



# APRM COUNTRY REVIEW REPORT NO.14

AFRICAN PEER REVIEW MECHANISM



COUNTRY REVIEW REPORT

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

JANUARY 2011

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**January 2011**

# Foreword

The APRM is Africa's unique initiative, which aims at improving good governance and supporting socio-economic development in the continent. Over the last decade since the establishment of the APRM, valuable lessons have been learnt about governance and development.

It gives me great pleasure to present the APRM Country Review Report together with the National Programme of Action of the Federal Democratic Republic of Ethiopia. This is the fourteenth in the series and the eleventh one completed under my stewardship as the Chairperson of the APRM Forum.

In a relatively short period of two decades Ethiopia has successfully shifted from a unitary state to a federal system, established a fledgling democracy, and achieved a relatively high economic growth rate.

The report highlights a number of commendable practices, which include overhauling and developing good road networks through the ten-year Road Sector Development Programme, assertiveness on self-reliant planning, pro-poor expenditure pattern of the government budget with emphasis in the fields of agriculture, food security, irrigation, primary education and health, and sanitation. Also commendable are the establishment of the Ethiopian Commodity Exchange, the approach to microfinance, access to markets and the strong macro-economic policy, which have yielded broad-based economic growth.

At the same time the report highlights challenges of resolving problems in its relations with neighbouring Eritrea, smoothing the democratization process, strengthening governance, and building the private sector.

The task ahead now is the implementation of the National Programme of Action (NPOA). I therefore call upon the stakeholders of the APRM and the development partners to study carefully this Report and the accompanying NPOA, and work together with the government of the Federal Democratic Republic of Ethiopia towards the implementation of the NPOA.

I would like to thank my Peers in the APR Forum for their determination and commitment that have enabled us to arrive at this stage of the development of the Mechanism as a whole.

I am also grateful to the APR Panel of Eminent Persons and the APRM Secretariat for preparing this country Review Report.

Meles Zenawi  
Chairperson of the APR Forum.





## **COUNTRIES PARTICIPATING IN THE AFRICAN PEER REVIEW MECHANISM (APRM) AND PANEL OF EMINENT PERSONS**

As of 30 October 2010, the APRM Participating Countries are the following:

Algeria, Angola, Benin, Burkina Faso, Cameroon, Republic of Congo, Djibouti, Egypt, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Malawi, Mali, Mauritania, Mauritius, Mozambique, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Togo, Uganda and Zambia

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Barrister Domitila Mukantaganzwa of Rwanda, Representing Eastern Africa  
*(Vice-Chairperson)*

Barrister Akere Tabeng Muna of Cameroon, representing Central Africa  
*(Member, leading the Ethiopian APRM Process)*

Barrister Julienne Ondziel Gnelenga of Republic of Congo, representing Central Africa  
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Professor Amos Sawyer of Liberia, representing West Africa  
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## ACKNOWLEDGEMENTS

The APRM Panel of Eminent Persons is proud to produce the 14<sup>th</sup> in the series of Country Review Report, this time on the Federal Democratic Republic of Ethiopia.

The APR Panel wishes to thank His Excellency, Meles Zenawi, Prime Minister of the Federal Democratic Republic of Ethiopia and Chairperson of the APR Forum for his unwavering commitment to the APRM process since its inception.

The Panel would also like to thank the 23-member APRM National Governing Council chaired by H.E. Tefera Waluwa, Minister of Capacity Building, as well as the Regional Governing Councils which undertook the country self-assessment process. Our gratitude equally goes to Mr. Neway Gebreab, APR Focal Point for Ethiopia and his staff for facilitating the Country Review Mission.

The APR Panel extends its gratitude to all the stakeholders who interacted with the Country Review Mission. These included representatives and officials of various institutions with a bearing on governance, including the Cabinet, the Judiciary and the Attorney General, the Ethiopian General Assembly, Internal Revenue Authority, Auditor General, the Central Bank, and the Anti-Corruption Body. We further thank the non-state stakeholder groups, including private sector representatives, civil society organisations, women's groups, and political parties, whose representatives also met with the CRM.

The Panel further extends its gratitude to various stakeholders who played a critical role in raising awareness about the APRM process in Ethiopia. Specific mention should also be made of the role played by the country's media and various civil society organisations. Above all, we are grateful to the people of Ethiopia for their effective participation in the sessions organised for the review mission.

The Panel is thankful to Barrister Akere Muna for completing the process following the reorganisation of the APR Panel. Professor Adebayo Adedeji, the erstwhile Lead Panelist for Ethiopia led the Ethiopia Country Review Process with a strong sense of commitment, diligence, expertise and utmost calmness that have been the hallmarks of his distinguished and illustrious career as an international civil servant. Prof. Adedeji used his deep knowledge of the country to ensure a successful review process.

The APR Panel is also grateful to the team of consultants who undertook the Ethiopia Country Review Mission. This team of outstanding consultants, with impressive credentials and glowing track records, included H.E. Professor Amos Sawyer who has since January 2010 been appointed to serve as a Panel Member; Prof. Oluyele Akinkugbe; Dr. Mohamed En Naceur Bourenane; Dr. Francis Chigunta; Dr. Bernard Z. Dasah; Professor L. Adele Jinadu; Mrs. Fatima Karadja; Justice Joseph N. Mulenga; Dr. Makha D. Sarr; and Ms. Gertrude Takawira. The Panel is also grateful to Advocate Mumba S. Kapumpa who represented the African Development Bank (AfDB), one of the APRM Partner Institution.

Finally, the APR Panel acknowledges the assistance provided by Dr. Ateikhena Jerome and Mr. Ferdinand Katendeko both of the APRM Secretariat who coordinated the entire review process.



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# MAP OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA



Source: <http://www.ezilon.com/maps/africa/ethiopia-maps.html>



## COUNTRY FACT SHEET

**Location:** Eastern African Country. Border Countries: Somalia and Djibouti to the East; Kenya to the South; Sudan to the West and Eritrea to the North.

**Area:**  
Total: 1,104,300 square km  
Land: 1 million square km  
Water: 104,300 square km

**Population:** 73,918,505 (2007 Census); 85,237,338 (July 2009 est.)

**Age Structure:**  
0-14 years: 46.1 percent  
(male 19,596,784/female 19,688,887) (2009 est.)  
15-64 years: 51.2 percent  
(male 21,376,495/female 22,304,812) (2009 est.)  
65 years and over: 2.7 percent  
(male 975,923/female 1,294,437) (2009 est.)

**Land Use:**  
Arable land: 10.01 percent  
Permanent crops: 0.65 percent  
Other: 89.34percent (2005)

**Urbanisation:** Urban population: 17 percent of total population (2008)  
Rate of urbanisation: 4.3 percent per annum (2005-10 est.)

**Capital:** Addis Ababa

**Other Main towns:** Dire Dawa, Harari, Mekele, Jijiga, Gambela

**Territorial Provinces:** Tigray, Oromia, Somali, Afar, Amhara, Bishangul Gumuz, Gambela, Harari, Southern Nations, Nationalities and Peoples (SNNP), and the 2 self-governing administrations of Addis Ababa and Dire Dawa.

**Ethnic Groups:** Oromo 34.49 percent, Amhara 26.89 percent, Somali 6.2 percent, Tigray 6.07 percent, Sidama 4.01 percent, Gurage 2.53 percent, Wolayta 2.31 percent, Hadiya 1.74 percent, Afar 1.73 percent, Gamo 1.5 percent, (2007 Census)

**Languages:** Amarigna 32.7 percent, Oromigna 31.6 percent, Tigrigna 6.1 percent, Somaligna 6percent, Guaragigna 3.5 percent, Sidamigna 3.5 percent, Hadiyigna 1.7 percent, other 14.8 percent, English (major foreign language taught in schools)



**Official language:**

Amharic

**Religion:**

Ethiopian Orthodox 43.5 percent, Protestant 18.6 percent (which include Ethiopian Orthodox Tehadeso Church and the Ethiopian Evangelical Church Mekane Yesus), Muslim 33.9 percent, Traditional 2.6 percent, Catholic 0.7 percent, All Others 0.6 percent (2007 Census).

**Literacy:**

Definition: age 15 and over can read and write  
Total Population: 42.7 percent  
Male: 50.3 percent  
Female: 35.1 percent (2003 est.)

