 2000 the total project loan portfolio was US\$ 1.3 billion of which 60% was still undisbursed. In addition the WB recently agreed a US\$ 400 million support package to rehabilitation, reconstruction and demobilisation. The *African Development Bank* is also active in a range of sectors, including health, education, water and roads, but has an increasing focus on economic reform, food security and agriculture. The 2001-2006 *USAID's* integrated strategic plan (2001-2006) concentrates on addressing both chronic and emergency food insecurity in Ethiopia. In this context it supports interventions in the fields of (i) rural household production and productivity; (ii) family health; (iii) primary education; (iv) governance and civil society; and (v) mitigation of the impact of disasters. *Japan* has a clear focus on a limited number of sectors: food security & agriculture, roads, water & sanitation and education. Within the *UN System*, a large number of agencies are active in Ethiopia. These include WFP which is annually deeply involved in food aid and food security programmes, UNHCR in assistance to refugees, UNDP which focuses on capacity building in the civil service and on education, as well as UNICEF with a focus on health and education.

4.2.3. Donor co-ordination

There is an intense and efficient co-ordination on development issues among the 25-30 major donors. The apex donor group is the Development Assistance Group (DAG), under which a dozen of thematic sub-groups are attached. The EC Delegation calls regular operational co-ordination meetings with the embassies of the EU member states. In contrast to the co-ordination among donors, there has been no regular and structured policy dialogue between the donors "as a group" and the government in the last three years, excepted in the framework of the SDP's. This lack of dialogue was a direct result of the strained relationship because of the war with Eritrea. The government-donor dialogue is expected to dramatically improve in the process towards a Full-PRSP. During the assessment of the draft I-PRSP, the EC has already played a very active and constructive role (well appreciated by the government) and it will continue to do so in the future.

4.3. Problems and lessons learnt

A general feature of past EC-assistance to Ethiopia has been its slow pace of disbursement. Partly this has been due to capacity constraints at both government and Commission level. The government has acknowledged that it has to undertake a continuous capacity building effort at all levels of administration. Hence, the inclusion of capacity building as one of the building blocks of the Interim-PRSP. The Commission on its side has started to implement an ambitious reform programme with the aim of making its aid management more efficient and effective.

Past substantial support of the EC to the roads sector has given it the opportunity to be effectively involved and participate in all the stages of preparation, implementation and monitoring of the first phase of the RSDP. The recent mid-term review, in which the EC participated, addressed successes and shortcomings of past performance. The need for

further strengthening of the relevant institutions, particularly at regional level, was highlighted and capacity building will remain an important area for support. Government-donor co-ordination, reporting and monitoring of the RSDP is considered good. The major problem was related to contract management (capacity constraints, project design, contract administration, approval procedures etc), which led to considerable delays in project implementation. Weaknesses were clearly identified and remedial actions agreed. The Government has fully committed itself to take the necessary steps. Given the fact that the evaluation of EDF financed tenders took longer than for any other donor and considerably longer than the fast-track process of the WB, the EC should see whether any lessons can be learnt from these experiences.

The EC has been an important supplier of macro-economic support in the nineties through its Stabex and Structural Adjustment Support facilities. In general, this support has substantially contributed to macro-economic stabilisation in Ethiopia. The quick-disbursing character of these programmes was valued by the government over the years, despite some identified shortcomings (conditionality, sizeable paperwork, short-term focus). The EC would like to make its macro-economic support programmes more efficient, through linking them closer to multi-annual reform and poverty reduction programmes, within the context of the PRSP. This would entail, provided that financial management of the country allows for it, a shift from general import programmes to direct budgetary aid and from annual commitments to multi-annual programmes, whereby the implementation performance would be more measured using result indicators rather than through strict conditionality benchmarks.

The EC has a long-standing history in providing food security assistance to Ethiopia, but overall, food aid and food security programmes have produced mixed results. Whereas initially this assistance has primarily been in the form of food aid, a gradual shift was made towards longer-term interventions. The bulk of these activities have only started recently and their impact can not yet be fully evaluated. It would, however, be unrealistic to expect that the ongoing programmes will have a major impact on the food security situation at individual household level, given the extent of the chronic malnutrition and the widespread poverty and deprivation.

In the past, no sufficient appropriate mechanisms were at hand to address chronic food insecurity. In fact, chronic and acute food insecurity have been largely addressed through the same mechanisms. Food aid has throughout been the primary response mechanism and has led to a "food aid mentality" amongst stakeholders. Furthermore, food security activities have essentially remained donor-driven, lacking government inputs and co-ordination. Previous efforts to move away from the food aid approach have failed, amongst others for the following reasons (Danagro, 2000): (i) the effect of war with Eritrea which was a severe drawback for any development effort in the country; (ii) conceptual shortcomings in the design of such interventions; (iii) a lack of institutional capacities and co-ordination mechanisms at different levels of government; (iv) a lack of joint and co-ordinated efforts among all parties involved, particularly government and donors; (v) complex EC regulations and procedures.

The government has come to realise that its current handling of food security interventions and its co-ordination with donors need to be improved. It has announced a new co-ordinating structure for the management of food security and rural development issues, to be led by a high-ranking official. It has also indicated its willingness to discuss policy options with the donor community with the aim of increasing the significance of long-term interventions, thereby scaling down the dependency on food aid.

The availability of substantial resources and instruments for food security programmes (9th EDF, EC budget line) makes that the EC can develop a flexible response strategy, catering to the changing situation. This includes the possibility to use these resources through a multi-annual commitment to support medium-term policies. The presence of a pool of local and international experts within the EC Local Food Security Unit, ensures the necessary support functions to operationalise the food security programme. Finally, the EC has been mandated to chair the Food Security and Agricultural Committee, which provides for a forum to discuss food security issues amongst donors and implementing partners, and can use this position to steer discussions in this area of co-operation.

5. EC RESPONSE STRATEGY .

5.1. Summary of elements and criteria important for defining the EC-response strategy

The EC-response to the development and poverty reduction challenges in Ethiopia – notably for the identification of the focal sectors of support - is designed to assist in removing structural constraints in sectors that are considered key for the future development of the country. The response reflects in particular the following elements and criteria: (i) the development priorities of the government, as laid down in the (I)PRSP; (ii) the financial requirements and implementation capacities in a particular sector; (iii) the existence of a sector development policy¹¹; (iv) the historic development relationship between the EC and Ethiopia and its strengths and weaknesses; (v) complementarity with other donors; (vi) the comparative advantages of the EC as a donor¹². The EC has potential comparative advantage and can acquire a degree of complementarity in many of the sectors, which are considered as development priorities by the government. The presence of a sector development programme, the financial requirements as well as the Commission's in-country experience therefore become important determinants for the selection of the focal areas of 9th EDF support. In its communication on conflict prevention (April 2001), the Commission has announced its intention to focus more clearly its co-operation programmes on addressing root causes of conflict in an integrated way. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sectoral programmes. The concentration on only three focal sectors implies that support in areas where the Commission was previously active will not be continued once ongoing projects are completed. These areas include agricultural production, water supply, preservation of cultural heritage and education (projects).

5.2. Sectors of Concentration for EC Support

Based on the above, three focal sectors for EC support to Ethiopia have been identified: (i) *transport* (ii) *macro-economic support and capacity building for economic reform* and (iii)

¹¹ Although the government has developed a National Food Security Strategy in 1996 (see chapter 3) its implementation has never really taken off. Donors –and particularly the EC- would like to see substantial modification to the approaches for tackling the problem of food insecurity in parts of the country. The agreed 'high level' consultations between the government and the EC is meant to discuss new policy options towards a comprehensive food security strategy (see paragraph 5.2) as part of the overall Poverty Reduction Strategy.

The government intends to develop a kind of sector programme for legal and judiciary reform

A Water Sector Development Programme is in the course of being developed.

¹² According to a joint statement by Council and Commission on the EC's development policy (10 November 2000), the EC-activities particularly provide an added value in the following areas: trade & development; regional integration; support for macro-economic and social policies; transport; food security and rural development; and institutional capacity building in the areas of governance and the rule of law.

food security. These focal sectors will be complemented by other activities, which will all have a common thematic approach: capacity building for Governance and Civil Society. In all sectors, programmes and projects, co- or parallel-financing with other donors, specifically EU Member States and the Bretton Woods Institutions, will be a distinct possibility. Despite the appalling social indicators, direct interventions in the social sectors are not envisaged for two reasons: (i) the need to concentrate on a few focal sectors in order to maximise efficiency and effectiveness; (ii) the preference given to macro-economic (direct budget) support, which should, through the increase of treasury resources for poverty reduction, indirectly contribute to improving the performance of the SDP's in Health and Education.

A. Transport

The upgrading and expansion of Ethiopia's road network remains a top priority for the Ethiopian Government and has a noticeable, though longer-term, effect on poverty alleviation. Improved accessibility of rural areas, including the main agricultural production centres, constitutes a significant element in the fight against poverty and food insecurity. Furthermore, the opening up of isolated pockets will allow for the gradual economic, social and political integration of thus far excluded segments of the population. The success of central components of the country's development agenda depends on an improved infrastructure. This holds true for the development of functioning markets, the utilisation of social services as well as the rapid and cost effective provision of humanitarian aid if required. Transport will, therefore, remain a major focal area for Commission support in terms of resources allocated, with a clear emphasis on road rehabilitation and upgrading. It is also a sector in which the EC has obtained a crucial position among other donors and learned many valuable experiences through its long-term involvement in the Road Sector Development Programme in road rehabilitation, policy advice and technical assistance.

The Mid-Term Review of the first phase (1997-2002) of the Roads Sector Development Programme (RSDP), conducted in February 2001, has shown that considerable progress has been made during the first three and a half years of its implementation. The government intends to present its RSDP plans for the second phase (2002-2007) to the donor community in February 2002. Funding requirements for the period until 2007 remain therefore very high and 9th EDF funding will be used for the upgrading of a number of important roads. Pre-feasibility and feasibility studies will provide the basis for justification or rejection of proposed road projects and eventually determine the most cost-effective type of investments on the selected roads.

During the RSDP Mid-Term Review, it was noticed that the capacity of the Ethiopian Roads Authority (ERA) is still insufficient for managing such a comprehensive and sizeable programme in the most efficient and effective way. Considerable capacity building interventions –such as training programmes and technical assistance- will still therefore be included in 9th EDF support to the sector (e.g. for contracts administration, design etc). The government is also expected to make an important effort to improve the maintenance of existing roads, primarily by reducing the backlog of periodic maintenance and by increasing the involvement of private contractors in carrying out maintenance works.

In the first phase of the RSDP, the EC and other donors have financed several studies for the formulation of sectoral policies and corresponding action plans for implementation, aiming at improving the sustainability of the road transport sector. These action plans will mostly be implemented during the second phase of the RSDP and are likely to contain activities that may be supported by the EC.

The upgrading of infrastructure with a cross-border function will, to the extent possible and if in accordance with the Regional Support Strategy, be considered for support from regional funds. Depending on the availability of uncommitted resources, financial contributions from Ethiopia's national 9th EDF may be considered if such regional programmes are in need of additional funding.

While the bulk of the support to the transport sector will be through Government channels and agencies, non-state actors will be involved where appropriate and possible in project implementation.

B. Macro-economic support and capacity building for economic reform

During the 1990's Ethiopia has received considerable amounts of macro-economic support in the framework of consecutive Stabex and Structural Adjustment Support programmes. In this manner the EC has significantly contributed to macro-economic stabilisation in Ethiopia. Through capacity building projects the EC has also supported the economic reform effort in several areas. Ethiopia has recently produced a new three-year economic reform programme, (supported through a PRGF-arrangement), while a Full-PRSP and access to HIPC debt relief are expected to be agreed in the course of 2001/02. Economic reform will therefore continue to feature as a top priority on the government's agenda for the next years.

The EC already committed itself to support the PRSP process. In its comments to the Interim PRSP, the Commission in particular emphasised: (i) the need for a more comprehensive and participatory analysis of poverty in Ethiopia, adding to the economic dimension also the capability and security dimensions of poverty; (ii) the need to address structural food insecurity as a central issue for poverty reduction and to evaluate the ADLI strategy and the land tenure issues in this perspective; (iii) the importance of including SDPs and Food security as building blocks of the strategy and integrating them fully in the medium-term expenditure planning; (iv) the need to pursue public finance management reforms towards more effectiveness, accountability and result orientation; and (v) to monitor outcome indicators as a way of measuring progress in the access and quality of social services, as well as in the efficiency/effectiveness of public expenditure.

Along these lines the EC will remain an important provider of macro-economic support and will become a financial contributor to the implementation of the PRSP. The level and the quality of public expenditure in the priority sectors for poverty reduction (health, education, infrastructures, etc.) will continue to be monitored and supported. The annual public expenditure review and the SDPs review missions will be relevant vehicles for monitoring the quality of public finance management and its impact on poverty. The government has emphasised its commitment to continue its efforts on public finance management reform in order to be able to ensure acceptable standards on strategic resource allocation, financial control, reporting, expenditure tracking and impact evaluation

Macro-economic support by the EC will be disbursed in the form of budgetary aid, normally channelled directly through Treasury. Under the 9th EDF macro-economic support will take preferably the form of three-year programmes (with annual tranches released on the basis of performance indicators) in order to align this support with the PRSP's time horizon and with the support instruments of the Bretton Woods institutions (PRGF and PRSC). In this context, co-financing opportunities with the World Bank will be envisaged and a common set of conditions and performance indicators will be negotiated with the Government so that the burden of cross conditionality will be eliminated. The EC will adopt assessment and

disbursement mechanisms that avoid the past stop/go situation and that will allow more/less financing on the basis of performance.