**DEMOCRACY AND POLITICAL GOVERNANCE**

**Independence:**

Ethiopia is the oldest independent country in Africa and one of the oldest in the world - at least 3,000 years old

**Constitution:**

Ratified on 8 December 1994, promulgated on 22 August 1995

**Legal system:**

Based on civil law; currently a transitional mix of national and regional courts; has not accepted compulsory ICJ jurisdiction

**Executive Arm:**

Chief of State: President Girma Woldegiorgis (since 8 October 2001)  
Head of Government: Prime Minister Meles Zenawi (since August 1995)  
Cabinet: Council of Ministers as provided for in the December 1994 Constitution; Ministers are selected by the Prime Minister and approved by the House of People's Representatives

**Legislature:**

Bicameral Parliament consists of the House of Federation (or Upper Chamber responsible for interpreting the Constitution and federal-regional issues) (108 seats; members are chosen by state assemblies to serve five-year terms) and the House of People's Representatives (or Lower Chamber responsible for passing legislation) (547 seats; members are directly elected by popular vote from single-member districts to serve five-year terms)

**Elections:** Parliamentary election took place on 23 May 2010

**Election results:** The Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) **499**, The Somali People's Democratic Party (SPDP) **24**, The Benishangul Gumuz



Peoples Democratic Party (BGPDP) **9**, The Afar National Democratic Party (ANDP) **8**, The Gambela People's Unity Democratic Movement (GPUDM) **3**, The Harari National League (HNL) **1**, The Argoba People Democratic Organisation (APDO) **1** The Ethiopian Federal Democratic Unity Forum (Medrek) **1**, Independent **1**

Total number of seats in the House of Peoples' Representatives: 547

**Number of Registered Parties:** 65 licensed Parties, 7 operate at the national level while 58 are regional.

#### Judiciary:

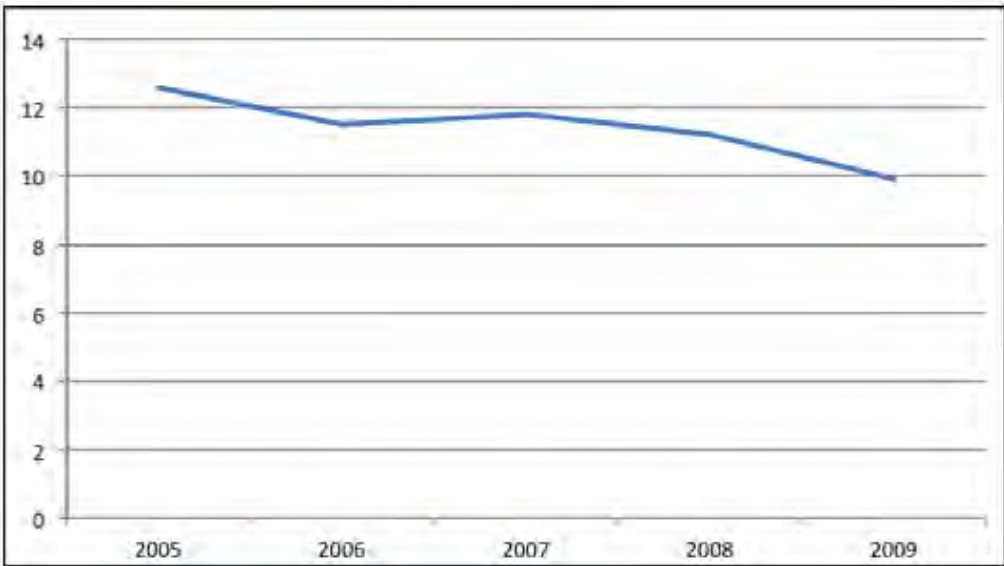
The President and Vice President of the Federal Supreme Court are recommended by the Prime Minister and appointed by the House of People's Representatives; for other federal judges, the Prime Minister submits candidates selected by the Federal Judicial Administrative Council to the House of People's Representatives for appointment.

#### ECONOMIC GOVERNANCE INDICATORS

	2005	2006	2007	2008	2008
GDP (US\$bn) (current prices)	12.3	15.2	19.6	26.7	32.3
GDP PPP (US\$bn) (c)	47.2	54.4	62.6	71.0	79
GDP per capita (US\$)	165	198	249	330	390
GDP per capita PPP (US\$) (c)	633	710	795	880	985
Real GDP growth (% Change yoy)	12.6	11.5	11.8	11.2	9.9
Current account balance (US\$m)	-773	-1,386	-871	1,491	-1,620
Goods & services exports (% GDP)	15.7	14.5	13.6	13.2	Na
Inflation (% Change yoy)	6.8	12.3	15.8	25.3	36.4



## Real GDP Growth %



Principal Export Destinations: China 15.0%; Netherlands 8.9%; Somalia 8.3 %

Principal Import Sources: China 24.1%, Saudi Arabia 11.7 % and India 8.0 %.

(a) All recent data subject to revision; (b) IMF forecast; (c) PPP is purchasing power parity; (d) Total may not add due to rounding; (e) Stock, as at 31 December.

Compiled using the latest data from the IMF, World Bank and UNDP Human Development Report

## Electricity

Net Generation: 3.27 Billion Kilowatts (2007)

Net Consumption: 2.94 Billion Kilowatts (2007)

## Communications:

Telephones: Main lines in use: 908,900 (2008 est)

Mobile cells: 3.168 million (2008)

Internet hosts: 136 (2009)

Internet users: 360,000 (2008)

## Transport

Airports: Total number of airports is 63, with 17 paved airports and 46 unpaved runways.

Railways: 681 km (Ethiopian segment of the 781 km Addis Ababa-Djibouti railroad).





## CORPORATE GOVERNANCE INDICATORS

### Ease of Doing Business

**Overall Rank** 107 out of 183

#### **Starting a Business** Global Rank (93 out of 183)

Procedures (number) 5

Time (days) 9

Cost (% of income per capita) 18.9

Min. capital (% of income per capita) 492.4

#### **Dealing with Construction Permits** Global Rank (60 out of 183)

Procedures (number) 12

Time (days) 128

Cost (% of income per capita) 561.3

#### **Employing Workers** Global Rank (98 out of 183)

Difficulty of hiring index (0-100) 33

Rigidity of hours index (0-100) 20

Difficulty of redundancy index (0-10) 30

Rigidity of employment index (0-100) 28

Redundancy costs (weeks of salary) 40

#### **Registering Property** Global Rank (110 out of 183)

Procedures (number) 10

Time (days) 41

Cost (% of property value) 2.2

#### **Getting Credit** Global Rank (127 out of 183)

Strength of legal rights index (0-10) 4

Depth of credit information index (0-6) 2

Public registry coverage (% of adults) 0.1

Private bureau coverage (% of adults) 0.0

#### **Protecting Investors** Global Rank (119 out of 183)

Extent of disclosure index (0-10) 4

Extent of director liability index (0-10) 4

Ease of shareholder suits index (0-10) 5

Strength of investor protection index (0-10) 4.3

#### **Paying Taxes** Global Rank (43 out of 183)

Payments (number per year) 19



Time (hours per year)	198
Profit tax (%)	26.8
Labour tax and contributions (%)	0.0
Other taxes (%)	4.3
Total tax rate (% profit)	31.1

#### **Trading Across Borders** **Global Rank (159 out of 183)**

Documents to export (number)	8
Time to export (days)	49
Cost to export (US\$ per container)	1940
Documents to import (number)	8
Time to import (days)	45
Cost to import (US\$ per container)	2993

#### **Enforcing Contracts** **Global Rank (57 out of 183)**

Procedures (number)	37
Time (days)	620
Cost (% of claim)	15.2

#### **Closing a Business** **Global Rank (77 out of 183)**

Recovery rate (cents on the dollar)	32.2
Time (years)	3.0
Cost (% of estate)	15

Source: 2010 Doing Business Survey, Ethiopia, International Finance Corporation.

### **SOCIO-ECONOMIC INDICATORS**

Birth rate:	43.66 births/1,000 population (2009 est.)
Death rate:	11.55 deaths/1,000 population (July 2009 est.)
Infant mortality rate:	Total: 80.8 deaths/1,000 live births Male: 92.06 deaths/1,000 live births Female: 69.2 deaths/1,000 live births (2009 est.)
Life expectancy at birth:	Total population: 55.41 years Male: 52.92 years Female: 57.97 years (2009 est.)

Total fertility rate: 6.12 children born/woman (2009 est.)

### **Millennium Development Goals**

**Selected MDGs Indicators Synchronised With PASDEP Targets and Progress to**



Date (2007/08)

MDGs	Component	Selected Target	Base line (2004/0520)	Outturn (2005/06)	Progress (2007/08)	PASDEP Target (End of 2009/10)	
Goal 1	Eradicate extreme poverty and hunger	GDP growth rate	10.6	9.6	11.6	7.3 (period average)	
		Percentage of people who are below the poverty line	39	36.6	32.6	29.2	
		Percentage of people who are below the food poverty line	38	35.6	31.5	27.6	
		Percentage of stunted children	47	40.7	-	22.6	
		Percentage of wasted children	8	5.9	-	1.5	
		Gross primary enrolment (1 to 8) (%)	79.8	91.3	96.7	109.7	
		Grade 5 completion rate 5	7	63	-	136.6	
		Grade 8 completion rate	34	42	-	62.7	
		Pupil: text book ratio	2:1	1:5:1	1:25:1	1:1	
		Primary 1-4 Student: Section Ratio	71	70	-	50	
Goal 2	Achieve universal primary education	Primary 5-8 Student: Section Ratio	68	68	-	50	
		Primary 1-4	71	64	-	54	
		Primary 5-8	55	55	-	45	
		<b>Girls to boys ratio</b>					
		Primary 1-4	0.87	0.90	0.91	0.97	
		Primary 5-8	0.69	0.74	0.85	1	
		Child mortality	140/1,000 (2003/04)	123/1,000	-	85/1,000	
		DPT 3 coverage	70	75.6	-	80	
		Maternal mortality	87/100,000 (2003/04)	673/100,000	-	600/100,000	
		Proportion of births attended by trained health personnel	9	15.1	20.3	32	
Goal 5	Improve maternal health	CPR	15	35.6	51	80	
		Percentage of HIV positive pregnant women receiving complete course of ARV	42	?	-	50	
		Percentage of people with advanced HIV receiving ART	10	?	-	70	
		Proportion of households in malaria-exposed areas with 2 bed nets, properly utilised	1	43	100	100	
		Proportion of patients cured of TB	76	74.2	84	85	
		Access to safe drinking water	42	47.3	59.5	84.5	
		Percentage of land covered by forest	3.6	-	-	9.0	
		Provision of housing and basic services (%)	30	-	-	65	
		Reducing slum areas (%)	70	-	-	35	
		Goal 6	Combat HIV/AIDS, Malaria and other diseases	Net ODA to LDCs, as percentage of OECD/DAC donors' gross national income	0.2	-	-
Develop a Global Partnership for Development	-			-	-	-	
Goal 7	Ensure environmental sustainability	-	-	-	-	-	
		-	-	-	-		
		-	-	-	-		
Goal 8	Develop a Global Partnership for Development	-	-	-	-		

The figures are compiled from the Annual Progress Report 2007/08 prepared in March 2009. No other official report issued that indicate the latest achievements. However, in relation to the September Global Summit, the overall Country MDG progress report is being prepared with the support of UNDP.