Though in principle the budgetary assistance will not be targeting a specific sector or expenditure category, the available expertise within the EC and its prior involvement in the social sectors will be used to measure in particular the impact of budgetary aid on social sectors policies and on SDPs. The EC intends to continue contributing to policy discussions in the social sectors as member of the Central Joint Steering Committee of the Social Sector Development Programmes. In the case that Ethiopia's PRGF-programme gets "off track" and if an annual disbursement is not realised within the time limits foreseen, the corresponding amount can be transferred to one of the other sector of co-operation in the Indicative Programme. Such a decision can be taken in the context of the annual review.

In the area of economic reform Ethiopia will need capacity building support in many fields, including public finance management, private sector development, trade liberalisation and regional economic integration. The EC will be one of the donors to provide policy advice and capacity building in these areas and will continue and broaden efforts already deployed under former structural adjustment support programmes and public expenditure reviews. Within the context of economic and regulatory reforms, the EC will continue its technical assistance in the areas of public finance management including tax policy reform. Another programme aimed at micro-and small enterprise development (7th EDF) is expected to run from 2001 and 2004. The improvement of service delivery by private sector intermediary organisations, such as Chambers of Commerce and professional associations constitute an important element. Capacity building for private sector institutions can be complemented by capital investment using the Investment Facility and support provided through other instruments. As far as trade policy reform and economic integration are concerned, support for preparing the country for WTO-membership, for entry into the COMESA Free Trade Area and for REPA-negotiations will also be provided. It is envisaged that a tentative amount of 5% of the available A-envelope will be reserved for capacity building in economic reform & integration. This will include support to private sector representative agencies to be able to address the challenges from integration into the world economy.

C. Food Security

Chronic food insecurity will remain an important consequence of poverty in some food deficient regions of Ethiopia for the years to come. The Government, the EC and other donors have recognised this and have marked food security as an area of specific attention. The EC has been involved in addressing food problems in Ethiopia for over twenty years and has set into motion a development that is meant to replace external food aid by internal food security mechanisms. In this context EC-assistance will increasingly focus on long-term development programmes tackling the root causes of chronic food insecurity. Food aid in kind will be considerably reduced and limited to real emergency situations. In this context, coherent linkages between emergency and development funding instruments will be maintained through continuing close dialogue between Commission services (ECHO and AIDCO), working towards a clearer distinction between acute emergencies and chronic poverty. Current initiatives to phase ECHO's short-term emergency and post-emergency interventions into more mid-term rehabilitation, mitigation and development strategies in the worst drought-affected regions, will also be maintained and further expanded.

However, the problem of food security can only be resolved on the basis of a coherent food security strategy –with adequate implementation structures and modalities- owned by the government and subscribed to by the donors. The PRSP process provides the context in

which Government and donors are now moving towards a common strategic approach that brings together objectives of economic growth, improved food security and poverty reduction within a single framework. This gives the opportunity for an improvement in the management of aid and for a renewed approach to food security issues. The EC response strategy in food security will have to be worked out in further detail in the near future, following the planned discussions with government and other donors¹³. It should also incorporate a cross-border regional perspective so that common vulnerabilities and inter-dependencies are more effectively understood, and more appropriated tackled.

The EC-response to increase supply, effective demand and crisis prevention could include basic elements like: employment generation schemes providing cash/food for work, support for micro-finance activities with the aim of increasing access of the poor to productive credits, micro-and small enterprise development, capacity building at (sub)regional levels, water supply and sanitation, water-shed management, support for the implementation of the Rural Travel and Transport Programme (RTTP), improvement of agricultural production methods and marketing, improved information systems, natural resource preservation and livestock development (particularly for the most drought-vulnerable pastoralist communities). Part of these activities could be financed through the Federal Budget in support of food security policies, as general conditions for budget support are in place (see part B above). Expected annual allocations from the EC food aid and food security budget line will considerably add to the available EDF-resources.

Non-State actors are expected to play a complementary role to Government in addressing food security problems. EC support could be used to strengthen particular NGO activities in food security and for the support of rural micro-finance institutions.

D. Non Focal Sectors: Capacity Building for Governance, Civil Society and Conflict Prevention

Capacity building will be considered the central cross-cutting theme in the framework of this CSP. The Interim-PRSP of the Ethiopian Government clearly defines capacity building efforts as well as empowerment as one of the building blocks of the national development strategy and a condition for successful implementation of the many reform initiatives. It is equally considered a condition for a lasting structural stability that requires the capacity to manage changes and challenges put on the society without resorting to conflict¹⁴. Various joint donor-government reviews in the framework of sector development programmes have also pointed at the importance of capacity building for improving Ethiopia's level of development in the period 2002-2007. Capacity building programmes will be directed at all layers of society –federal and regional governments, civil society, and private sector. Capacity building in the context of this CSP can include various forms of support like: long- and short-term training, organisational reviews, technical assistance, policy advice and equipment supply.

¹³ According to the EC the following issues should a.o. be topics for discussion during a high-level dialogue on food security: a critical assessment of the ADLI strategy and its effect on smallholder farmers, the land tenure situation in Ethiopia, a consideration of non-farm income and urban employment. It should also include the option of including all food security related public expenditure through the government's budget, in support of agreed policies of poverty reduction and food security, and in the framework of multi-annual commitments.

¹⁴ Communication from the Commission on Conflict Prevention, April 2001.

Though part of capacity building will be directed to Government organisations and agencies, a significant part of the resource envelope will be allocated to civil society. Main aim of the support to civil society is the empowerment of relevant groups and organisations (e.g. women associations, trade unions, media) in order for them to play their due role in negotiations and policy formulation, as well as to provide the normal checks and balances in a mature democratic society. With respect to fields of support, it is envisaged that capacity building projects and programmes will be identified and implemented in accordance with the objectives of the future (Full-) PRSP. The emphasis will be put on governance and the strengthening of civil society at all levels. In the Interim PRSP, the Government has highlighted several areas for capacity building related to governance like strengthening of the judiciary, civil service reform, and training for civil servants at large and specifically in regional and district administrations. EC initiatives in supporting civil service and judiciary reform from 7th and 8th EDF resources and in human rights and democracy from budget lines will be continued and where applicable broadened. Support will take full account of potential measures in the area of conflict prevention. EC support to governance –with a clear focus on capacity building - will therefore include domains like: civil service reform; legal and judiciary reform; human rights and democratisation; gender and women's development; administrative and fiscal decentralisation; conflict prevention; and the development of media and trade unions. EDF funded operations will be supplemented by projects funded from appropriate EC-budget lines, which should also have the same capacity building focus.

5.3. European Investment Bank

The European Investment Bank EIB has noted the various reforms undertaken by the Government, both on the macro-economic and the institutional front. The pace of further implementation of the reform program, which will require a continuous and sustained effort from the Government, will undoubtedly have a determining influence on the volume of activities of the EIB, as it will affect investors' confidence in the country.

The determination of the amounts and the conditions for financing will also depend on the detailed appraisal of every project, on a case-by-case basis. Nevertheless, the Bank has identified a number of possible interventions for projects that it would implement either alone or in co-operation with the European Commission and other institutional (bilateral/multilateral) and commercial financiers. The Bank could focus inter-alia on:

- the development of agricultural, agro-industrial activities, the main pillars of the Ethiopian economy, and all the related services and activities. combining both export oriented and import substitution operations;
- the expansion and upgrading of infrastructure such as telecommunications for which the Government is in the process of looking for a foreign private partner; energy production, transmission and distribution; (decentralised) water production and distribution; and
- service industries, including tourism.

Some of the projects could be regional in scope, i.e. covering more than one country in the Horn of Africa.

The EIB could also, in collaboration with the European Commission (using the various instruments developed to foster private sector activities i.e. Diagnos, EBAS, Proinvest) and the Centre for the Development of Enterprise (CDE), assist in the reinforcement and diversification of the financial sector and the development of the private sector, including small and micro enterprises through microfinance institutions, which generate employment and play a key role in poverty alleviation.

5.4. Coherence and complementarity with other EU policies

The programme of EDF-funded interventions proposed under this CSP will seek coherence and complementarity with all other existing community instruments from which Ethiopia could benefit, the most important of which are discussed below. Further coherence between development policy and other EC policies (trade but also agriculture, environment, etc.) will be permanently assessed during project or programme identification and appraisal. In this context, National Indicative resources may be used to complement resources from the Regional Indicative Programme or from trade specific operations, according to needs and availability of funds. Such possibilities will be further explored in the framework of the forthcoming regional programming of 9th EDF resources. In particular, this may refer to support for efforts by Government departments and Non State Actors to prepare for the establishment of a coherent trade policy framework, with emphasis on preparing for the EPA and on WTO, and assistance for capacity-building for carrying out negotiations in a regional and multilateral context and in implementing the accompanying trade policy and structural reforms, including fiscal reform.

The Cotonou agreement lays emphasis on the essential role of the respect for human rights, the recognition and application of democratic principles, the consolidation of the rule of law and good governance for a sustainable development. The CSP includes support at various levels (civil service and judiciary reforms, capacity building for federal and regional governments, civil society, and private sector) and through different instruments that will assist in consolidating these key values and universally recognised principles.

PART B

INDICATIVE PROGRAMME

6. THE INDICATIVE PROGRAMME

6.1. Introduction

Within the Country Strategy presented in Part A, and in accordance with the provisions of Article 4 of Annex IV to the Cotonou Agreement, the indicative programme has been drawn up in a series of tables presenting the intervention frameworks, for each sector, the indicative commitment and expenditure schedules, detailed activities chronogramme, for all activities during a 2-year rolling period. The focal areas are presented in more detail in Annex 1.

6.2 Financial Instruments

Several financial instruments will be used to finance the EC co-operation with Ethiopia. The following is an indication of their mobilisation as presently envisaged.

- (1) EDF 9, Envelope A (€ 384 million). This envelope is to cover long term development operations within the Country Strategy. The indicative allocation of this envelope to the elements of the strategy is proposed as follows:
 - Transport infrastructure, € 211 million (55%)
 - Macro-economic support, € 96 million (25%)
 - Food Security, € 54 million (14%)
 - Other programmes (Governance, Non-State Actors, Conflict Prevention), € 23 million (6%).
- (2) EDF 9, Envelope B¹⁵ (€ 154 million). To cover unforeseen needs as indicated in the Cotonou Agreement, Annex IV, Article 3.2 (b).
- (3) Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the "Investment Facility" as a financing instrument managed by the European Investment Bank (see details in Part A, chapter 5). The Investment Facility does not form part of the Indicative Programme.
- (4) EC budget lines¹⁶ could be used to finance specific operations, in particular for food security within the focal sector food security, and for human rights and democratisation. Ethiopia has been selected as a focus country for 2002-2004 support from the European Initiative for Democracy and Human Rights. Finance from these instruments will, however, be decided in accordance with the Commission's procedures for the budget line concerned and will depend on availability of funds. ECHO will in the short term continue humanitarian relief operations, in accordance with its 2001-work programme, which focuses on an enhancement of the emergency response capacity, and post-drought recovery, particularly in fragile areas. The longer-term involvement of ECHO depends on the need for genuine short-term humanitarian assistance in Ethiopia (e.g. droughts, post-war recovery).

¹⁵ According to the Cotonou Agreement (Annex 4, Article 3) this B-envelope can be used to mitigate: (i) emergency situations, in case the resources allocated out of the EC-budget lines will be insufficient; (ii) contributions to international debt alleviation initiatives; and (iii) the fiscal consequences of instability in export revenues.

¹⁶ For a concise overview of the utilisation of EC budget lines in 1999/2000, see pages 5 and 6 of the joint NAO/EC Delegation report, drafted for Country Review 2000, November 2000.

6.3. Focal sector(s)

Transport

The following specific objectives shall be pursued:

- Improved roads network that allows for better accessibility of rural areas as well as of main agricultural production centres and that provides a link to essential port facilities;
- Improved flows of traffic and goods;
- Improved road connectivity with neighbouring countries;
- Improved transport policy development and implementation.

For indicative purposes, approximately € 211 million shall be reserved for this sector.

The major interventions foreseen are:

- the rehabilitation of two existing, but degraded, roads, that are part of RSDP's 2nd phase (Harrar-Jijiga, 102 km and Mieso-Dire Dawa, 155 km),
- the provision of training, technical assistance and surveys destined to strengthen ERA's capacity in managing the RSDP,
- support for the implementation of some transport policies, studies of which have previously been funded by EC (e.g. road safety, axle load, transport regulation).

Depending on progress in the implementation of already decided road projects and in the preparation of the newly proposed ones, up to two additional road projects could be appraised and eventually proposed for financing.

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

- The Government/ERA will continue to implement its RSDP in a satisfactory manner using its performance monitoring system,
- Government will reduce its periodic maintenance backlog and ensure sufficient resources for its Road Fund,
- Government ensures a competitive level playing field for transport services.