Source: United Nations Development Programme, Ethiopia.



## Representation of Women in Federal Parliament

	2000		2005	
	Male	Female	Male	Female
House of People's Representative	502	42	413	117
House of the Federation	110	7	91	21

Source: House of People's Representatives.

## Representation of Women in the Executive Branch

Positions	2000		2005	
	Male	Female	Male	Female
<b>Ministers</b>	16	1	20	2
Deputy Minister/State Ministers	12	4	30	5
State Ministers			30	5
Ambassadors	16	4	35	3

Source: Federal Civil Service Agency.



## ABBREVIATIONS AND ACRONYMS

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AACC	Addis Ababa Chamber of Commerce
ACHPR	African Charter on Humans and Peoples Rights
ADLI	Agricultural Development-Led Industrialisation
ADR	Alternative Dispute Resolution
AIDS	Acquired Immune Deficiency Syndrome
APRM	African Peer Review Mechanism
ARRA	Administration for Refugee and Returnee Affairs
ARV	Antiretroviral
ASM	Artisanal and Small-scale Miners
ATVET	Agricultural Technical Vocational Education and Training
AU	African Union
BCEOC	Basic and Comprehensive Emergency Obstetric Care
BDC	Institute of Biodiversity Conservation
BEOC	Basic Emergency Obstetric Care
BoARD	Bureau of Agricultural and Rural Development
BoFED	Bureau of Finance and Economic Development
BOLSA	Bureau of Labour and Social Affairs
BoWA	Bureau of Women Affairs
BoWUD	Bureau of Works and Urban Development
BPR	Business Process Reengineering
CAA	Civil Aviation Authority
CAS	City Administrations
CBHI	Community Based Health Insurance
CBHI	Community Based Health Insurance
CBO	Capacity Building Office
CBOS	Community Based Organisations
CEOC	Comprehensive Emergency Obstetric Care
CETU	Confederation of Ethiopian Trade Union
CEWARN	Conflict Early Warning and Resolution Mechanism
CIF	Community Investment Fund
CJSRP	Court and Justice System Reform Program
CMP	Current Market Price
CNS	Counter Narcotics Service
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CPT	Conflict Prevention and Transformation
CSA	Central Statistics Authority
CSOs	Civil Society Organisations
CSOs	Civil Society Organisations
CSR	Civil Service Reform
CSRP	Civil Service Reform Program
CSRPO	Civil Service Reform Program Office
CTTI	Catering and Tourism Training Institute
Das	Development Agents
DHS	Demographic and Health Survey



DPPA	Disaster Prevention and Preparedness Agency
DPS	Dry Port Service
DSWP	Developmental Social Welfare Policy
EAE	Ethiopian Airports Enterprise
EAL	Ethiopian Airlines
EAPCCO	Eastern Africa Police Chiefs Cooperation Organisation (EAPCCO)
EBA	Everything But Arms
ECA	Ethiopian Consultants Association
ECAA	Ethiopian Civil Aviation Authority
ECC	Ethiopian Chamber of Commerce
ECEX	Ethiopia Commodities Exchange
ECSC	Ethiopian Civil Service Collage
EEA	Ethiopian Economic Association
EEF	Ethiopian Employer Federation
EEPCO	Ethiopian Electric Power Corporation
EHRC	Ethiopian Human Rights Commission
EIA	Ethiopian Investment Agency
EIO	Ethiopian Institute of Ombudsman
EIPAM	Ethiopian Institute of Procurement and Asset Management
EMC	Expenditure Management Control
EMI	Ethiopian Management Institute
EMIS	Education Management Information System
ENTRO	Eastern Nile Technical Regional Office
EPA	Ethiopia Privatisation Agency
EPDPF	Ethiopian People's Revolutionary Democratic Front
EPS	Ethiopian Postal Service
ERA	Ethiopian Road Authority
ERC	Ethiopian Railways Corporation
ERCA	Ethiopian Revenue and Customs Authority
EREDPC	Ethiopian Rural Energy Development & Promotion Centre
ERTA	Ethiopian Radio and Television Agency
ESE	Ethiopian Seed Enterprise
ESL	Ethiopian Shipping Lines
ETA	Ethiopian Teacher Associations
ETA	Ethiopian Transport Authority
ETC	Ethiopia Telecommunication Corporation
ETV	Ethiopian Television
EWLA	Ethiopian Women Lawyers Association
EWS	Early Warning System.
FBI	Federal Bureau of Investigation
FCSA	Federal Civil Services Agency
FDMRE	Federal Democratic Republic of Ethiopia
FEACC	Federal Ethics and Anti Corruption Commission
FEMSEDA	Federal Micro and Small Enterprise Development Agency
FEEPA	Federal Environmental Protection Authority
FGM	Female Genital Mutilation
FMoh	Federal Ministry of Health





FOI	Freedom of Information
FSC	Federal Supreme Court
FTA	Federal Transport Authority
GDP	Gross Domestic Product
GEQIP	General Education Quality Improvement Program
GER	Gross Enrolment Ratio
GOE	Government of Ethiopia
GOs	Government Organisations
GSE	Geological Survey of Ethiopia
GITZ	German Technical Cooperation
HAPCO	HIV/AIDS Prevention and Control Office
HICE	Household Income Consumption Expenditure
HoF	House of Federation
HoPR	House of People's Representative
HRC	Human Rights Commission
HRD	Human Resources Development
HRMIS	Human Resources Management Information System
HRP	Human Resources Planning
IBC	Institute of Biodiversity Conservation
IBEX	Integrated Budgetary and Expenditure System
/BRD	<i>International Bank for Reconstruction and Development</i>
ICAO	International Civil Aviation Organisation
ICRC	International Committee of the Red Cross
ICT	Information Communication Technology
ICTDA	Information and Communication Technology Development Agency
IDA	International Development Association
IEC	Information, Education and Communications
IFAD	<i>International Fund for Agricultural Development</i>
IFMIS	Integrated Financial Management Information System
IGADS	Inter Governmental Authority for Developments
IIEA	International Law Enforcement Academy
ILO	International Labour Organisation
IMO	International Maritime Organisation
IOSA	IATA Operational Safety Audit
IPSAA	Institute for Public Sector Accounting and Auditing
IRS	Indoor Residual Spraying
IT	Information Technology
ITNs	Insecticide Treated Nets
ITU	International Telecommunication Union
JAC	Justice Administration Commission
JEG	Job Evaluation and Grading
LDP	Leadership Development Programs
LJRI	Legal and Justice Research Institute
MAA	Maritime Affairs Authority
MABS	Ministries, Agencies and Bureaus
MDG	Millennium Development Goals
MFA	Ministry of Foreign Affairs



MoARD	Ministry of Agriculture and Rural Development
MoCB	Ministry of Capacity Building
MoCT	Ministry of Culture and Tourism
MoE	Ministry of Education
MoFA	Ministry of Federal Affairs
MoFED	Ministry of Finance and Economic Development
Moh	Ministry of Health
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoME	Ministry of Mines and Energy
MoND	Ministry of National Defence
MoTAC	Ministry of Transport and Communication
MOTI	Ministry of Trade and Industry
MoU	Memorandum of Understanding
MoWA	Ministry of Women Affairs
MoWR	Ministry of Water Resource
MoWUD	Ministry of Works and Urban Development
MoYS	Ministry of Youth and Sport
MPs	Members of Parliament
NAO	National Audit Office
NAP	National Action Plan
NBE	National Bank of Ethiopia
NEBE	National Elections Board of Ethiopia
NGOs	Non Governmental Organisations
NIS	National Integrity System
NPL	Non Performing Loan
NTMP	National Transport Master Plan
NTP	National Transport Project
OAU	Organisation of African Union
OECD	Organisation for Economic Co-operation and Development
OFAG	Office of the Federal Auditor General
OLF	Oromo Liberation Front
OSP	Office of the Special Prosecutor
PAPU	Pan African Postal Union
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBS	Protection of Basic Services
PIS	Prosecution Information System
PMO	Prime Minister's Office
PPA	Public Procurement Agency
PPESA	Privatisation and Public Enterprise Supervising Authority
PPMS	Performance Planning Management System
PPP	Public Private Partnership
PRPS	Performance-Related Pay system
PRSP	Poverty Reduction Strategy Program
PSCAP	Public Sector Capacity Building Program
PSIDP	Participatory Small-Scale Irrigation Project
PSIP	Performance and Service Delivery Improvement Program