Food security

The following specific objective shall be pursued: improved food security by increasing supply, effective demand and crisis management in a coherent framework.

For indicative purposes, approximately € 54 million shall be reserved for this sector.

With the objective of putting its food security activities in Ethiopia onto a whole new footing, the European Commission will hold high-level consultations with the government in the course of 2001. Given the strategic nature of the planned discussions and the shift in approach this may entail, it is not possible, nor desirable, to anticipate on decisions that will be taken and to indicate in this IWP which activities will be funded by the EC¹⁷. What is certain, however, is that the EC is committed –provided that the discussions will bring a common understanding on the strategy to pursue– to extensively assist Ethiopia in its food security challenge, using both the 9th EDF CSP-resources and the EC food security budget line.

¹⁷ Some preliminary indications are given in CSP-section dealing with food security as a focal sector.

Macroeconomic support

The Community will support the macroeconomic reform programme of the Government. Special attention shall be given to the objective of poverty reduction, particularly with a view to ensuring equitable access to social services. Macroeconomic support shall be delivered in the form of two-year or three-year programmes. Funds shall be disbursed on an annual basis. If an annual disbursement is not realised within the time limits foreseen, the corresponding amount can be transferred to one of the other sectors of co-operation in the Indicative programme. Such a decision can be taken in the context of the annual review. For indicative purposes, approximately € 96 million shall be reserved for this type of support.

Other programmes

Capacity building is considered the central crosscutting theme. The main objective of Community support to Government organisations and agencies and in particular to civil society is the empowerment of relevant groups and organisations.

An indicative amount of € 23 million has been reserved for the following purposes:

1. To support capacity building for governance, in particular in the areas of:
 - legal and judicial reform;
 - civil service reform;
 - and administrative decentralisation.
2. Support to non-state actors will include assistance to:
 - build and enhance their capacity to perform their role in governance;and support to specific priority areas in governance.

Capacity Building with non-state actors, both for governance and for strengthening Civil Society, will be guided by Framework Agreements between the NAO and the EC, which will set out the eligibility criteria, priority themes and assessment procedures. A special Civil Society and Governance Co-ordinator in the EC Delegation will co-ordinate the programming and implementation.

6.4 Intervention Framework in focal sector: transport

TARGETS/OBJECTIVES/RESULTS	PERFORMANCE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS/RISKS
Medium-term targets (I-PRSP/RSDP): 1. increased road network density 2. increased share of expenditures for roads 3. improved quality of roads network	I-PRSP/RSDP: - road network coverage of 80% by 2007; average distance to nearest road reduced to 3 hours by 2007 - 10% of total public expenditures by 2003 - 65% of road network in good condition by 2007; road maintenance budget as % of total public expenditures	RSDP-reports - PER; Budget proclamation - RSDP-reports; Road Fund accounts	Government/ERA will continue to implement its RSDP in a satisfactory manner. Donors will continue to contribute to RSDP-funding Government will reduce its periodic maintenance backlog Government will ensure sufficient resources for its Road Fund
EC-intervention objectives: 1. improved and expanded roads network 2. increased flows of traffic and goods 3. improved road-connectivity with neighbouring countries 4. improved transport policy development and implementation	- expanded roads network coverage and % of network in good condition - number of vehicles using road network and quantity of goods transported - number of vehicles, persons and goods crossing borders; reduced travel time - number and quality of new legislation passed	- RSDP-reports - traffic flow surveys, axle load statistics; CSA - traffic flow surveys, axle load stats, customs statistics - Negarit Gazeta; evaluations	Government will continue to stimulate private sector participation in road construction/maintenance Government ensures a competitive level playing field for transport services ERA will continue to monitor traffic flows
Expected Results: 1. a number of roads upgraded 2. improved maintenance of road network 3. improved ERA-capacity to manage RSDP 4. new transport legislation promulgated and enforced	Result indicators: - number of kms rehabilitated - reduction of maintenance backlog; better road quality; % private contractors; budget Road Fund - number of ERA-staff trained; better design quality; reduction of delays in project implementation - enhanced capacity to enforce regulation; % reduction of accidents	- project-reports; evaluations - maintenance surveys, road fund accounts -project reports; evaluations traffic surveys; police reports; CSA	ERA continues RSDP performance monitoring system and –when necessary- introduces remedial measures ERA and EC will find solutions to problems (design, contract administration, tenders) in existing road programme implementation

6.5. Intervention framework in Focal sector: Macro-economic Support & Economic Reform

TARGETS/OBJECTIVES/RESULTS	PERFORMANCE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS/RISKS
Medium-term targets (PRGF/I-PRSP): <ol style="list-style-type: none"> 1. Average annual GDP growth (at constant prices) of 7% in period 2001-2003 2. To achieve further macro-economic stabilization 3. To substantially reduce defense spending and to give priority to poverty related expenditures in planning and budgeting. 4. To improve public finance management in view of expected additional external resources (HIPC, PRSP, Budget support) 	<ul style="list-style-type: none"> - average income per head increased to 150 USD by 2003 - reduction of BOP-deficit to 128 million USD and of budget deficit to 6.2% of GDP (including grants) by 2003 - by 2003 increased shares in public expenditure for poverty reduction to: education (14.5%), health (7%), agriculture (10%) and roads (10%) 	<p>National accounts/ PRGF-reviews</p> <p>Public Expenditure Reviews; MTEF; Budget proclamation</p>	<p>The Government will implement its economic reform programme as agreed with IMF. The Government will complete a Full-PRSP and fully associate civil society and donors to its preparation. The Government will move towards comprehensive multi-annual planning (MTEF) and improve dialogue with donors.</p> <p>The Government will continue to improve standards of public finance management.</p> <p>Donors will increasingly become prepared to harmonize procedures and provide direct budget support.</p> <p>The Government will reinforce its efforts to create a conducive environment for private sector initiative.</p> <p>The Government will become a full participant in negotiations on trade liberalization and economic integration.</p>
EC-intervention objectives: <ol style="list-style-type: none"> 1. Macro-economic and fiscal stabilisation 2. Increase of poverty reduction related expenditures 3. Increased over-all and gender-balanced education enrolment rates 4. Higher share of private sector actors in overall economic activity 5. Enhanced negotiation capacity related to trade/economic integration 6. Improved systems of public finance management 	<ul style="list-style-type: none"> - TBD - (i)PRSP-targets - gross enrolment ratio in primary education of 50% by 2002 and 65% by 2005; ratio of girls to boy students of 47% in 2005 at primary level - % target TBD - number of trade meetings in which Ethiopia plays active role - % of aid disbursed in form of direct budget support - backlog (months) of financial reports 	<p>National accounts; PRGF reviews PER EMIS</p> <p>Banks, Chambers</p> <p>Reports of meetings</p> <p>MTEF/budget proclamation</p>	
Expected Results: <ol style="list-style-type: none"> 1. substantial reduction of BOP and budget deficits 2. attainment of (i)PRSP/ESDP targets for poverty reduction in education 3. strengthened capacity of entrepreneurs and intermediary organisations 4. satisfactory outcome of REPA negotiations and regional programming 5. higher volume of Ethiopian exports towards EU market 6. timely achievement of annual planning/budget cycles 7. improved accounting, reporting & auditing standards 	Result indicators: <ul style="list-style-type: none"> - acceptable level TBD - see (I)PRSP - number of entrepreneurs/staff trained; employment created - REPA agreement/ RSS - level TBD - respect of calendar - timely publication and frequency of reports 	<p>National accounts, PRGF reviews; PER's, budget reports; MTEF; EMIS Project reports, statistics</p> <p>REPA/RSS documents</p> <p>Trade statistics</p> <p>PER's; budget documents Audit and implementation reports</p>	

6.6. Intervention Framework in Focal Sector: Food Security

OBJECTIVES	PERFORMANCE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS/RISKS
General: Poverty Reduction	See PRSP		
Specific: Increase food security	Physical indicators of permanent and temporary hunger and malnutrition are improved. Number of people in need of food aid decreased.	SCF UK nutrition survey DPPC appeals	Food Security Strategy is recognised as a priority in the PRSP
Result: Increased supply			
<i>Activity:</i> Increased internal farm gate prices by linking internal prices to IPP	Prices on rural markets Development of commercial imports is an evidence that domestic prices > IPP, in some areas	CSA Market information system	Liberalisation of trade, import duties and tax are reduced Separate data collection from analysis
<i>Activity:</i> Improved market efficiency, roads, storage facilities, improved competitiveness in internal trade and competitiveness in transport sector	Existence of efficient market information system Number of markets, of rural road rehabilitated and of storage facilities for rent increased Number of effective private operators is increased	MIS ERA MoTI	Price data is available RSDP is implemented
<i>Activity:</i> Increased land productivity through land tenure security, access to inputs and improved agricultural practices	Strengthening the land tenure leasehold system Crop assessment Availability of inputs is increased Access to rural finance/micro credit is improved Number of input distributors and retailers goes up	Official doc FAO MoA, CSA AEMFI MoTI, MoA	Land tenure reform is designed and implemented with poverty reduction objective, security of land entitlement ADLI is assessed, particularly its impact on smallholders marginal areas
Result: Increased effective demand			
<i>Activity:</i> Increased non agricultural income	No of persons migrating/region Increase of non-farm income as % of GDP Secondary cities developed, education indicators	Household consumption and expenditure surveys Private sector observatory	Inter-regional labour mobility is facilitated
<i>Activity:</i> Income support to vulnerable groups is provided in cash not food	% of disabled, chronically food insecure	Participatory poverty assessment NGOs, DPPC, WFP	Chronic and transitory food insecurity separated, coordinated approach between donors for budget support
<i>Activity:</i> Increased non-cereal agricultural income, exports are diversified, export performance for coffee, livestock is enhanced	Research and extension includes livestock and cash crops (coffee, potato, horticulture) Balance of payments	MoA, international research institutes MoTI	Technical advice is available Export promotion schemes are active
Result: Improved crisis management			
<i>Activity:</i> Enhanced crisis prevention capacity	Effective emergency response Effective early warning system Improved targeting	DPPC FEWS DPPC/NGOs	Capacity building at federal and decentralised level
<i>Activity:</i> Support to relief-rehabilitation is provided	Cash for work in 50% of all EGS EGS are better planned and programmed	DPPC Line bureaus	Capacity building at woreda and kabele level

6.7. Intervention Framework in Non-focal Area: Capacity Building for Civil Society and Governance

TARGETS/OBJECTIVES/RESULTS	PERFORMANCE INDICATORS ¹⁸	SOURCES OF VERIFICATION	ASSUMPTIONS/RISKS
Long-term targets: 1. More effective, accountable and service oriented civil service at federal and decentralized levels. 2. Improved and more widely spread application of the rule of law and Constitutional provisions. 3. More pronounced role of civil society in appropriate areas of Governance.	- No. of high level civil servants trained in management skills Service Delivery Policy implemented -No. of trained legal professionals increased -Backlog of court cases reduced -Pre-trial detention periods reduced -No. of operational Human Rights and Legal Advocacy Organisations -Outreach of private media -Membership of independent trade unions	CSR progress and evaluation reports Statistics from Ministry of Justice Reports from Human Rights Organisations Ministry of Justice statistics Media Reports Trade Union Reports	Government will follow-up on recommendations from CSR evaluation 2000 Comprehensive legal reform programme design completed in 2002 Increased acceptance of civil society roles among Government
EC-intervention objectives: 1. To improve the effectiveness of the civil service at federal and decentralised levels. 2. To expand and upgrade the quality of the court system in Ethiopia. 3. To enhance the capacity of civil society to play an active role in selected governance areas in Ethiopia	Timeliness and quality of financial and progress reporting in Sector Development Programmes -No. of qualified staff operating in the various courts. -Increased speed of handling court cases. -Increased level of Civil Society involvement in advocacy for and enforcement of human rights, democracy and conflict prevention	Review Missions SDPs Specific studies Statistics Ministry of Justice/Regional Justice Bureaus Special studies Newspaper articles Human Rights Reports	Government to address salary review for civil servants Other donors to support civil service and legal reform programmes
Expected Results: 1. Enhanced capacity of selected civil service organs to effectively perform assigned tasks. 2. Improved capacities for civil service management. 3. Increased number of qualified legal practitioners in the Ethiopian court system. 4. Improved system of court administration and management. 5. Enhanced capacity of civil society in advocacy, negotiations and implementation of Governance activities.	Result indicators: - Reduced number of vacancies in managerial and implementation positions in key sectors -Improved availability and use of supportive equipment - No. of appropriately trained managers in the civil service -No. of qualified lawyers working in the court system. -Information system in place that can track all pending court cases and files. -No. of successful activities in Governance by Civil Society	Statistics Ministry of Labour and Social Welfare Review Missions SDPs CSR progress reports Statistics Ministry of Justice Special study Annual Reports Civil Society Organisations	Reduced attrition rate in civil service Revision of Codes proceeds

¹⁸ In the area of Capacity Building for Governance most performance indicators presented are of a quantitative nature, but lack baseline yardsticks and specific target levels. Progress will therefore have to be measured in terms of general directions. Moreover, much of the long-term development targets are qualitative in nature, which also requires qualitative assessments along with an assessment of quantitative performance progress. Furthermore, one should note that Government policy in this area needs further development and that specific EC interventions will be formulated at a later stage, which may both lead to a redefinition of performance indicators.

6.8. Indicative Programme 2002-2003 - Implementation Schedule

SECTORS/TITLES	M €	Identification date ¹⁹	Appraisal date ²⁰	FP ready	Commitment	Remarks
Transport						
1. Addis-Jima ²¹	PM	PM	PM	PM	PM	Already beyond 2003
2. Harrar-Jijiga	25.0		Sep 2002	Sep 2002	Jul 2003	
3. Mieso-Dire Dawa		Jan 2002	Sep 2004	Sep 2004	Mar 2005	
4. ERA capacity building	5.0	Oct 2001	Dec 2001	Apr 2002	Sep 2002	
5. Transport policy support	2.0	Oct 2001	Dec 2001	Apr 2002	Sep 2002	
Macro-economic support & economic reform						
1. Budget support	80.0	Jun 2002	Sep 2002	Dec 2002	Jun 2003	
2. Capacity building Trade & Economic integration	5.0	Nov 2001	Feb 2002	May 2002	Oct 2002	
3. Public Finance Management	3.0	Jan 2003	Mar 2003	Jun 2003	Dec 2003	
Food Security²²						
Capacity building						
1. MoU civil society						
2. Legal/judiciary reform	5.0	Dec 2001	Feb 2002	Sep 2002	Dec 2002	
3. Civil service reform	6.0	Dec 2001	Aug 2002	Feb 2003	Aug 2003	
4. Adm. decentralization	2.0	Oct 2001	Feb 2002	May 2002	Nov 2002	
	4.0	Mar 2002	Aug 2002	Jan 2003	Jul 2003	
TOTAL COMMITMENT 2002-2003	137.0					

¹⁹ As identification date for infrastructure projects has been taken: the date of presentation of the draft pre-feasibility report.

²⁰ As appraisal date for infrastructure projects has been taken: the presentation of the final design.

²¹ The additional financial and technical requirements related to the Addis-Jima road projects will only be known after technical expertise will be carried out in 2001.

²² The activities in the food security focal sector will only be determined in the second half of 2001, taking the results of the high-level food security policy consultations into account. This IWP will be adjusted after the Annual Country Review 2001 and will reflect the agreed food security support activities.

6.9. Indicative Timetable of Commitments 2002-2006 (All amounts are in millions of €)

FOCAL SECTORS	Instrument	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1
1. Transport *								
1.1 Addis-Jima road	CSP-P	PM						
1.2 Harrar-Jijiga road	CSP-P				25			
1.3 Mieso-Dire Dawa road	CSP-P							50
1.4 ERA capacity building	CSP-CB		5					
1.5 Transport policy support	CSP-CB		2					
2. Macro-economic support & economic reform								
2.1 Budget support	CSP-B			80				
2.2 Financial Information System	CSP-P							
2.3 Private sector support	CSP-CB/IF							5
2.4 Trade & regional integration	CSP-CB		5					
2.5 Public finance management	CSP-CB				3			
3. Food security **	CSP-B/P/CB BL							
NON-FOCAL AREA		2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1
4. Capacity building								
4.1 Support civil society	CSP-CB/BL		5				5***	
4.2 Legal and judicial reform					6			
4.3 Civil service reform			2					
4.4 Administrative decentralization					4			
SIX MONTH COMMITMENT			19	80	38	0	5	55.0
CUMULATIVE COMMITMENT			19	99	137	137	142	197
% COMMITMENT A-ENVELOP	384 m €	0	4.9	27	35.6	35.6	36.9	51.3

* Depending on progress in implementing ongoing and planned road projects, two additional road projects (Arba Minch-Jinka road, Gondar-Humera road) could be appraised and proposed for financing.

** The interventions in the food security focal sector and the planning of commitments will only be decided after the completion of the high level policy discussion between the government and the EC. Results of these consultations will be reflected in a modified IWP, to be drafted after the 2001-Country Review. The CSP earmarks 15% of the A-envelope (approximately € 60 million) for interventions in food security.

*** Depending on progress in implementing previous support.

Acronyms: CSP: Country Support Strategy P: Project support CB: Capacity Building B: Budget Support
IF: Investment Facility BL: EC Budget Line

6.10. Indicative Timetable of Payments 2002-2006

All amounts are in millions of €

FOCAL SECTORS	Instrument	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1
1. Transport *								
1.1 Addis-Jima road	CSP-P	PM						
1.2 Harrar-Jijiga road	CSP-P					10.0	10.0	5.0
1.3 Mieso-Dire Dawa road	CSP-P							
1.4 ERA capacity building	CSP-CB			0.5	0.5	1.0	1.0	1.0
1.5 Transport policy support	CSP-C			0.5	0.5	0.5	0.5	
2. Macro-economic support & economic reform								
2.1 Budget support	CSP-B				30.0		30.0	
2.2 Financial Information System	CSP-P							
2.3 Private sector support	CSP-CB/IF							
2.4 Trade & regional integration	CSP-CB			2.0	1.0	1.0	1.0	
2.5 Public finance management	CSP-CB					1.0	1.0	1.0
3. Food security **	CSP-B/P/CB BL							
NON-FOCAL AREA		2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1
4. Capacity building								
4.1 Support civil society	CSP-CB/BL			1.0	2.0	1.0	1.0	1.0***
4.2 Legal and judicial reform						1.0	1.0	1.0
4.3 Civil service reform					0.5	0.5	0.5	0.5
4.4 Administrative decentralization							0.5	1.0
SIX MONTH PAYMENT		0	0	4.0	34.5	16.0	46.5	10.5
CUMULATIVE PAYMENT		0	0	4.0	38.5	54.5	101.0	111.5
% PAYMENT A-ENVELOPE	384 m €	0	0.0	1.0	10.0	14.2	26.0	29.0

* Depending on progress in implementing ongoing and planned road projects two additional road projects (Arba Minch-Jinka road, Gondar-Humera road) could be appraised and proposed for financing.

** The interventions in the food security focal sector and the planning of payments will only be decided after the completion of the high level policy discussion between the government and the EC. Results of these consultations will be reflected in a modified IWP, to be drafted after the 2001-Country Review

*** Depending on progress in implementing previous support.

Acronyms: CSP: Country Support Strategy P: Project support CB: Capacity Building B: Budget Support IF: Investment Facility BL: EC Budget Line

6.11. Total Tentative Commitment Timetable 2001/02 - NIP 6th, 7th, 8th EDF

(all amounts in millions of €)

	2001										2002						Total
	apr	may	Jun	jul	Aug	Sep	oct	nov	dec		jan	feb	mar	apr	may	jun	
EDF 6																	
NIP: 210																	
commitments	193					-21											
quality project								15									15
Ababa sanitation																20	20
ing support											2						2
lated commitments	193	193	193	193	193	172	172	187	187	189	189	189	189	189	189	209	209
EDF 7																	
NIP: 214																	
commitments	201																
Development		7															7
supply Gafarsa (additional)							6										6
lated commitments	201	208	208	208	208	208	214	214	214	214	214	214	214	214	214	214	214
EDF 8																	
NIP: 250																	
commitments	170																
isibility studies 2 roads		0.5															0.5
-Jijiga design review		0.7															0.7
-DD-Deweile									2								2
study																	
Kombolcha (additional)														15			15
Jima (additional) ¹							PM										PM
roads Amhara								22									22
tion capacity building	0.7																0.7
rt to ESDP			23														23
rights/ Ombudsman Office															2		2
sity of Mekelle-law			2														2
ial Info System												6					6
la Churches						8											8
lated commitments	171	172	197	197	197	205	205	227	229	229	235	235	250	252	252	252	252
IF programmes outside NIP																	
1999	4.8																4.8
1 (SAF)								44.6									38
5 (refugees)				5													5

Detailed presentation of central elements of the strategy

Sectors of Concentration for EC support

1. The Transport Sector

1.1. *RSDP – Road Sector Development Programme; activities for support*

Most of the resources destined to the Transport focal sector will be used in support to the second phase of the government's RSDP (2002-2007). A range of supportive interventions and activities has already been identified and will be implemented, spread over the whole period of the 9th EDF. Some of the envisaged projects, especially the rehabilitation of existing roads, require a rather long preparation period in view of the complicated feasibility and design studies as well as the lengthy and technical tender evaluation processes. The spreading of these works projects in time is at the same time an advantage, because the capacity of the Ethiopian Roads Authority to implement many big road projects simultaneously appears to be rather limited. It should also be noted that further major roads programmes are being planned under the regional programme, and these will place an additional burden on the ERA. During the preparation of the new 9th EDF road projects, the implementation of already agreed (8th EDF funded) rehabilitation projects will continue. Capacity building to the ERA will continue under the 9th EDF.

The following infrastructural projects/programmes (rehabilitation of existing, but degraded, roads), all part of RSDP's 2nd phase, have been proposed for appraisal:

- Harrar-Jijiga (102 km) possibly to be complemented by 9th EDF regional funding for the stretches Jijiga-Kalabait and Kalabait-Berbera. The purpose for the upgrading of this corridor is to facilitate Ethiopia's access to an alternative port (Berbera in Somaliland);
- Mieso-Dire Dawa (155 km) to be complemented by regional funding (9th EDF) for the stretch Dire Dawa-Shinile-Deweale that will link up with the road connecting Djibouti-town with the Ethiopian roads network, road that will be upgraded using 8th EDF regional funds.

Depending on progress in the implementation of already decided road projects and in the preparation of the newly proposed ones, two additional road projects could be appraised and eventually proposed for financing.

It is planned to start feasibility studies for the identified projects in 2002 for which funding will be taken from the NIP 8th EDF remaining balances. If the projects prove to be feasible, and ERA's performance in implementing EC funded road projects is considered satisfactory, commitments for the execution of these projects may be made in the course of the years 2003-2005. One important unknown factor in the EC-roads program is the outcome of the black cotton soil problem along the Addis Ababa-Jima road. It is hoped that in the course of 2001 it will become clear what solution should be adopted and whether additional funds are required from the 9th EDF resource-envelope for this project.

Other activities and interventions that the EC will fund in support of the RSDP are:

- capacity building (training, technical assistance, surveys) destined to strengthen ERA's capacity in managing the RSDP;

- support for the implementation of some transport policies, studies of which have previously been funded by EC (e.g. road safety, axle load, transport regulation);

1.2. Assumptions and performance indicators RSDP

The EC programme in support to RSDP-implementation will be conditioned by a satisfactory execution of the RSDP 2nd phase (2002-2007). It is assumed that the Ethiopian Roads Authority will be able to improve its performance for which the EC will continue to make capacity building resources available. The government will reduce its periodic maintenance backlog and will channel sufficient resources thereto to the Road Fund. EC, NAO and ERA will find solutions for the multiple problems and delays in the implementation of road programs funded under previous EDF's.

Some RSDP performance indicators will also be used to measure progress in execution of 9th EDF support to the roads sector (see Part B Intervention Framework Transport).

2. Food Security

Food insecurity is one of the most important consequences of widespread poverty in Ethiopia and therefore a top-priority in the country's poverty reduction agenda. The EC has been one of the major providers of food aid and other food security related funding over the last decades. The bulk of the resources deployed has come from the EC food security budget line and has been used to provide food assistance in kind. Evaluations and new policy views have demonstrated that this kind of support is extremely costly and does not tackle the root causes of chronic food insecurity. The EC's strong wish to considerably reduce its food aid deliveries and to engage into more developmental programmes to foster food security, is encountering more and more support within the donor community and understanding within the government.

With the objective of putting its food security activities in Ethiopia onto a whole new footing, the European Commission will hold high-level consultations with the government in the course of 2001. These discussions will have to be thorough and encompassing. A joint working group will prepare the high-level meeting(s) in detail.

Given the strategic nature of the ongoing discussions and the shift in approach this may entail, it is not possible, nor desirable, to anticipate on decisions that will be taken and to indicate in this IWP which activities will be funded by the EC²³. What is certain, however, is that the EC is committed –provided that the discussions will bring a common understanding on the strategy to pursue- to extensively assist Ethiopia in its food security challenge, using both the 9th EDF CSP-resources and the EC food security budget line.

The 2001-Annual Country Review will be conducted at the end of 2001, i.e. after the food security consultations will be completed. This review will be the occasion to modify the IWP by filling in the blank spots and defining more precisely issues (activities, indicators, assumptions) related to the focal sector of food security.

3. Macro-economic support and capacity building for economic reform

3.1 Budget support

The EC will remain an important provider of macro-economic support and will become a financial contributor to the implementation of the PRSP. The level and the quality of public

²³ Some preliminary indications are given in CSP-section dealing with food security as a focal sector

expenditure in the priority sectors for poverty reduction (health, education, infrastructures, etc.) will continue to be monitored and supported. The annual public expenditure review and the SDPs review missions will be relevant vehicles for monitoring the quality of public finance management and its impact on poverty. The government has emphasised its commitment to continue its efforts on public finance management reform in order to be able to ensure acceptable standards on strategic resource allocation, financial control, reporting, tracking of expenditure and impact evaluation.