PTA	Preferential Trading Area
PWD	People with Disabilities
RADO	Rehabilitation and Development Organisation
RBE	Regional Bureau of Education
RBARD	Regional Bureau of Agriculture and Rural Development
RBOFED	Regional Bureau of Finance and Economic Development
RBS	Risk- Based Supervision
RCS	Remuneration and Conditions of Service
REPA	Regional Environmental Protection Authority
ROPMS	Results-Oriented Performance Management System
RRRA	Regional Rural Roads Authority
RSDP	Road Sector Development Program
RTA	Road Transport Authority
SAP	Sectoral Action Plans
SC	Supreme Court
SDPASE	Sustainable Development of The Protected Area System In Ethiopia
SES	Senior Executive Services
SHI	Social Health Insurance
SME	Small and Micro Enterprise
SOES	State Owned Enterprises
SPO	Special Prosecutor's Office
SPPG	Standardised Procedure, Protocols and Guidelines
TA	Technical Assistance
TA	Transport Authority
TIN	Taxpayer Identification Number
TOR	Terms of Reference
TOT	Terms of Trade
TPLF	Tigrayan Peoples Liberation Front
TVET	Technical Vocational Education and Training
UEAP	Universal Electrification Access Program
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nation Education Science and Cultural Organisation
UNHCR	United Nation High Commissioner for Refugees
UNICEF	United Nation International Children Emergency Fund
UNMEE	United Nations Mission in Ethiopia and Eritrea
UNODC	United Nations Office on Drugs and Crime
UNWTO	United Nation World Trade Organisation
UPU	Universal Postal Union
USD	United States Dollars
WASH	Water, Sanitation and Hygiene
WB	World Bank
WMS	Welfare Monitoring Survey



# EXECUTIVE SUMMARY

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## A. Ethiopia and the APRM

- I. Ethiopia was one of the pioneer countries that acceded to the APRM in March 2003 and, shortly thereafter, it set about the task of operationalising and institutionalising the APRM process. The Prime Minister designated a National Focal Point and appointed Mr. Neway Gebreab, Special Adviser to the Prime Minister, as the APRM National Focal Point for Ethiopia. He also designated the Prime Minister's Office as the Focal Point for NEPAD/APRM activities.
- II. A 23-member multi-stakeholder National Governing Council, chaired by H.E. Tefera Waluwa, Minister of Capacity Building, and made up of representatives of Government, the opposition, the private sector and civil society, was inaugurated to lead the process.
- III. The African Institute of Management Development and Governance, a local research institute was subsequently commissioned to lead the self-assessment process. The Institute immediately commenced the task of preparing the Country Self-Assessment using a holistic approach. As it is widely becoming the convention in governance assessments, six research instruments were used: desk research, interviews with key informers, a national household survey of 4620 households nationwide, and focus group discussions. In addition, the Research Institute carried out expert opinion surveys and held *Wereda* consultative forums across the country.
- IV. The CSAR, including the draft National Programme of Action and its six-stage methodology, was submitted to the APRM Secretariat in May 2009. This is highly recommended to other countries embarking on their Self- Assessment.

## B. The Country Review Mission

- V. The Country Review Mission was fielded from 31 August – 17 September 2009. It comprised 15 prominent Africans from 8 different African countries led by Professor Adebayo Adedeji.
- VI. The Team arrived in Ethiopia on 31 August 2009. The Mission commenced on 1 September 2009 with an official launch by His Excellency Ato Addisu Legese, Deputy Prime Minister of the Federal Democratic Republic of Ethiopia, during which the CSAR, together with the NPOA, was ceremonially handed over by the Deputy Prime Minister to the Leader of the CRM.



VII. In the course of its work, the CRM met with senior government officials in the thematic clusters. It also interacted with representatives and officials of various institutions with a bearing on governance, including the Cabinet, the Judiciary and the Attorney General, the General Assembly, the Internal Revenue Authority, the Auditor General, the Central Bank, the Anti-Corruption Body, and various government departments. The CRM also held discussions with non-state stakeholder groups, including private sector representatives, civil society organisations, women's groups, and political parties.

VIII. From 9 to 16 September 2009, the CRM visited the Regional States. Members of the Panel held interactive sessions with stakeholders in Tigray, Oromia, Addis Ababa City Council, Dire Dawa, Harari, Gambella and Benishagul-Gumeze before returning to Addis Ababa for a wrap-up session with Prime Minister Meles Zenawi on 17 September 2009. Overall all, the CRM had very fruitful deliberations and exchanges.

IX. In what follows, we present an overview of the Ethiopian Country Review Report.

## C. Background

X. Ethiopia, one of the world's oldest countries, has had a long, varied, and troubled history. Unique among African countries, during its three millennia of existence, Ethiopia never was colonised - with the exception of a short-lived Italian occupation, from 1936-41. However, for much of its history, peace has eluded Ethiopia, resulting in lengthy periods of socio-economic and political stagnation.

XI. After centuries of feudal monarchical rule, prolonged civil war, and subsequent rule by the Derg regime, the Ethiopian People's Revolutionary Democratic Front (EPRDF) seized power in 1991. Since assuming office, the EPRF has been squarely facing several formidable challenges: doing away with the authoritarian and repressive rule of the past and instituting a constitutionally guaranteed federal democratic political system in its place. This process has gone hand in hand with dismantling a state-dominated and underdeveloped command economy, and introducing a market-oriented economy

XII. Thanks to the strong political will and commitment of the new rulers and the peoples of Ethiopia, almost two decades of relative peace and political stability, and the cooperation of the international community and development partners, Ethiopia has been able to register noteworthy achievements in all the thematic areas of the APRM. For the first time ever, a federal democratic political system was introduced by the 1994 FDRE Constitution consisting of a federal





government and nine regional states; censorship was abolished in the country's modern history and a vibrant private press mushroomed in the major urban areas, especially Addis Ababa. The Ethiopian people were able to freely elect their leaders and four national and regional parliamentary elections were held in 1995, 2000, 2005 and 2010 despite some challenges. These are giant strides in the area of political governance. On the economic front, there has also been significant progress. Ethiopia has since emerged as one of the fastest growing non-oil economies in Africa with double-digit growth and continued improvement in infrastructure and access to basic services.

#### **D. Democracy and Political Governance**

- XIII. From an imperial political order with underpinnings of feudalism, Ethiopia has transformed to a federal state built on the principles of autonomy and self-determination of constituent nations, nationalities and peoples which allow for secession, under certain entrenched constitutional provisions. The Ethiopian People's Revolutionary Democratic Front (EPRDF) has been the lead instrument of this transformation to a federal multiparty democratic system that encourages self-governance and self-reliant development.

- XIV. The country's federalism has, however, sometimes been criticised for “*essentialising*” ethnic identities, “*privileging*” them over other identity types and in the process heightening ethnic tension and conflict. Yet, in an important sense, Ethiopia's federalism is a refreshing approach to governance. This is because it moves away from regarding ethnicity as a negative or dysfunctional political and socioeconomic social force. Instead, it emphasises the positively creative, crosscutting utilitarian value of ethnicity for democracy and development, in anchoring democratic politics and development as a bargaining process, based on mutuality and reciprocity among ethnic and national groups, which constitute the fundamental components of the social demography and political tapestry of the typical African state. This is indeed in the spirit of Articles 20(1) and 22(1) of the African Charter on Human and Peoples' Rights<sup>1</sup>. However, as this new order is work in progress, its success depends largely on how the political institutions are consolidated and sustained.

- XV. Ethiopia has signed and ratified almost all the six core instruments in this thematic area with the exception of one important core treaty - the Convention

1 Article 20(1) states that “All peoples shall have the right to existence. They shall have the unquestionable and inalienable right to self-determination. They shall freely determine their political status and shall pursue their economic and social development according to the policy they have freely chosen” Article 22(1) states that “All peoples shall have the right to their economic, social and cultural development with due regard to their freedom and identity and in the equal enjoyment of the common heritage of mankind”





on Migrant Workers and their Families (CMW) The CRM heard that government had not ratified optional protocols especially those that empower individuals to complain about the government in the international forum.

XVI. The Ethiopian Constitution contains the international-law friendly provision which stipulates that all ratified international conventions can be invoked and applied in the Ethiopian Courts without any necessary Legislative Act domesticating these treaties. Though Ethiopia law is friendly to international law, Ethiopia has not fully implemented those conventions it has already ratified. Ethiopia is behind in its reporting obligations on major international human rights treaties. For instance, Ethiopia made its first reporting on the Convention against Torture, International Convention on Civil and Political Rights and the International Convention on Economic, Social and Cultural rights on 28/07/2009<sup>2</sup> since it ratified these conventions.

XVII. Ethiopia has conducted regular and competitive elections as follows: Constituent Assembly elections in 1994; general elections into the country's first popularly-elected national parliament and regional councils or legislatures, in May and June 1995; the first multiparty elections in 2000; and another set of multi-party elections in May 2005. Voter turn-out has increased with each set of elections, reaching a record 90 percent of registered voters in the 2005 elections. Ethiopia held its fourth parliamentary elections on 23 May 2010, where the ruling EPRDF party won 499 of the 536 seats in parliament. According to the election results released by National Election Board of Ethiopia (NEBE) on 21 June 2010, the EPRDF won a landslide victory in 9 of the 11 regions and cities, where 93 percent of eligible voters participated in the election. African Union (AU) election observers reported that the election was completely "free and fair" and met all AU election standards. Though the opposition parties rejected the election results as being "completely fraudulent" and expressed pre-election intimidation, the AU observer team found no evidence to support the opposition's charges of pre-election intimidation.