Macro-economic support by the EC will be disbursed in the form of budgetary aid, normally channelled directly through Treasury. Under the 9th EDF macro-economic support will take preferably the form of two-year or three-year programmes (with annual tranches released on the basis of performance indicators) in order to align this support with the PRSP's time horizon and with the support instruments of the Bretton Woods institutions (PRGF and PRSC). In this context, co-financing opportunities with the World Bank will be envisaged and a common set of conditions and performance indicators will be negotiated with the Government so that the burden of cross conditionality will be eliminated. The EC will adopt assessment and disbursement mechanisms that avoid the past stop/go situation and that will allow more/less financing on the basis of performance.

Though in principle the budgetary assistance will not be targeting a specific sector or expenditure category, the available expertise within the EC and its prior involvement in the social sectors will be used to measure in particular the impact of budgetary aid on social sectors policies and on SDPs. The EC intends to continue contributing to policy discussions in the social sectors as member of the Central Joint Steering Committee of the Social Sector Development Programmes.

The Commission through applying performance indicators related to financial management and poverty reduction will measure the impact and efficiency of the budget support. Although this macro-economic support will not be earmarked as such for ESDP-expenditures, it is assumed that by increasing the volume of resources available for budget implementation, ESDP-indicators should show improvement. The EC-Delegation will continue its involvement in education policy discussions and its participation in the Central Joint Steering Committee of the social sector SDP's.

Should assessments of the quality of Ethiopia's financial management be unsatisfactory, than the option to revert to more stringent –earmarked- forms of budget support remains open.

3.2 Conditionalities and performance indicators for budget support

Ethiopia will benefit from direct budget support under the assumptions that the government will:

- continue to implement its economic reform programme with support from the IMF through its PRGF-facility;
- develop a Full Poverty Reduction Strategy paper (PRSP) and discuss it as broadly as possible within the Ethiopian society and with the donor community;
- improve its multi-annual strategic expenditure planning by gradually moving towards a Medium-Term Expenditure Framework or equivalent, co-ordinated with the donor community;
- ensure efficient standards of public finance management;
- respect its targets for expenditures in poverty reduction related areas;
- monitor outcome and result indicators in poverty reduction related areas.

The performance indicators for budget support are derived from the (i)PRSP, presented by the government in November 2000 and endorsed by World Bank and IMF-Boards in March 2001, as well as from the PRGF-document:

3.3 *Capacity building for economic reform*

- (i) private sector development. Capacity building to the private sector will have to be complementary to other EDF-instruments. While defining the content of a new programme, the results of the 7th EDF micro-and small enterprise development programme (2001-2004) will have to be carefully taken into consideration. Given the availability of several concurrent projects and facilities (all-ACP) in the first years of 9th EDF-implementation –and unless specific circumstances warrant earlier action- it is envisaged to wait until 2003/2004 before identifying and appraising a new private sector development capacity building programme. The Investment Facility will, in principle, be available at all times to fund good projects emanating from Ethiopia's private sector.
- (ii) trade & regional integration. These areas are specific priorities within the Cotonou Agreement and important events (e.g. REPA negotiations) are expected to take place in the years to come. In order to enable Ethiopia to successfully play its part in REPA-talks, to evaluate the impact of possible WTO-membership and to benefit to the maximum from the 'Everything but Arms' initiative (free market access to EU) and further multilateral trade liberalization, capacity building in these areas is considered crucial. Particular attention will have to be paid to trade facilitation and to potential newly emerging non-tariff export barriers, emanating from high EU-standards for instance in consumer protection and (phyto)sanitary measures (quality control). It will be recommended that such a capacity building program starts in 2002, and that the program will be built upon the results of an identification mission in 2001. Close coordination between the different EC-services (DG's Trade, Development, EuropeAid) will be a prerequisite for establishing a comprehensive capacity building plan for Ethiopia, which will have to be complementary to activities already resourced under all-ACP programs.
- (iii) public finance management. Under the 7th and 8th EDF, the EC is funding or will quite likely fund different projects related to public finance management (financial information system, tax reform, auditing, capacity building for National Bank of Ethiopia). It is expected that some of these projects or activities will require additional or follow-up funding from 2003 onwards when most of the current or pipeline projects will come to a close. Especially the realisation of the financial information system will be an important and costly venture. At present a design study is ongoing which will determine the scope and structure of such a FIS. 8th EDF NIP resources have in principle been reserved for the first pilot phase of implementation. A second and a third phase, rolling out the system to regions and zones, will probably start not earlier than 2005. Choosing new interventions should be done in close co-ordination with the Bretton Woods Institutions and other interested donors. IMF/WB reviews, public expenditure reviews and other comparable papers will be important reference documents to determine where Ethiopia's financial management would need additional support.

3.4 *Conditionalities and performance indicators in economic reform*

As far as capacity building for economic reform is concerned, it is assumed that:

- the government will implement its economic reform programme as agreed with IMF and WB;
- the government will reinforce its efforts to create a conducive environment for private sector initiative;
- the government intends to develop the Ethiopian economy into a full participant in a global, liberalised, business environment;
- the government is committed to continue its efforts of improving standards of public finance management

Some indicators have been selected to measure the performance in economic reform (see Part B Intervention Framework Marco-economic Support and Economic Reform).

4 Non-focal area: Capacity building for civil society and governance, including conflict prevention

4.1 Capacity building for governance: government

Capacity building for governance will target a number of crucial areas in the domain of the Government: (i) legal and judicial reform; (ii) civil service reform; and (iii) administrative decentralisation.

Legal and judicial reform is identified in the I-PRSP as an area that will bring advantages to both the poor in the country and to private commercial operations, through the better enforcement of the rule of law. The orientation and details of the Government programme will be worked out in the course of 2001/02. An EC-support project will be identified simultaneously. Following earlier identifications in this area, potential components of a legal judicial reform project might be: (a) support to the Justice and Legal Systems Research Institute; (b) the improvement of information management in the court system; and (c) support to the establishment of law faculties in a number of regional universities. An indicative amount of € 4 million will be earmarked for a project in this area. The Financing Agreement is expected in the first half of 2003.

The Civil Service Reform Programme in Ethiopia has been implemented for a number of years. Several donors, including the EC, have supported this programme in the area of Expenditure Management and Control. There are a number of areas in the CSR programme, which have moved slowly in the past years, partly due to the lack of external funding. These areas include Human Resources Management and Top Management Systems. The EC could, provided the recommendations of the 2000 UNDP evaluation are taken into account, support one of these areas of the CSR programme. A preliminary amount of € 2 million will be set aside for this project. Identification of the best support area will take place in 2002.

Well functioning decentralised government organs are vital for good governance in a federal system like Ethiopia's. Regional and sub-regional (zone and woreda level) governments are in urgent need of strengthening, particularly in the 'emerging regions' of Afar, Somali, Gambella and Benishangul-Gumuz. The geographic and thematic focus of the support will have to be identified in the course of 2002, leading to a Financing Agreement in the first half of 2003. An indicative amount of € 3 million will be reserved for this project.

4.2 Capacity building for civil society and governance, including conflict prevention: non-state actors

The NAO and the EC Delegation will conclude two-yearly Memoranda of Understanding, which will contain the modalities for implementation of capacity building interventions to

non-state actors. The MoU will indicate the resource envelope, eligibility criteria and areas of support.

Two areas of support will be covered in each MoU: (i) support to build and enhance the capacity of non-state actors to perform their role in governance; and (ii) support to specific priority areas in governance. The first area will focus on civil society organisations themselves (e.g. trade unions, media, human rights organisations, women organisations, professional associations) and aims to improve their operations. The second area will focus on specific activities that are seen as vital in improving governance in Ethiopia. Priority themes will be set in each MoU. These may include topics like human rights education and counselling, investigative journalism, women's legal empowerment, conflict prevention or voter education.

The first MoU will be developed in the course of 2001 for implementation from mid 2002 onwards when a Financing Agreement has been concluded. In the process, civil society representatives will be consulted on their capacity building needs and on the priority themes for governance. The process will be repeated in 2003 and 2005. For each Financing Agreement an indicative amount of € 5 million will be projected.

4.3 Conditionalties and performance indicators

The following assumptions underlie the indicative work programme in capacity building for governance:

- The timely design of a comprehensive legal reform programme by the Government of Ethiopia;
- A commitment by the Government of Ethiopia to implement the recommendations of the evaluation of the CSR programme;
- A continuing commitment to a well-functioning decentralised government system in Ethiopia;
- Good co-operation with civil society organisations in the identification of capacity building needs and priority areas for intervention.

Performance indicators that will be used to measure progress in the execution of 9th EDF support in this area are provided in Part B Intervention Framework Capacity Building for Civil Society and Governance.

Main Sector Development Programmes

1. ADLI - Agriculture Development led Industrialisation

As agriculture is the backbone of Ethiopia's economy, it has received priority attention and much effort has been made to increase productivity in the sector. The important contribution of agriculture to the attainment of food security, employment generation, the potential creation of a market for domestically produced goods, the generation of foreign exchange through agricultural exports and the production of raw materials for industries, all signify its crucial role in the economy. Agriculture is, therefore, found to be the starting point for initiating a structural transformation of the economy. In that line, the Agriculture Development Led Industrialisation (ADLI) has been adopted in 1993 as the core long-term development strategy of the country. The adoption of ADLI presupposes an enhancement of productivity in smallholder agriculture and industrialisation, based on the utilisation of domestic raw materials and the adoption of labour intensive technologies. The strategy also addresses the development of large-scale private commercial farms. Through ADLI, it is generally believed, the development of agriculture will help to expand the market for domestic manufacturing, implying an increased income for smallholders and an improvement in the livelihood of the rural population.

The rural centered development program of the Ethiopian People Revolutionary Democratic Front (EPRDF) embraces and reinforces ADLI. It has been launched during the first phase of the Government's Five Year Economic Development Program (1995-2000). The first aspect of the program is to achieve productivity growth in the peasant agriculture sector and thereby bringing about an improvement in the standard of living of the rural population. It is also expected to benefit the urban population and the overall economy by boosting the supply side through a sustainable supply of food at reasonable prices, export products, and raw materials for the manufacturing sector. Another aspect of the program is the creation of market outlets (effective demand) for outputs of other sectors of the economy, particularly the manufacturing sector. As the economic status of the rural population improves the need for domestically manufactured goods, farm machinery and tools, agricultural inputs and other secondary and tertiary products would increase and thereby assist industrial expansion, rapid development of trade and transport and other related services.

In accordance with the strategy due attention is also given to the rehabilitation and construction of rural roads in order to help smallholders obtain fair prices for their produce, to expand the distribution and use of fertilizers and improved seeds and to increase the effectiveness of extension services.

To improve agricultural practices a fairly new approach has been put in place. The approach is based on demonstrating a package of technologies and on the training of farmers in a bottom-up manner. The new approach gives emphasis to human resource development, along with efforts in transferring appropriate technology.

Productivity in important food crops, like wheat, maize and sorghum, has doubled and even tripled in some cases. Although supply side problems have been experienced, the use of improved seeds remains high and fertilizer consumption has increased as well. Producer prices have not been constant due to problems in marketing and storage. Another bottleneck farmers face in the utilisation of improved seeds, fertilizers and agricultural machinery is the lack of credit. At the moment the Government is involved in providing the technical,

organisational and financial support for the establishment and promotion of rural credit service programs.

2. Food Security

Food insecurity in Ethiopia is a multi-faceted, chronic and widespread phenomenon. Though in general agricultural production has increased in the past decade, chronic food insecurity remains a major concern. Compounded by a fast population growth, more people are now vulnerable to adverse climatic and other shocks than ever before. Though harvests have been increasing in the past few years, still between 5 and 10 million people needed external food aid. Food insecurity coincides with inadequate farming land size, with insufficient livestock, with a lack of alternative employment opportunities and with general poverty. Unfavourable climatic events, conflicts and market failures quickly expose the vulnerable position of large segments of the population.

In view of the persistent food security problems the Government in 1996 has adopted a strategy directed towards the alleviation of food insecurity. The strategy, that so far is not been actively implemented, addresses both the supply and the demand sides of the food equation. It has three components: (i) economic growth and employment generation, (ii) entitlement/access and target programs, including nutrition and health interventions and (iii) emergency capabilities. Each of these components will contribute to availability and entitlement, in its own way, and will have its own target groups in mind. Meanwhile regions have drafted their own food security programmes, but with limited financial resources and no clear mandate for collaboration with line ministries. The federal government has so far failed to take-up its co-ordination role on food security, as testified by the absence of a central government body to address policy and strategy issues in this field. The institutional set-up at federal and regional level needs to be revised in order to finally implement the federal food security strategy.

A National Food Security Programme (NFSP) was established in 1998, targeting food insecurity in four regions. Donor support was sought to implement this programme, which resulted in the 1999 World Bank-led multi-donor report on national food security. However, the outbreak of the border conflict with Eritrea made that donor commitments were not forthcoming. The establishment of the proposed forum to discuss sustainable solutions for food security was consequently postponed. As a result, the focus of donor attention shifted towards the regions, which became responsible for detailed policy and institutional planning and the development of programmes to meet local priorities. The regions will remain responsible for programme implementation but will undoubtedly benefit from a streamlined approach towards food security issues at the federal level. This should be facilitated through the re-activation of a co-ordination platform to discuss food security policies, and to ensure its inclusion into the overall poverty reduction strategy.

To increase availability of food, the strategy focuses on sound macro-economic policies, which give the maximum sustainable incentives to food production and the reduction of marketing costs through the provision of infrastructure and the promotion of competition. It furthermore embraces the ADLI strategy with its initial focus on an increase in agricultural production through expanded extension, credit and input supply programs. The strategy also includes extensive construction of new rural roads and rehabilitation of existing ones, in order to reduce marketing costs and improve distribution of food. This improvement of infrastructure will enhance competition in trade, processing and distribution of food, as well as in the marketing of inputs. Provision of market information will also be strengthened in order to increase market integration, with further reduction of costs.

The strategy of food entitlement is designed to focus on chronically vulnerable and drought prone areas. The basic idea is to direct development towards reducing vulnerability and ensuring self-provisioning in the long-term.

To transform the strategy into a concrete action, a program has been drawn up with the major objective of ensuring access to food. The program will address most vulnerable social groups living in selected target areas which are characterized by severe environmental degradation, erratic rainfall and recurring drought, low levels of food production, poor infrastructure and poor access to clean water.

Meanwhile, food security programmes have been designed by the governments of the four major regions. They comprise agriculture (crops, livestock), small-scale irrigation, infrastructure/ rural roads, sustainable use of the natural resource base, market and credit services, clean water supply and capacity building. The implementation modalities are being devised in consultation with major stakeholders. The federal government envisages to prepare, in the future, programmes for developing pastoralist areas.

In addition, there are measures designed to address productive agricultural areas with adequate rain distribution where output is not at an optimum level. Measures being undertaken in these areas include the distribution of improved seeds, fertiliser and pesticides; the provision of credit and extension; the expansion of small scale irrigation; the intensification of livestock programs (breeding; veterinary services); the promotion of conservation and rehabilitation of natural resources, addressing the land use policy; and assisting farmers in establishing agricultural marketing associations.

3. The Transport Sector in Ethiopia

Transport infrastructure is generally considered an essential element for economic and social development as it provides the links required to make markets function. The development of economically vital sectors such as agriculture, industry, tourism etc is directly dependent on the existence of a working transport infrastructure system. Ethiopia is one of the largest countries in Africa in terms of population (65 million) and of land area (1.1 million km²). The flow of goods and persons between the markedly different regions within the large, landlocked country and within the region is a determining factor for Ethiopia's overall development.

With about 0.43 km per 1000 people, the Ethiopian road network is among the least developed in the world. Only 20% of Ethiopia's land area is located within a 10 km range of an all-weather road. Not only is the network limited in outreach, but much of it is also in poor condition. This situation results in (i) poor accessibility to markets and social facilities, (ii) a continued reliance on time-consuming human and animal transport thereby reducing the time available for income generation, (iii) limited market integration leading to major price differences between deficit and surplus areas, (iv) high vehicle operation costs and (v) difficult and costly relief operations. Transport demand is diffuse and the rugged terrain in the highlands and the drought conditions in the sparsely populated lowlands make the expansion of the road network expensive.

Road transport

Despite the extremely limited network road transport represents by far the most important means of motorised transport in Ethiopia. It accounts for over 97 percent of the total domestic passenger and cargo traffic delivered by motorised transport. Yet, it accounts for only about 20 percent of the total travel and transport by all forms of movement, motorised or non-motorised, the non-motorised transport accounting approx. 80%.

The classified road network in Ethiopia consists of 29,571 km of roads (2000). According to the recently introduced Road Functional Classification System these roads are grouped as trunk roads, link roads, main access roads, collector roads and feeder roads. Trunk roads, link roads, main access roads and collector roads constitute the federal road network and are administered by the Ethiopian Roads Authority (ERA) which is a Federal autonomous body; feeder roads fall under the administration of the various Regional Rural Roads Authorities. In addition, it is estimated that the length of unclassified tracks and trails amounts to a further approximately 15,000 km. The condition of the classified road network in 1999 was recorded as follows: good 25%; fair 32%; and poor 43%. Road density (2000) (classified network) amounted to 27 km/1,000 km², which is among the lowest in sub-Saharan Africa (Kenya 111 km/2000 km²; Tanzania 87 km/1000 km²). All available information demonstrates that the country's needs to improve the road transport infrastructure are overwhelming.

Rail transport

Ethiopia's rail transport network is limited to a single-track line providing a direct link between Addis Ababa and the port of Djibouti. The railway faces a number of constraints mainly stemming from the poor condition of the line, inadequacy of the rolling stock, lack of proper maintenance, poor institutional arrangements and management.

Air transport

Ethiopian Airlines, a government owned corporation, provides domestic and international air services. Although the airline serves some major towns in Ethiopia and operates international flights that include service to more than 40 cities, its domestic role in the supply of transportation is insignificant. The same applies to the limited number of private third level airlines operating in the country.

Inland waterways

Inland water transportation in Ethiopia is insignificant.

Road transport policy

Government policy aims at encouraging an efficient, effective and safe road transport sector and recognises the need to extend accessibility (infrastructure and affordable transport services) to rural communities and agricultural production areas. Road sector policy was overhauled by the key Government ministries prior to the launch of the Government Strategy on the road transport sector. This new policy and strategy formed the foundation of many policy and institutional reforms that gave the donor community the confidence to invest in the first phase of the RSDP (RSDP I).

Road transport strategy

Realising the important role of a reliable and efficient road transport sector for the country's development, from the early 1990s the GOE, in consultation with international donors, began formulation of the RSDP, leading to a Donors Conference in January 1996. The RSDP was launched with the support of donors in 1997 and updated and reviewed in the RSDP mid-term review in February 2001.

The first phase of the RSDP (RSDP I), has formulated as a five year programme (1997-2002) with an estimated cost of € 1.4 billion, aiming at (i) reducing transport costs and improving transport efficiency, (ii) providing access to potential rural and other development areas, and (iii) introducing measures to ensure sustainability of the investments in the sector. The Government of Ethiopia is the major financier of RSDP I (60%), and the principal donors are

EC, World Bank, AfDB and Japan. Other donors include Ireland, Italy, Germany (GTZ and KfW), DFID, NDF, BADEA and OPEC.

To achieve RSDP's aims the main *policy, institutional and physical targets* for the years to come are (i) an updated road sector policy, (ii) sustainable revenue for maintenance, (iii) effective control of vehicle loading, (iv) improved road safety, (v) updating of road transport regulations, (vi) restructuring of ERA and other road organisations, (vii) commercialisation of ERA force account operations, (viii) contracting out of periodic maintenance to the private sector, (ix) development of a domestic construction industry and (x) maintenance and upgrading, rehabilitation and new road construction. The major *physical targets* are (i) increasing road density from 21km/1000 km² in 1996 to 27km/1000 km² in 2002, and (ii) increasing the condition of the network from 18% roads in good condition in 1996 to 60% in 2002.

The strategy for achieving the objectives includes regulatory and administrative reform aimed at efficient mobilisation of available resources in accordance with market principles. In the provision of the infrastructure this is focussed on the transfer of design and construction (and maintenance) activities from government agencies to the private sector under contract by competitive tendering. The provision of transport services has to varying degrees been deregulated to encourage private sector participation, although yet further refinement of the regulations is expected. The principle of road user charges, based on a fuel levy, has been introduced in the form of a Road Fund dedicated to road maintenance and safety. Several studies on policy reform have been carried out or are in progress in order to refine formulation of sector policy, strategy and operating frameworks.

The recent *RSDP mid-term review* (February 2001), conducted by ERA in close collaboration with the contributing donors, recorded a mixed progress vis-à-vis the original plans at the launching of the programme. The areas where substantial progress has been made are the establishment and operation of the Road Fund, the identification of the needs of the private sector and other sectoral problems identification, resources mobilisation the road functional classification and the introduction of a pavement management system.

At the same time there were areas where delays were encountered. These include the formulation of sectoral reforms, the introduction of standard environmental guidelines, reform of ERA and other involved agencies (still in progress), provision of TA for strengthening ERA's capacity, particularly with regard to tendering and administration of works contracts. Major problems have been faced with particularly poor designs, which resulted in a much heavier workload (both in terms of quantity and complexity), that ERA had neither expected nor was experienced enough to successfully handle. This has resulted in delayed decision making during implementation of major works contracts, which in turn has led to contractual problems and affected adversely the whole implementation timetable of the infrastructure improvement.

The overview since 1996 is therefore one of mixed, but moderate success in laying the basis for the policy and institutional reforms needed for the future implementation and sustainability of the RSDP.

Poverty reduction

The RSDP is an integral part of the Interim-PRSP and considered by the government as an important tool for enhancing growth and poverty reduction. Upgrading the road links between the capital and commercial centre, Addis Ababa and areas of agricultural productivity and seaports of neighbouring countries is an overarching objective of RSDP. At the same time RSDP - and its subcomponent the Rural Travel and Transport Programme

(RTTP) - aim at opening up so far isolated, remote areas and linking them with the existing roads network. This would enhance economic activity, available market information and market access and purchasing power in the isolated villages and regions. It would equally have a positive effect on increasing food security for rural populations. Better road infrastructure will reduce the transport costs and facilitate the flow of grain between surplus areas and food insecure areas. The Interim-PRSP also sets some specific medium-term targets for increasing Ethiopia's road density and for reducing the average time it takes for people to reach an all-weather road. At the same token, the EPRDF's 2nd Five Year Development Programme (2001-2005) confirms the importance of the upgrading of transport services, and road infrastructure in particular, for socio-economic development and the improvement of standards of living. The development and maintenance of the rural level roads will provide employment opportunities, and a downstream trickle effect on the local economy.

Recognising the dependence on agriculture for the short and medium-term economic development of the country, the RSDP includes the RTTP as an integral sub-programme. The Village Level Travel and Transport Study sample found that 50% of the population live outside the effective range of the road network. The RTTP aims to increase the road density (mainly low level community roads) and reduce the walking time to a motorable road from the current average of more than 6 hours walk to less than 3 hours at the end of 2007 for the majority of the population, thereby allowing the rural masses of the country to more effectively engage in the national economy. The RTTP is therefore a main focus area of the second phase of the RSDP, for which the Government has requested donor support.

Sustainable economic and social development

The current GOE policy is to preserve and properly maintain the road network, and to this end it has established the Road Fund to provide adequate financing for maintenance activities. Due to the substantial maintenance backlog resulting from the 1970s and 1980s, it was necessary to implement a programme of rehabilitation to restore the network to such a condition that normal maintenance activities would be appropriate. These rehabilitation measures together with policy, regulatory and institutional reform form the basis of the RSDP.

The scope of the problem with the road network was indeed grave: deteriorating road conditions, limited national resources, and inefficient implementation procedures. Identification of a core network was therefore necessary to facilitate prioritisation of a rehabilitation, development and maintenance programme. Assessment of network needs (road condition) and formulation of a hierarchical network plan were carried out through the Road Sector Study (INARSA, 1995) and the Road Functional Classification Study (RFCS) (BCEOM, 1998) respectively. The RFCS divided the more densely populated areas of the country into 123 traffic generating areas and used a wide range of socio-economic parameters to determine a weighting for each zone, and an appropriate hierarchical road network. The first phase of RSDP has focussed on large investments on the main network where the economic benefits have been easier to quantify and justify using economic models, to some extent neglecting lower level roads. It is planned to address this imbalance in RSDP II, when, through the RTTP, more emphasis will be placed on developing accessibility at grass-root level.

Regional integration

Ethiopia is a landlocked country, totally independent on reliable access to regional ports. The RTR study (the final report is expected in July) has taken into consideration issues related to

inter-modal transport as well as to axle load limits and other non-physical barriers and relevant constraints to international road transport. Trade with neighbouring countries is limited but expanding, particularly with Djibouti and the Sudan to a lesser extent. On the infrastructure side, several important pre-feasibility and feasibility studies have been conducted identifying bottlenecks to the links with neighbouring countries. Although there have been bilateral agreements (formal and in principle) with almost all neighbouring countries about the priority sections that require rehabilitation and/or upgrading, there are many regulatory and operational issues that still need to be addressed. The most appropriate way however, is under the auspices of regional organisations namely IGAD and COMESA of which Ethiopia is a member.

Stakeholder involvement

The GOE has started encouraging consultation with sector stakeholders. Regular consultation with private transport service providers occurs through joint GOE/private sector membership of the Road Fund administration board. Other ad-hoc GOE/private sector consultations have taken place in the course of the various sector policy issue studies, through national stakeholder workshops and questionnaires (road safety, axle load management, transport regulations, rural travel and transport, domestic construction industry). Both the EC and the WB, as the major sector donors, have been fully supportive of this approach. Regular sector GOE/donor meetings are held to review progress and problems. All sector donors have agreed to, and are generally implementing, a co-ordinated approach to sector interventions based on the priorities outlined in the RSDP.