XVIII. A number of major challenges, however, must be tackled. First, political asymmetries between the regional states and the consequential regional inequalities must be constructively approached. In the same way, applying the policy of equity to redress historic disadvantages of some national and ethnic groups, particularly in education and in the public service, must be reconciled with the merit principle. A related problem has to do with the top-down nature of governance processes, which apparently is due to the application of the governing principle of democratic centralism as adopted by the ruling party. The



problem with the principle of democratic centralism is that it does not allow for compromises and consensus building outside of the framework of the ruling party. The party tends to demand strict party discipline even down to the level of the local community (neighbourhoods), thereby sometimes frustrating or negating the policy of decentralisation. Rigid adherence to democratic centralism in a multiparty democratic arrangement can yield top-down governance and intolerance.

XIX. Thirdly, there is urgent need to strengthen cross-national and oversight institutions, like the National Election Board of Ethiopia, the Human Rights Commission, the Federal Ethics and Anti Corruption Commission, and the Ombudsman, among others, and to develop appropriate democratic values and political culture that will prevent re-hegemonisation by a national group or coalition of national and ethnic groups and enable Ethiopians to sustain a system of governance that finds *“beauty in its unity and diversity in its beauty”*—as stated in its creed.

Freedom of expression as guaranteed under Article 29 of the Constitution should prevail. Reports of journalists, editors and publishers being harassed and prosecuted for alleged violations of press laws are still common. Government usually threatens to jam and close media centres for violation of press laws. There was reported surveillance of the press and journalists during the May elections in Ethiopia. Out of fear, the media centres go to the extent of distorting public statements from opposition politicians.

XX. The CRM observes undercurrents of perceptions, especially among opposition groups that critical institutions and agencies such as FEACG and the NEBE are not independent. Although the CRM was given no proof or concrete evidence to support these perceptions, they are noted as potential flash points. More constructive engagement and a demonstrable show of political will from the political class is required to reach a consensus on how best to build capacity for these critical institutions of democratic consolidation and national unity. It is incumbent on the government to create a competitive and level playing field to assure Ethiopians of the ex ante indeterminacy of the electoral process and ensure the credibility and legitimacy of political succession, even after the 2010 general elections.

## E. Economic Governance and Management

XXI. Since the overthrow of the Derg regime in May 1991, Ethiopia has witnessed a wide range of policy reforms in the economic sphere. The socialist command economy has given way to a market-oriented liberal economy.



- XXII. Overall, the Government of Ethiopia (GoE) has continued with reforms that started with the introduction of the Agricultural Development-Led Industrialisation (ADLI) strategy in 1992. The strategy provides the basis for its subsequent adoption of other development frameworks that are currently being implemented, including the *Plan for Accelerated and Sustained Development to End Poverty* (PASDEP) covering the period 2005/06-2009/10. In the context of these economic reform and poverty reduction programmes, the government's primary macroeconomic objective has been to promote rapid, broad-based and sustainable private sector-led growth that is adequate to reduce poverty. The target economic growth rate is 7.0 percent per annum.
- XXIII. On standards and codes, Ethiopia has signed and ratified several international standards and codes. However, the CRM is concerned that no detailed or further information was availed to the team regarding (a) the status of implementation of ratified treaties to validate performance of these standards and codes; (b) mechanisms for monitoring the implementation of the ratified standards and codes; (c) the central depository of ratified and domesticated standards and codes; (d) and, (e) the level of public awareness of ratified standards and codes. Apart from the implementation of financial standards and codes, there seemed to be little that the Government of Ethiopia (GoE) was doing to close this gap apart from enrolling the international financial institutions for technical assistance.
- XXIV. Without a doubt, the performance of macroeconomic variables in the recent past has been remarkable despite the prevalence of internal and external shocks to the economy. Significant achievements have been made in several areas of economic growth, including inflation control, employment creation, domestic resource mobilisation and decline in fiscal deficits, export promotion (particularly of non-tradition exports), food security, private sector development and investment.
- XXV. However, the robust growth performance and considerable development gains from 2003 to 2007 period came under threat in 2008 with the emergence of the twin macroeconomic challenges of high inflation and a difficult balance of payments situation. The problem was exacerbated by the high fuel and food prices in the global market and adverse weather conditions. These threats have moderated as the Government of Ethiopia has taken a number of steps in recent months to address the macroeconomic problems (e.g., tightening fiscal policy and reducing government's domestic borrowing, mitigating the impact of high food prices on the poor, reducing the domestic borrowing of public enterprises, tightening money supply, and gradually depreciating the local currency).
- XXVI. A major concern for Ethiopia is the current low levels of domestic resource mobilisation and the reliance in large part on external resource inflows, in particular, under the Protection of Basic Services (PBS) programme to finance



the country's development endeavour. To address this concern, key reforms are also being undertaken in tax policy and administration. Such reform has included reorganising the Ministry of Revenue and replacing it with a new autonomous body – the *Revenue and Customs Authority* – implementation of a national Taxpayer Identification Number (TIN); the introduction of the presumptive tax scheme in order to address the hard-to-tax group; computerising tax administration, and conducting comprehensive tax education to enhance taxpayers' compliance. The reforms have yielded significant improvement in domestic revenue performance collection in the recent past even though a number of challenges remain. These include the large size of the informal sector and tax payers who do not maintain adequate books of account and/or understate their incomes, corruption, and limited human capacity for supervision.

XXVII. Another challenge is the need to promote the strengthening and growth of financial Institutions. Even though the number of private banks, bank branches and microfinance institutions continue to grow, the observed low level of financial deepening in the country is indicative of the need for further financial sector reform.

XXVIII. In the light of all this, the government acknowledges the need to spur economic growth further; give more emphasis to agriculture and agro-based industries, provide the necessary support to private sector investment, micro and small-enterprises (MSE) and microfinance, increase revenue mobilisation, and maintain a lid on government domestic borrowing.

## **F. Corporate Governance**

XXIX. As in many other African countries, the concept of corporate governance has just been introduced and is in its infancy. There is currently no national code on corporate governance. The Commercial Code of 1960 is the dominant legal instrument and it is undergoing revision and modernisation. There are efforts to improve the framework under which corporations operate and that will contribute to improve corporate governance. In particular, efforts are ongoing to establish a standardised mechanism for accounting; develop a set of chart of accounting for SMEs and the establishment of a National Accountants and Auditors Board (NAAB). So far, financial accountability is limited by the absence of national accounting and auditing standards. Ethiopia also does not have any specific structure, such as an Institute of Directors, that focuses on promoting basic corporate governance principles and training stakeholders

XXX. The total number of registered businesses stood at 82,602 in 2008. Information on firms' distribution by size, sector or geographical location is not available even if there is a consensus that over 60 percent of corporations are located in Addis Ababa.





XXXI. State-owned enterprises (SOEs) either dominate or operate in full monopoly in strategic sectors such as power generation and distribution, telecommunication and air transport. In the financial sector, over 50 percent of the lending activities, mainly to households and small businesses, are controlled by private indigenously-owned institutions in urban areas while microfinance institutions respond to the needs and expectations of households in rural areas.

XXXII. Ethiopia does not have a stock exchange, but it does have the Ethiopia Commodities Exchange (ECE), which is predominantly membership based.

## **G. Socioeconomic Development**

XXXIII. Several advances have also been made in key areas of socioeconomic development. Net primary school enrolments quadrupled from 22 percent in 1991 to 83.4 percent in 2007/08, child mortality nearly halved from 204 per 1000 births in 1990 to 123 per 1000 births in 2007/08, and the number of people with access to clean water more than doubled from 19 in 1990 to 52 in 2006/07. More recently, poverty reduction has accelerated. The poverty headcount, which stood at 46 percent in 1995/96 and 44 percent in 2000/01, fell to 39 percent in 2005/06. Notwithstanding these gains, Ethiopia is a long way from achieving some of the Millennium Development Goals (MDGs) by 2015, given the country's very low starting point. At the same time, the country faces widespread poverty twenty-five years after it suffered a devastating famine that killed more than one million people.

## **H. Key Strengths and Challenges**

### **Strengths**

#### **Symbol of African Resistance**

XXXIV. Ethiopia has maintained - uninterrupted - its old age independence thereby enjoying a unique position in Africa. The country was, no doubt, the most persistent and uncompromising anti-imperialist conscience and spirit of Africa as a result of its direct armed confrontation with the allied international forces of imperialism. It remains a symbol of the indomitable spirit of African resistance against foreign domination.

XXXV. As a result of not having been colonised, the country has some unique attributes which can be harnessed for development. Ethiopia has the continent's only ancient written language with its own alphabet. The country also has its own calendar, based on the Coptic calendar, which is roughly eight years behind the Gregorian calendar. It has the largest number of UNESCO World Heritage Sites (8 out of 78)



## High GDP Growth Rate

XXXVI. Ethiopia has one of the fastest growing economies in the world with a fast growing annual GDP. In 2007 and 2008, with a GDP growth rate of 11.5 percent, it was one of the fastest growing non-oil dependent African nations.