Economic sustainability

Decisions on providing transport infrastructure are based on consideration of costs, benefits and rates of return using internationally accepted economic models, with design standards appropriate to service demand and life. For the primary and secondary road network, the economic evaluation and prioritisation is based on detailed feasibility studies, usually undertaken by consultants. At the lowest (rural community) level sophisticated economic modelling of the investment is often more difficult and a community participatory planning approach has been adopted. Investments in transport infrastructure at this level generally are limited to spot improvements, river crossings etc. Private service providers of conventional motorised transport do not find this segment of the market attractive for cost/affordability reasons and the RTTP will investigate methods of promoting awareness of, and introduction of Intermediate Modes of Transport. As identified in the Road Transport Regulations Study, currently, remote areas are served through a mechanism whereby regional authorities, "approve" private operator's route schedules. This has the effect of combining "good" and "bad" route sectors and prevents conventional transport operators from concentrating on urban and peri-urban routes to the neglect of rural communities. While this mechanism provides a minimum level of transport services, the issue of affordability for the rural population will remain problematic while the rural economy remains at subsistence level. Other methods for providing transport services in sub-economic areas are currently being examined under the RTR study.

GOE aims at improving the efficiency of maintenance activities by privatising the implementation of such works by competitive tendering as well as by commercialising ERA's force account road maintenance operations. Preparations for mobilising private contractors in this field have been initiated by the recently completed study of the Domestic Construction Industry (SMEC, 2000), which, as a major output, proposed an action plan designed to encourage participation in the sector by domestic contractors. Measures to ensure equitable competition for transport services are currently being examined in the RTR study.

Financial sustainability

The GOE has adopted a policy of financing road maintenance through user charges; essentially fuel levies and vehicle (axle load) licence fees. The GOE has further confirmed the importance of road maintenance by assigning sales tax on fuel sales directly to the Road Fund (maintenance) in addition to the Road Fund fuel levy, amounting to approximately 15% of the pump price of fuel. Current Road Fund receipts at approximately ETB 250 million (1999/2000) will be required to rise substantially (to ETB 450 million) in the coming years, to cover long-term routine and periodic maintenance needs. Appropriate fuel levies and vehicle (axle load) licence fees were recommended in the Axle Load Management Study. The management board of the Road Fund, which, to a certain extent, represents private sector stakeholders (12 government members/4 transport association members), is empowered to review road fund financing and make appropriate recommendations to government. To date, funds have been released to the relevant road maintenance agencies in a timely manner, subject to the provision of appropriate work plans and certificates of completed works. A Roads Inspectorate Unit has been established within ERA to carry out technical and financial audits of activities in the Road Sector. The Road Fund Administration plans to carry out regular financial audits of the application of Road Fund financing of road maintenance.

Implementation of the RSDP, as presented in January 1996, requires the mobilisation of sizeable financial support to cover the expenditures envisaged for the different components of the programme. The physical and financial efforts of the Government to improve the road transport infrastructure throughout the country will only be achieved with substantial support by donors. For the RSDP I, the total donor financing is expected to exceed € 1.4 billion of which over € 500 million has already been committed. The WB and EC are the two main contributors to the RSDP with expected support of € 725 million and 320 million respectively.

Institutional sustainability

In the road transport sector, the GOE has introduced several institutional reforms aimed at changing government agencies from providers of services and infrastructure to purchasers of services and works. In line with the transformation of the national system of government, the administration of the road network has been reformed into a federal core network administered by ERA and regional networks administered by autonomous Rural Roads Authorities in the various Regional States. The establishment (re-establishment) proclamations of these authorities requires that as far as practicable the authorities should limit their activities to the management of their respective networks, procuring works and services by contract through competitive tendering. Except for donor financed projects, this aspect is not yet fully operational. So far restructuring of ERA has not, as yet, reduced the propensity to undertake works projects by direct labour. Several ongoing technical assistance projects are aimed at increasing the capacity of various road sector organisations to plan and manage the road sector and formulate and administer the implementation of projects by contract. Salary levels in the sector agencies have been raised compared to general GOE levels to attract and retain staff; however, the salary gap with the private sector remains considerable. Regular management and technical training programmes for personnel of sector agencies are ongoing through the various technical assistance programmes, in country and internationally. Procedural guidelines have been developed for ERA to promote equitable and efficient contract administration and to encourage appropriate delegation of responsibility. Standard tender documents, conditions of contract, design manuals, and specifications are in preparation.

Environmental, safety and social issues

The regulations of the Ethiopian Environmental Protection Authority require a graduated assessment of all proposed interventions in the road sector. Sector donors have similar requirements. Specific environmental management guidelines for road sector projects are at an advanced stage of preparation.

A sectoral road safety study is nearing completion (financed by the EC). In the draft final report the study has recommended a cross-sectoral action plan incorporating a National Road Safety Council, co-ordinating interventions in the fields of accident data collection, highway engineering, vehicle road worthiness, driver licensing, traffic regulation enforcement, emergency services, education, damage/injury compensation insurance and public awareness.

The Village Level Travel and Transport Study identified the disproportionately heavy burden of the rural transport that is imposed on women (head-loading, back-loading) mainly associated with domestic chores and subsistence activities. This information has been considered in the formulation of the RTTP, recognising that provision of roads alone will not reduce the rural domestic travel and transport needs (of mainly women) and that complementary activities are required in other sectors (woodlots, potable water, market facilities).

HIV/AIDS Initiatives

ERA operates throughout the country via its 10 Districts, 56 Sections, 20 Own-force projects and 2 Training Centres. The organisation has over 13,000 employees of which about 1,000 are at the head office in Addis. No statistics are separately available on infection or morbidity rates for HIV/AIDS, in the road/transport sector in Ethiopia. Nevertheless, experience from other countries indicates that, the Ethiopian road/transport sector is presumably, a substantial contributor to the spreading of the epidemic to different parts of the country. On this basis, therefore, ERA has recently established task forces at Head Office, district and projects level to combat the spread of HIV and thus contribute to the national effort towards halting the propagation of the epidemic. Public awareness campaigns are being undertaken by NGOs with the task force playing co-ordinating and facilitating roles. The fight against the epidemic includes not only ERA workers but also employees of international contractors currently undertaking road rehabilitation/upgrading works financed by different multi and bilateral donors. To this end, awareness campaigns for both contractors' staff and local population have been included in major works contracts.

The EC response to the transport sector strategy under the CSP

The EC has been actively involved since the formulation phase of the RSDP, and in close contact with the main implementing agency. The RSDP Mid-Term review gave the required confidence that the RSDP strategy is appropriate and contributing to meeting the country's economic development objectives, as well as poverty alleviation and food security requirements.

However, it is of importance that the action plans developed by the sectoral studies be endorsed for implementation by the GOE, so as to realise all the potential benefits from the improvements in the transport infrastructure. The sectoral studies of the first phase of the RSDP have to be endorsed by the GOE for timely implementation. This will require some financial assistance, to be provided by the main RSDP donors. However, in order to continue the support to major road investments under the second phase of the RSDP, the policy reforms should be complemented by a variety of capacity building activities so as to ensure sustainability of the sector. The GOE has identified capacity constraints and has been encouraged to prepare a plan for gradually overcoming this problem.

In general, all problems encountered during the implementation of the first phase of the RSDP have been properly recognised during the course of the RSDP Mid-term Review. In particular, concerning the EDF support, the remedial measures –a joint responsibility of EC and the government- include:

- on studies: sufficient and realistic performance period, budget and manpower requirements, clear and precise TOR, and close monitoring of the study process;
- on the design of the works: more rigorous review of existing design studies and possible modification on the basis of recommendations issued in a feasibility analysis.
- on the tender dossiers: simplification of the tender requirements and preparation of standard specifications for the works;
- on the works supervision: provision of sufficient manpower and budget for the supervision services and delegation of more powers to the supervising teams;
- on the works contracts administration: the appreciation of the need to work in partnership with all involved parties, including the contractors, in sorting out problems that may be encountered during the performance period.

As regards the investments in road infrastructure, the planned pre-feasibility and feasibility studies are expected to provide the basis for justification or rejection of the proposed projects and eventually determine the most cost-effective type of investments on the selected roads.

In view of the importance the Government attaches to the development of transport infrastructure in general, and roads in particular, to combat poverty and food insecurity in the country by improving accessibility and economic productivity and also taking into account the considerable financial requirements for a successful implementation of RSDP I and II, the EC stands ready to continue to financially support the Government in this domain. When compared to other priority sectors - and analysing donor commitments for the next few years - the EC considers that its support will have the highest added value - in terms of contributing to the implementation of a future PRSP - when a substantial share of the 9th programmable resources will be allocated for support to the transport sector.

This continued and long-term commitment presupposes that every effort shall be made by the Government to tackle the implementation and administration problems, which have been identified during the RSDP Mid-term review.

Ethiopia is one of the poorest countries in the world with a predominantly rural subsistence population. If the abject mass poverty is to be reduced, increasing emphasis needs to be laid on providing support for the rehabilitation and upgrading of the rural roads network and to the Rural Travel and Transport programme, which, inter alia, is expected to complement food security related activities. However, this will take place gradually, given the lack of experience in supporting this sub-sector and should not overshadow the large boost to GDP (in the order of 3%) to be gained from the effective rehabilitation and management of the main road network that the RSDP is designed to deliver.

Sector Indicators

The following monitoring indicators have been identified as being capable of giving a valid picture of the state of the road network based on a sampling basis. The indicators have been discussed in the RSDP Mid-Term Review, where it was agreed to explore the possibility to expend them in order to cover the social impact of the RSDP. It was however, agreed that they are a useful and cost-effective tool to monitor the RSDP. The indicators are divided into the following categories:

A. Benefit indicators covering road density, traffic flows, roughness and road conditions, VOC and VOC savings, freight and passenger tariffs, fatalities and accidents, and average journey time.

B. Sustainability indicators covering maintenance budget and expenditures, number of km maintained, maintenance cost/cost of maintaining road network, time for payments to contractors and consultants, contracts administration, the proportion of construction by the private sector, labour-based vs total construction ratio, actual axle loading vs legal limits, the actual investments for construction, rehabilitation and maintenance costs, and the travel time.

The monitoring of the RSDP is an on-going annual exercise, which started in 1997 with the establishment of the baseline indicators.

4. Human Development - ESDP/HSDP

The situation with respect to the provision of education and health services in the early 1990s was characterised by low coverage, low quality and relevance, variation between regions in service utilisation and sharp rural-urban disparities. The primary education (1-8 grades)

enrolment ratio was around 22% and the health service coverage was estimated to be below 45% (of Ethiopians having access to basic health care).

In order to effectively address the challenges the country faced in those areas, the government has adopted new education and health policies in 1994. To implement the policies, the government has subsequently formulated twenty-year sector development strategies, which will be implemented through a series of five year investment programs (five-year rolling program) for both education and health. In 1996, it invited donors to contribute to these Sector Development Programmes.

The main objective of the five-year Sector Development Programs (SDPs) is to increase access to and to improve the quality of education and health services, with an emphasis on basic facilities and rural areas. Though implementation of the plans officially started in the 1997/98 budget year with government funding and support from ongoing donor assistance, much of the organizational and implementation arrangements followed during 1998/1999.

The *Education* Sector Development Program (ESDP) translates the policy statements and strategy into action. The ESDP covers the first five years of the twenty years long-term plan to improve the overall educational attainment of the population, while achieving greater social equity. It also aims at achieving universal basic education by the year 2015. Over the first five years period (1997/98 – 2001/02) the Program is designed on the expansion of primary education with special attention to girls, rural and under-served regions, the improvement in the quality of education, and the promotion of more equitable distribution of education opportunities.

Components of the education sector strategies are the following:

- 1 A revision of the curriculum to fit the new Education and Training Policy;
- 2 The establishment of a vocational/technical training system, independent and parallel to the academic system, but with appropriate linkages;
- 3 A re-organisation of educational organisation and administration in accordance with the devolution of power from the central government to lower levels. In line with this, Schools will be made more responsive to the local needs and shall acts as centres for all educational activities in the communities;
- 4 The upgrading of the professional competence of teachers and a revision of their training programme and curriculum;
- 5 An improvement of the link between academic research and classroom teaching;
- 6 An increase in the government budget for education, with emphasis on construction and the provision of educational materials.
- 7 An enhancement of the participation of communities, NGOs and the private sector in the provision of educational infrastructure and services.

In *Health* the long-term aim is to achieve universal access to essential primary health care service by the year 2017. The overall goal of the five-year Health Sector Development Program (HSDP; 1998-2002) is to improve the health status of the Ethiopian population. Central in the HSDP is the development of a financially and managerially sustainable health services system, which will provide integrated primary health care services, based on community level health facilities. The HSDP places emphasis on preventive measures, on promotional aspects of health care and on essential curative services. Its targets include increasing access to primary health care services from 45% to 55-60% by 2002 and changing the existing six-tier pyramidal to a four-tier system centered around the primary health care unit.

The principle objective of the initial phase of HSDP is the development of the health system which will: improve the coverage and quality of health services; be primarily implemented and managed by regional, zonal and woreda level health officials; be financially sustainable.

To achieve the above objectives, the following strategies will be used:

- 1 To improve the performance of the health system through expanded coverage and increased quality of health services, HSDP will assure the accessibility of health care for all segments of the population. It will also develop the preventive and promotive components of health care. Through HSDP the government will work closely with neighbouring countries and international organisations to share information and strengthen collaboration in all activities contributing to health development;
- 2 To strengthen capacity for health sector planning and management by regional, zonal and woreda level, HSDP will democratise and decentralise the health system. Administration and management of the health system will be strengthened as well as the health management information system.
- 3 To ensure the financial sustainability of improvements in health services performance, HSDP will mobilise and utilise both domestic and external resources. A payment scheme according to financial ability will be developed. The participation of private sector and non-governmental organisations in health care will be promoted.

HIV/AIDS started to spread in Ethiopia in the early 1980s. The first evidence of HIV infection was found in 1984 and the first AIDS case was reported in 1986. HIV prevalence was low in the 1980s but began to increase in the last decade rising from about 3.2% of adult population in 1993 to 10.6% in 2000 representing 2.9 million adults and 150,000 children. About 90% of reported AIDS cases occur to adults between the ages of 20-49.

The Government of Ethiopia, having realised the implication of this state of affairs, has developed a national HIV/AIDS Policy in 1998 to curb the devastating impact of HIV/AIDS on human and social capital development in the country. The focus of this policy is on preventing the spread of the disease, promoting safe sexual practices and providing appropriate care to the affected and their families. Following this policy framework, and in view of the alarming increase in the HIV infection, a five-year strategic plan (2000-2004) focusing on prevention, care and support and covering both the federal and regional levels has been formulated and is being implemented.

The major areas of interest addressed by the National Strategic Framework are:

1. The prevention of the transmission of HIV using effective information, education and communication and networking that would result in social mobilisation and a corresponding behavioural change in the population; and through the formulation and development of policy and strategic instruments for evolving an enabling and conducive environment for fighting HIV/AIDS;
2. The development of effective mechanisms for voluntary counselling and testing, blood safety, distribution of condoms, prevention of HIV transmission in hospital and non-hospital settings and fostering multi-sectoral approach to HIV prevention and control;
3. The alleviation of the personal and social impact of HIV/AIDS by ensuring comprehensive care and support to people living with HIV/ AIDS and reduce the social and economic impact of HIV/AIDS on their families;
4. The promotion of HIV/AIDS operational research and monitoring the trends of the HIV/AIDS epidemic; and
5. The development of management system to administer the national action plan against HIV/AIDS.
6. In order to implement the National AIDS policy, the National AIDS Council (NAC) has been established in April 2000. Members of the council are drawn from government, religious organisations, NGOs the private sector and prominent individuals. The Council has essentially the role of mobilising internal and external resources and co-ordinating the activities of the various partners. The council oversees the implementation of the Federal and Regional plans, examines and approves annual plans and budgets, and monitors plan performance and impact.

Donor Matrix and Donor Support

Recently, and in absolute terms Ethiopia has been the third largest recipient of ODA in Sub-Saharan Africa (after Mozambique and Tanzania). For the four-year period 1995-1998, Ethiopia received development assistance averaging 13.4% of GNP. This compares favourably with the LDC average of 12.8% and the Sub-Saharan Africa average of 7.3% for the same period. However, when the assistance is expressed in per capita terms, aid to Ethiopia lags behind many other countries. In the period 1995-98, Ethiopia received on average US\$ 13.4 per capita, while the averages for the LDCs and Sub-Saharan Africa were US\$ 28.7 and US\$ 25.8 respectively. Moreover, both in absolute and relative terms development assistance to Ethiopia has been declining since 1995.

The largest donors to Ethiopia in the last five years have been The World Bank, the EC, USA, the African Development Bank and Japan. These five donors have accounted for slightly over 50% of all development assistance to Ethiopia. The EC is the second largest donor to Ethiopia (after the World Bank), providing annually 10-15% of all external assistance. In addition, a large number of bilateral (including nearly all EU Member States) and multilateral donors and channels exist, which makes the donor picture in Ethiopia rather complex. Contrary to other multilaterals like the World Bank and the ADB, the EC works almost entirely on a grant basis.

The donor matrix attached provides a succinct overview of the sectors of operation and concentration of the donors active in Ethiopia. In addition, it gives information on the various co-operation instruments used: policy advice, capacity building, investment projects, budget support and emergency assistance. The matrix clearly shows the complexity of donor assistance to Ethiopia with a large number of different players, operating in a range of fields. For the biggest donors, more details on their programmes are presented below. As a whole, however, one can conclude that the EC position in Roads and Economic Reform is both strategic and complementary to most other donors. In these sectors, which require significant funding and technical expertise, the EC is one of few donors operating consistently for a number of years and, as a result, has built up a good knowledge of the pertinent issues in the sectors. On the other hand, nearly all donors operate in Food Security, where the EC has obtained a pivotal position among them, not only by providing large amounts of food aid and having developed novel directions the attainment of food security, but also by being the Chair of the Food Security and Agriculture Committee.

The assistance programme by the *World Bank* is very wide ranging, but has an increasing focus on economic reform, food security, economic infrastructure (Roads, Energy) and the social sectors. The total project loan portfolio at the end of 2000 was US\$ 1.3 billion of which 60% was still undisbursed. Recently the World Bank has agreed a US\$ 400 million support package to rehabilitation, reconstruction and demobilization. It expects to conclude a Balance of Payments support programme (amount to be decided) and a Food Security support project (US\$ 80 million) in the first half of 2001. The *African Development Bank* is also active in a range of sectors, including health, education, water and roads, but has an increasing focus on economic reform and food security and agriculture.

The 2001-2006 integrated strategic plan for *USAID* aims at addressing both chronic and emergency food insecurity in Ethiopia and proposes thereto five strategic adjectives: (i) increased rural household production and productivity; (ii) improved family health; (iii) enhanced quality and equity in primary education system; (iv) more effective governance and better developed civil society; and (v) improved capability to mitigate the effects of disaster. In addition *USAID* has identified one specific strategic objective which is: improved livelihoods for pastoralists and agro-pastoralists in Southern Ethiopia. *Japan* has a clear focus on a limited number of sectors: food security & agriculture, roads, water & sanitation and education. Within the *UN System*, a large number of agencies are active in Ethiopia. These include WFP which is annually deeply involved in food aid and food security programmes, UNHCR in assistance to refugees, UNDP which focuses on capacity building in the civil service and on education, as well as UNICEF with a focus on health and education.

Nearly all EU Member States operate in Ethiopia in their capacity as bilateral donors. The most significant EU donors –in terms of finance- are Germany, The Netherlands, Sweden, Italy, Ireland and France.

Germany has for the past period concentrated its co-operation assistance in four areas: (i) economic and social reform; (ii) roads and water supply; (iii) agriculture and food security; including environmental protection and (iv) education. It is presently engaged in a strategic planning exercise for the near future, which may result in a re-orientation of priority sectors. The *Netherlands* has for several years focused on two priority sectors of co-operation: rural development and health care. In the field of rural development two large integrated rural development programmes are being supported, as are a number of agricultural research projects. In health, the emphasis is on drugs supplies, TB and AIDS. In the near future education will probably form the third priority sector for The Netherlands. The assistance from *Sweden* to Ethiopia has significantly decreased during the war with Eritrea. Future assistance will most likely concentrate on natural resources, as well as on education and health, but the exact choices and sector concentration are still under discussion. *Italy* is in the process of implementing the 3-year program for the period 1999-2001. The program includes a drastic increase in planned assistance. The Country Program covers an envelope of about € 108.5 million for the three years. The main sectors of support will be rural development & food security and education, while infrastructure (roads) and health are also concentration sectors of support. These four sectors will take about 80% of the Italian assistance. *Ireland* Aid is currently preparing a new co-operation strategy for Ethiopia and envisages a considerable increase of the aid volume. The Irish country programme supports area-based programmes in Eastern Tigray, Sidama and Gurage zones. At both federal and regional levels, the Sector Development Programmes in Education and Health are also supported. Assistance will furthermore be provided to the Road Sector Development Programme. *France* channels most of its investment support through the Agence Française de Developpement (AFD). Sectors of concentration for AFD are irrigation and infrastructure (water and railway). Outside the AFD portfolio, France concentrates on education and legal reform.

Donor matrix 2001-2003

Donor	Economic reform & Finance	Trade & regional development	Private sector development	Civil service reform	Decentralization	Food Security & Agriculture	Roads & Transport	Energy	Telecommunications	Water supply & sanitation	Education	Health	HIV/AIDS	Population & gender	Democratization/human rights	Legal reform	Environment
6. IMF ²⁴	PT	PT	P	PT	P	P			P								
7. WB	BPT		PT	PT	IPT	IPT	IPT	IPT	P	IPT	IPT	IPT	IPT	IPT	IT	IPT	PT
ADB	TPE		IT			IPT	IT	IT		IT	IT	IT					
UNDAF	TP	TP	TP	TP	TP	TPE			T	TP	TP	TP	TP	TP	TP	TP	TP
EU	BPT	PT	IPT	IPT		IPT	IPT	I		ITE	BPT	E			TP	IT	
France		PT	IT		IPT	I	IT	IT		I	IT	I			*	IPT	
AFD			IT			IT	IT	IT		IT							IT
UK			*		*	*	*			*	*		*				
USA	ITP	P	T	ITP	IPT	IPT				IPT	BTP	BTP	IPT	IPT	TP	T	ITP
Austria						IT		IT				IT		IT	IT		
Spain						E				I	T	IT			TP		
Japan						IBTP	ITP	I	TP	ITP	IT	IT		I			
Belgium						ITPE				IE	BI	BI	IT	PT	IPT		IB
Netherlands						IBTPE					IBTP	IBTP	IPT	PT	IPT	IPT	PT
Canada						ITP								T	T	TP	
Sweden						BTE	*				BT	*	*	*	*	*	*
Norway			I	IB		IT				IT			IPT	IPT	IT		ITP
Finland	PT			PT		ITP		ITP		ITP			T		IT		TP
Germany					TP	T	ITP			T	TP		IT				T
Italy			IT			ITE	I			E	IT	ITE	ET	IT	T		
Ireland				IPT		IPT	IPT			I	IPT	IPT	I		IP		
Switzerland						TE	TE			TE		T					

²⁴ The IMF provides a PRGF credit, which will be disbursed as Balance of Payment support flowing to the NBE and to be used in consultation with the Government.

Explanation:

I = Investment projects

T = Training & other capacity building

E = Emergency Relief

Concentration sector (= more than 10% of total country envelope)

B = Budgetary support

P = Policy advice

* = Support instruments to be decided

ANNEX 4**Past and ongoing main EDF Support and Sectors of Concentration**

Lomé Con- vention	EDF	Period	NIP	Main sectors of Cupertino (NIP)	Stabex and SAF	EIB Support
Lomé I	4	1976-1980	120	Infrastructure, Energy, Export Agriculture, Water Supply	14	0
Lomé II	5	1981-1985	141	Water Supply, Energy Export Agriculture	12	13
Lomé III	6	1986-1990	210	Integrated Rural Development, Economic Reform	99	30
Lomé Iva	7	1991-1996	214	Roads, Economic Reform, Water	258	44
Lomé Ivb	8	1997- now	250	Roads, Economic Reform, Human Resource Development, Food Security	79	41

* Figures expressed in € million and rounded to the nearest million.

ETHIOPIA: Selected economic and social indicators

GENERAL

Area (square km):	1,104,000
Population (million):	65
Rural Population:	85%
Life Expectancy:	43 years
Population growth rate:	2.8%
Fertility Rate:	6.4
Human Development Index (HDI) Rank:	171

ECONOMY

Nominal GNP (US\$):	6.6 billion
GNP per capita (US\$):	100
GDP Breakdown by sector	
Agriculture:	49 %
Industry:	7 %
Services:	44
GDP growth rate (90-99):	4.8%
Inflation:	
1997	-6.4%
1998	2.5%
1999	4.8%
2000	5.0%
External debt: (1998: US\$)	9.5 billion
Debt Service: (1998: US \$)	112 million

(All figures for FY 1999/00 in million US \$)	(all figures for in million € for 1999, unless otherwise stated)
Total exports: \$ 486	Exports to EC: € 176,0
Main export items: coffee (56%), hides & skins, chat	Main export items to EC: coffee (67.9%); hides & skins
Total imports: \$ 1,611	Import from EC: € 458,2
Main import items: fuel, food, machinery, vehicles	Main import items from EC: vehicles, grain, spare parts
Trade balance: \$ 1,125	Trade balance with EC: € 282,2
FDI: (**)	FDI of European origin: € 6.8 (FY 1999/00)

Social Development

Adult Literacy Rate:	36%
Primary Enrolment Rate (2000):	51% (1995/96: 30%)
Secondary enrolment rate (2000):	10% (1995/96: 8%)
Infant mortality:	107
Under 5 mortality:	173
Immunisation coverage (2000):	42% (1997: 59%; 1993: 14%)
Mother and Child Health Care (1999):	25.5% (1997: 30%; 1993: 21%)
Contraceptive prevalence rate:	4
Access to health services	55%
Access to safe water:	27%
Access to sanitation:	18%
Indicators of nutrition	
<5 wasted (2000):	10.7%
<5 stunted (2000):	51.2%
<5 under weight (2000):	47.1%
Number of nurses (doctors)/100,000 people	8(4)

(**) Excluding foreign investments as part of joint ventures with domestic investors. Total of such joint venture investments (domestic-foreign) in 1999 was estimated at \$ 81 million (source: Ethiopian Investment Authority)

Sources: World Bank, 2000: World Development Report 2000/01 – Attacking Poverty
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