## Challenges

XXXVII. While notable progress has been achieved in pursuit of political and economic reforms, the country still faces a number of challenges that, if not properly and diligently addressed, could complicate its quest to improve the welfare of the majority of its people.

## Poverty

XXXVIII. While there has been unparalleled development, Ethiopia is still one of the poorest countries in the world. At US\$340 (average for the 2007-09 period), Ethiopia's per capita gross domestic product (GDP) is much lower than the sub-Saharan African average and only slightly above the levels reached in the early 1970. The United Nations Human Development Report (HDR) 2009, recently ranked Ethiopia as 171 out of 182 countries surveyed with an HDI score of 0.414.

## Deepening Political Reforms and Democratisation

XXXIX. Although the Ethiopian people have demonstrated a penchant for political participation there are inherent contradictions. The period since 1991 has witnessed significant political institution-building and democratic reforms in Ethiopia but the political process is still closely controlled by the ruling-Ethiopian People's Revolutionary Democratic Front. There is also a tremendous deficit in political engagement by key actors. Ahead of the general elections in 2010, there was escalating tensions between the long-entrenched ruling party and the opposition. Even after the elections, the relationship between the opposition and ruling party in Ethiopia is rather tense.

XL. Ethiopians in large measure needs to transcend the historical psyche of vindictive politics, presumptuousness, confrontation and divisive actions. The path to democracy and good governance is non linear but bumpy. Tolerance, pragmatism, cooperation and compromise are essential values that greatly help democracy to function smoothly. A culture of constructive engagement and dialogue needs to be cultivated to reconcile differences among politicians and also vis à vis the larger Ethiopian society. Not only is democracy critical for Ethiopia but it is also the sole guarantee for the survival of this multi-national, multi-religious and multi-cultural nation/state.





## Promoting Human Security

- XLI. Despite the establishment of a modicum of safety and security since 1991, Ethiopia currently faces a multitude of security challenges that could yet impede the country's development progress. The domestic security problem in the form of the low-level insurgency against two secessionist movements – the Ogaden National Liberation Front (ONLF) and the Oromo Liberation Front (OLF) – both allegedly backed by Eritrea - should be urgently addressed.

## Establishing a clear role for the Private Sector

- XLII. The formal or organised private sector in Ethiopia has been recovering from its decimation under the Derg regime but remains both weak and in an uneasy or ambivalent relationship with the government. Although the EPRDP government has taken certain steps for economic reform through trade deregulation, liberalisation, privatisation and an 'agricultural development-led industrialisation', the private sector remains relatively small, characterised by small companies, low labour productivity and a high degree of corruption

## Telecommunications

- XLIII. While Ethiopian Telecommunications Corporation is the oldest public telecommunications operator in Africa, it is still a monopoly and this has stifled innovation and retarded expansion. Despite massive investments in recent years into fixed-wireless and mobile network infrastructure, including third generation mobile technology, as well as a national fibre optic backbone, Ethiopia currently has the second lowest telephone penetration rate in Africa. The mobile market penetration is still one of the lowest in the world at little more than 3 percent. Fixed-line penetration is even lower, and this has also impacted on the development of the Internet sector. Prices of broadband connections are excessive. In fact, the 2010 ICT Development Index compiled by the International Telecommunications Union ranked Ethiopia 154 out of 159 countries globally.

- XLIV. The recent signing of a management deal between France Telecom and Ethiopian incumbent ETC is an encouraging development. Ethiopia needs to follow the evolution in the technology and respond to the needs of its business community and the population at large and ensure that it is not left out of information revolution.

## I. Commendable Practices

### Ethiopia's Role in Africa

- XLV. Ethiopia, no doubt, played and continues to play a formidable role in forging and cementing African unity. As the most significant emblem of African freedom in



colonial times, the country played a paramount role in bringing Africans to unite under one organisation, the Organisation of African Unity, created in 1963 by 32 independent African states. The country had successfully hosted the UNECA which was established by the UN in 1958 - 5 years before the creation of the OAU in 1963.

### **Ethiopian Airlines**

XLVI. The 66-year old Ethiopian Airlines is the pioneer African airline and one of the most reliable and profitable airlines in developing countries. The Airlines, apart from facilitating movement in Africa (it currently operates in 34 cities in Africa) also provides basic pilot and aviation maintenance training to trainees from several African countries.

### **Ethiopia's Road Development Program**

XLVII. Through the 10-year Road Sector Development Program (RSDP 1997–2007), a two-phased integrated package of investments, reforms, and institutional reorganisation which was later extended to include a third phase up to the end of June 2010, the Government of Ethiopia has been able to overhaul the road network. In all, more than 75,000 kilometres of road, including rural access roads, have been constructed or rehabilitated.

### **Macroeconomic Policy**

Macroeconomic policy making is generally sound and supportive of broad-based economic growth as reflected in the following indicators: strong economic growth rates averaging 11. 8 percent between 2003/04 to 2008/09; successful control of inflation despite recent travails; private investment as a share of in GDP rose from 10.1 percent in 2004/05 to 18.2 percent in 2006/07; rapid growth of domestic savings from 1 percent of GDP in 2002/03 to 5.6 percent in 2006/07; reduction in fiscal deficits from 16.4 percent of GDP in 2002/03 to 8.6 percent in 2007/08.

### **The Ethiopian Commodity Exchange**

XLVIII. The establishment of the Ethiopia Commodity Exchange (ECEX) in line with Arusha Declaration and Plan of Action on African Commodities of 2005 makes it possible, for instance, for a trader in India to buy futures of the prized Ethiopian lentils. The ECEX hopes to create a safe and transparent agriculture market, where quality, delivery and payment are assured.

### **Ethiopia's Ownership of its Development Planning Process**

XLIX. Ethiopia's assertiveness in self-reliant planning is quite commendable. PASDEP is considered by Development Partners as a domestically developed medium



to long term national plan for both the Federal and regional Governments. Ownership of the planning process has made it possible to cope with the persistent lack of harmonisation and alignment of policies, procedures and programmes among various donor countries and agencies despite the Paris Declaration on aid effectiveness.

## **Ethiopia's Pro-poor Expenditure Pattern**

- L. Ethiopia's pro-poor spending is noteworthy. Official data show that, on average, over 90 percent of the Government's capital budget is allocated to enhancing pro-poor growth and social sectors, such as agriculture, rural development and food security, roads, irrigation, water supply and sanitation, education, health and HIV/AIDS.

## **Ethiopia's Approach to Microfinance and Access to Markets**

- LI. In response to the objectives of ADLI and the need to provide access to finance to small businesses and boost self employment, Ethiopia has laid great emphasis on microfinance by ensuring that microfinance institutions are established with responsibilities covering all regions. Not only have a sizeable number of microfinance institutions been established but they have several ramifications in the regions to enable easy access by rural economic actors. Also, Ethiopia's approach in linking markets access to development to other areas (rural roads, agriculture production, rural electrification, telecommunications) is central in achieving the objectives set in ADLI, particularly for small farmers in regional states.

## **J. Overarching and Cross-cutting Issues**

- LII. The recurring overarching and cross-cutting issues, with wider ramification for the various dimensions of governance, which emerge from this Country Review Report on Ethiopia are highlighted below:

### **Resolving the Ethiopian-Eritrean Conflict**

- LIII. Civil wars have had a destructive impact on human civilisation. Apart from the immediate pain, horror, destruction, and tragic human losses, they impose substantial costs on governance. In the political sphere, they undermine the legitimacy of the state, threatening its institutions, the security of property rights, and the rule of law. In the economic realm, wars devastate the economy and inhibit development which is why violent conflict is often described as 'development in reverse'.



LIV. Although the bloody border war between Ethiopia and Eritrea (1998-2000) formally ended with the signing of the Algiers agreement, the two nations of the Horn of Africa remain locked in an apparently intractable stalemate. The current state of “no war, no peace” in a fragile cross-border environment can only be of limited value and tentative duration.

LV. Ethiopia is the crucible of regional cooperation and development and a leader in the promotion of good governance in African regional affair. With knowledge and deep appreciation of these and other successes, the CRM is confident that the resourcefulness and resolve of the Ethiopian people and the entrepreneurship of their leaders can once again be employed to inspire and lead a sustained initiative that will take the Ethiopian-Eritrean conflict beyond the fragility of “no war, no peace,” to the normalisation of relations between Ethiopia and Eritrea.

LVI. The Ethiopian leadership is called upon to be inspired not only by the prospects of ending a war with Eritrea but more importantly by the opportunities to begin the political, economic and social transformation of the Horn. This is Ethiopia's challenge.

### **Promoting Inclusion and Managing Diversity**

LVII. Ethiopia's federalism, based on a principle of autonomy and self-determination of nations, nationalities and peoples, is designed to rely for its strength, cohesion and sustainability on its ability to effectively ensure meaningful and inclusive participation of all of its constituent nations, nationalities and peoples in the critical institutions of governance, especially those institutions that are charged with the responsibility to address the challenge of managing the country's diversity, coordinating its multiple levels of governance and ensuring the equitable provision and distribution of public goods and services

LVIII. The challenge which faces Ethiopia's federalism is deepening inclusive participatory processes and strengthening institutions of political, social and economic governance that manage diversity and build national cohesion. This will ensure social justice for all, democratic governance and the provision of public goods and services in ways that are considered to be fair and equitable by the people of its diverse constituent regional states and administrative units.

LIX. Managing diversity and ensuring all-inclusive governance has to also be achieved through establishing and strengthening symmetrical relationships between the federal government and the regional states and between regional states themselves so that regional inequalities and historical imbalances among national groups can be effectively addressed. Effective symmetrical relationships are particularly critical in the area of fiscal governance





## Climate Change, Vulnerability and Food Insecurity

- LX. Global climate change is one of the most serious threats to the environment, health and general well being of any population. The starkest manifestation of the country's environmental challenges is its vulnerability to recurrent food insecurity and famine.
- LXI. Ethiopia is already facing a number of environmental challenges, exacerbated by changes in climate. Ethiopia suffers from fundamental and pervasive food insecurity mainly as a result of periodic rain shortages. Droughts, the most important climate-related hazard affecting Ethiopia, are occurring more frequently, giving the country less time to recover before the next event, reducing agricultural yields, and sentencing millions to food insecurity.
- LXII. Despite some advances in reducing poverty indicators, the country currently has about 8.3 million people who are chronically food insecure and another 6.7 million who face transitory problems with food insecurity – a continuously growing population is only exacerbating this situation. There is now growing consensus among both Ethiopians and the donor community that emergency assistance alone will do little to address the sources of food insecurity and that a longer-term, more sustainable response is required. The challenge for the country is to correct the imbalance between humanitarian assistance and development assistance and build resiliency to withstand and manage shocks, while laying the foundation for sound economic recovery.
- LXIII. There are several main entry points for adaptation and risk reduction strategies aiming at increased food security in view of climate change which a country could adopt. Only by succeeding in making significant advances on all fronts – increasing food availability, enhancing access to food, and strengthening resilience and development – will Ethiopia reduce the risk of dramatic increases in the number of hungry people. But there is also the challenge of population and food.

## Aid Dependence

- LXIV. In Ethiopia, external resources are financing around a third of the national budget. A characteristic feature of the external assistance that Ethiopia receives is the large share of humanitarian and food aid, which tends to constitute between 30-50 percent of total aid.
- LXV. Despite Ethiopia's high aid dependence, the evaluation has noted the absence of a serious reflection and discourse on an aid exit strategy. Although the goal



is to reduce aid dependency over time, the authorities in the country see further scaling-up of development cooperation as necessary to meet the MDGs.

- LXVI. Reforms are, therefore, needed to wean Ethiopia off aid. Aid should also be channelled into productive ventures to lower the costs of doing business, increase productivity and insert goods from Ethiopia competitively into international markets.

## **Rapid Population Growth and Socio-economic Implications**

- LXVII. There is growing concern among observers regarding Ethiopia's capacity to cope with the implications of a growing population for economic growth, job creation, food security and service provision. According to projections based on the 2007 census, Ethiopia has a population of close to 80 million. It is gearing to overtake Egypt as Africa's second most populated nation after Nigeria. The data from the 2008 report of the Population Census Commission of the Federal Democratic Republic of Ethiopia show that the population of Ethiopia was growing at a rate of 2.6 percent per annum in 2007, on average, as against 2.5 percent in 2005. While such a rate is not the highest among African countries and even though it seems to have stabilised, it should be considered relatively high when viewed in the broader context of socio-economic development efforts being made at both Federal and regional levels. Moreover, there are disparities among regions with average population growth rates of 4.1 percent, 3.0 percent and 2.9 percent in Gambella, Benishangul-Gumuz and Oromia respectively. With a growth rate of 2.6 percent per year, the country's population looks set to double within another 27 years. As shown in Table 7.1, by 2050, there will be more than 170 million people in Ethiopia.

- LXVIII. Without any doubt, the above figures could represent major constraints to the commendable efforts being made by the Government. Such efforts include, among others, providing quality education to all, particularly primary education, establishing adequate number of health centres, particularly in rural areas, facilitating access to such essential facilities as water and sanitation, electricity, housing and land, and substantially reducing poverty.

## **Land Policy in Ethiopia**

- LXIX. Land is an emotional and complex issue in the whole of Africa. It constitutes the real source of power in imperial and contemporary Ethiopia. However, land is public property administered by the government since the 1975 radical land reform which brought to an end the exploitative type of relationship that existed between tenants and landlords.





- LXX. The land issue, perhaps more than any other policy issue, is hotly contested. A fierce political debate about the appropriate land tenure policy is raging. The debate has largely been carried out along two diametrically opposite arguments concerning property rights to land. The Ethiopian government continues to advocate state ownership of land whereby only usufruct rights are bestowed upon landholders. The government's position that emphasises the social function of land is challenged by advocates of a privatisation of property rights – most prominently, the Ethiopian Economic Association (EEA), some political parties in opposition, and a number of donor agencies. These tend to argue that state ownership of land prevents the development of a land market, discourages farmers to invest on land, and thereby holds down land productivity as well as encouraging unsustainable land use practices.
- LXXI. An assessment of the land policy debate in Ethiopia by the APR Mission reveals that there is an unfortunate focus on ownership issues and a dichotomy of views on state versus private ownership. . Everyone agrees on the overall aim – to boost pro-poor agriculture-led growth – and this is echoed in policy documents and discussions from all sides of the debate, but what to do about land and land tenure remains a sticking point which urgently needs to be tackled.

- LXXII. Ethiopia has to make some hard choices in the near future about its land policy. What is needed is a careful and deliberate initiative, backed by research, to identify an appropriate and pragmatic policy mix that could address the weaknesses of land tenure policy and its consequences.

## **Corruption**

- LXXIII. There are varying opinions among stakeholders about the existence and magnitude of corruption in Ethiopia. In spite of disagreement on this score among them, the stakeholders agree that corruption is a major problem which requires collective action by all strata of the Ethiopian state and society. Notable sources of corruption were generally identified with tax collection, the police, extreme poverty, and poor governance at the level of wereda administration.

- LXXIV. While there is no consensus among Ethiopian stakeholders on the importance and the spread of corruption, there is recognition of the role that institutions like the FEEAC play in combating it. However, even if the Ethiopian Government did take significant steps to combat corruption with the creation of the FEEAC, there is need to improve such structure and complete the whole institutional infrastructure for fighting and preventing corruption. The FEEAC needs to be more independent to avoid the perception that it is being used as a tool to harass political opponents; and there is need to deepen the independence of the



judiciary system and endow with well-trained and competent judges. The role of the media is also essential and measures should be undertaken to protect its independence and strengthen its capacity through specific training programs. In parallel, the Government should take the lead in developing and implementing awareness programs targeting civil society organisations and professional associations, particularly in the regions.

## **HIV/AIDS**

LXXV. Ethiopia faces an epidemic among sub-populations and geographic areas, with an estimated overall HIV prevalence rate of 1.4 percent, based on testing a sample of 5,700 men and 5,300 women aged 15 to 49 who gave their informed consent. Within the individual regions, this testing found that the prevailing rate varied from 0.2 in the SNNPR to a high of 6.0 percent in the Gambela Region. While previous estimations were higher, expansion of surveillance data and improved analyses resulted in significantly lower estimations for 2005.

## **Gender Mainstreaming**

LXXVI. While gender equality is a common challenge throughout Africa, the Government of the Federal Democratic Republic of Ethiopia has made it central to its overall policy. Since 1993, Ethiopia has endeavoured to integrate every aspect of gender equality in political, economic and social development endeavours. The establishment of a Ministry for Women Affairs is a clear testimony of such political will but challenges remain in all areas.

LXXVII. However, there are cultural and social obstacles inhibiting progress. Low status characterises virtually every aspect of girls' and women's lives. Traditionally, women in Ethiopia have been consigned to strict societal roles, essentially cooking and raising children, and they have always had a muted voice in decisions affecting them. A heavy workload imposed on girls at an early age, early and forced marriage, a subservient role to both husband and mother-in-law, harmful traditional practices (HTPs), including female genital mutilation (FGM) and milk tooth extraction, are all conning to slow progress in gender mainstreaming. According to Ethiopia's 2005 Demographic and Health Survey (EDHS), about 73.3 percent of Ethiopian women of all ages have been subjected to FGM. The practice is declining though as only 62.1 percent of women aged 15-19 had been cut, compared to 73 percent of those aged 20-24. There are regional variations but the eastern Somali region has the highest prevalence at 97.3 percent followed by Afar at 91 percent. Moreover, in Afar, the cut involves infibulation (or Type III FGM), the removal of the external genitalia. Aside from the immediate risks of severe blood loss, shock and infection, longer-term problems associated



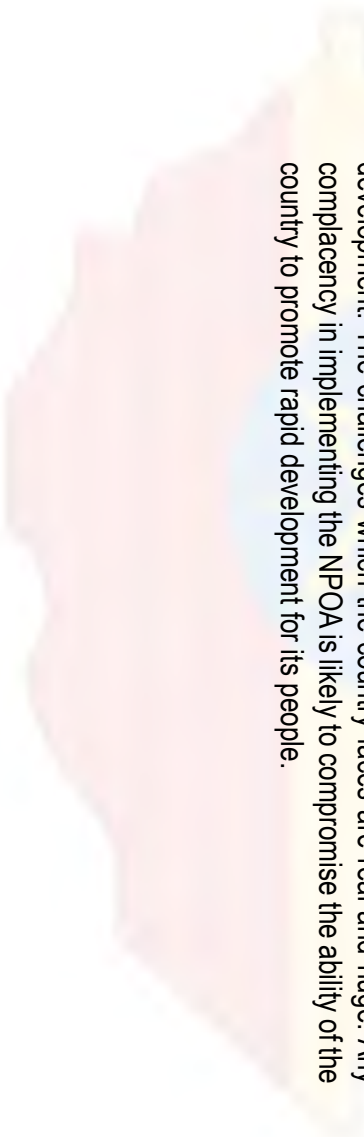
with FGM include: infections of the urinary and reproductive tracts, infertility and a range of obstetric complications, such as postpartum haemorrhage and death of the baby.

LXXXVII. While women and men are equally eligible for public functions and have the same voting rights, only a relatively small proportion of women are actually elected or occupy senior governmental positions.

## **K. Conclusion**

LXXXIX. Ethiopia, through a national consultative process, has determined and set out in the NPOA, the key priorities and the course of action the country will take to address the challenges identified in both its CSAR and the Country Review Report. The total cost is estimated at 27.581 billion over a five-year period from 2010 to 2015. The cost breakdown shows that USD 5.2 billion (19 percent) has been allocated to Democracy and Political Governance, USD 10.12 Million (0.37 percent) to Economic Governance and Management; USD 14.32 Billion (52 percent) to Corporate Governance and USD 7.99 Billion (29 percent) to Socio-Economic Development.

LXXX. This programme is a demonstration of the collective resolve of Ethiopians to work towards a better future. Implementation of the NPOA would assist the country to strengthen the democratic process and promote rapid and sustainable development. The challenges which the country faces are real and huge. Any complacency in implementing the NPOA is likely to compromise the ability of the country to promote rapid development for its people.





# CHAPTER ONE

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## INTRODUCTION

### 1.1 Implementation of the APRM Process in Ethiopia

1. Ethiopia was one of the pioneer countries that acceded to the APRM in March 2003 and, shortly thereafter, it set about the task of operationalising and institutionalising the APRM process. The Prime Minister designated the Prime Minister's Office as the Focal Point for NEPAD/APRM activities. Mr. Newaykirstos Gebreab, Special Adviser to the Prime Minister, was thereafter appointed as the APRM National Focal Point for Ethiopia.
2. The APRM Support Mission was fielded from 10-14 June 2008 to kick-start and officially launch the Ethiopian APRM Review Process. The 8-member delegation comprised representatives from two Strategic Partner Institutions of the APRM: the Economic Commission for Africa and the African Development Bank as well as officials from the APRM Continental Secretariat.
3. By the time the APRM Support Mission arrived in Ethiopia, the Council of Ministers Regulation No. 142/2008 had been put in place to guide the implementation of the APRM in the country. In addition to designating the Prime Minister's Office as the Focal Point, Ethiopia has established a multi-stakeholder National Governing Council to drive the national process. The 23-member National Governing Council led by H.E. Tefera Waluwa, Minister of Capacity Building, comprised representatives of Government, the opposition, the private sector and civil society (settable 1.1). Regional Governing Councils mirroring the national structure were also established in all the eleven consultative regions of the Federal Republic to coordinate the APRM process at the Region State levels.
4. A National Secretariat has also been created to support the day-to-day operations while a technical research institution had been identified to undertake the self-assessment exercise. Significantly too, the Government of Ethiopia had made adequate budgetary provisions for the national process. These developments fully demonstrate the commitment of the Federal Democratic Republic of Ethiopia to the process.
5. In the course of the Support Mission, the CRM interacted with members of the National Governing Council, State and Non-State Actors and the proposed technical research body to undertake the self-assessment... The Team also visited Bahar-Dar, Capital of Amhara Regional State where it met with diverse stakeholders. The APRM Memorandum of Understanding on the Technical





Assessment and Country Review was signed by His Excellency Meles Zenawi, Prime Minister of Ethiopia and Professor Adebayo Adedeji on behalf of the Forum, paving the way for the country self-assessment process to begin.

6. The African Institute of Management Development and Governance, a reputable local research institute, was subsequently commissioned to lead the self-assessment process. The Technical Research Institutes immediately commenced the task of preparing the Country Self-Assessment which was executed using a holistic approach. As is widely becoming the convention in governance assessments, six research instruments were used namely: desk research, interviews with key informers, a national household survey of 4620 households nationwide, and focus group discussions. In addition, the Research Institute carried out expert opinion surveys and held *wereda* consultative forums across the country.

**Table 1: Composition of the 23- Member Ethiopian National Governing Council**

Stakeholder	Number of seats	Description	Representative
Government	4	Ministry of Capacity Building Ethiopian Federal Parliament Ministry of Youth & Sports Prime Minister's Office	Mr. Tefera Maluwa (Chairperson) Mr. Asmeslash W/sellassie Mrs. Aster Mamo Mr. Newaykristos Gebreab
Opposition	4	United Ethiopian Democratic Forces Collusion for Unity & Democracy Party Ethiopian Democratic Union Party Oromo Federalist Democratic Movement	Prof. Beyene Petros Mr. Ayale Chamsiso Mr. Ledetu Ayalew Mr. Bulcha Demekessa
Developing Regions	1	President of Benshangul Gumuz Regional State	Mr. Ahmed Nasser
Private Sector	4	Ethiopian Chamber of Commerce	Mr. Getachew Ayenew Mr. Muluwork Kidanemariam Mr. Yergalem Admassu Mr. Tekalegne Abate
Civil Society	9	Labour Union Teachers' Association University Students' Council Ethiopian Bar Association Ethiopian Health Professionals Association Ethiopian Economists Association Women's Association (3 seats)	Mr. Kasahun Follo Mr. Yohannes Beriti Mr. Yosefe Ambessa Mr. Beshada Gemechu Dr. Welday Amehra a) Mrs. Assefachi Ayenalemne b) Mrs. Ababa Shumatele c) Mr. Shasha Yedessa
Academia	1	Addis Ababa University	Prof. Andrias Eshtete

Source: Compilation by APRM Mission, September 2009.

7. The Country Self Assessment Report (CSAR) was validated throughout the country in 5 national and 9 regional validation workshops. The CSAR, including the draft National Programme of Action, was submitted to the APRM Secretariat in May 2009. In all, the 500-page CSAR is sufficiently candid about the governance situation in Ethiopia. The Report also meets the APRM stated



objective of technical competence. The six-stage methodology adopted in coming up with the Report is apt and highly recommended to other countries embarking on their self- assessment.

## **1.2 The Country Review Mission**

8. The Country Review Mission was fielded from 31 August – 17 September 2009. Led by Professor Adebayo Adedeji, Lead Panelist for Ethiopia, the team comprised 15 prominent Africans of 8 different nationalities - Algeria, Ghana, Liberia, Nigeria, Senegal, Uganda, Zambia and Zimbabwe.

9. It was composed of independent experts in the four APRM thematic areas: experts from one of the strategic partner institutions – the African Development Bank (ADB), – as well as members of the APR Secretariat, as indicated hereunder.

### **A. APR Panel**

- Adebayo Adedeji, Lead Panel Member for Ethiopia

### **B. Independent Technical Consultants**

#### **Democracy and Political Governance**

- L. Adele Jinadu (Lecturer in Political Science, Department of Political Science, University of Lagos, Nigeria).
- Joseph N. Mulenga, Judge of the African Court on Human and People's Rights, Former President of East African Court of Justice and Justice of Supreme Court of Uganda; and,

- Amos Sawyer, President of the Interim Government of National Unity in Liberia from 1990 to 1994 and Head, Governance Commission, SD Cooper Road, Monrovia, Liberia;

#### **Economic Governance and Management**

- Francis Chigunta (Lecturer in Development Studies, Department of Development Studies, University of Zambia); and,
- Oluyele Akinkugbe (Lecturer in Economics, Department of Economics, Rhodes University, Grahamstown, South Africa).

#### **Corporate Governance**

- Mohamed En Naceur Bourenane (Private Sector Development Specialist, Algiers, Algeria); and,





- Getrude Takawira (Consultant and Research Analyst, Corporate Governance, APRM Secretariat, South Africa).

### **Socio-economic Development**

- Bernard Z. Dasah (President / CEO of Bendas Consultants, Montreal, Canada).
- Fatima Karaja (President of the Algerian APRM National Commission, Vice President, ECOSOCC, African Union, Algeria); and,
- Makha D. Sarr (Former Deputy Executive Secretary, UNECA, Dakar, Senegal);

### **C. Partner Institutions**

#### ***Africa Development Bank (AfDB)***

- Mumba S. Kapumpa (Legal Practitioner and President, Institute of Directors of Zambia) Member, Zambia APRM National Governing Council, Lusaka, Zambia

### **D. APR Secretariat**

- Afeikhena Jerome (Ethiopia Country Coordinator and Coordinator, Economic Governance and Management, APRM Secretariat, South Africa); and
- Ferdinand Katendeko (Research Analyst, Democracy and Political Governance, APRM Secretariat, South Africa).

### **1.3 Activities Undertaken during the CRM**

10. The APRM National Focal Point and the National APR Secretariat facilitated the country review mission in Ethiopia. The Team arrived in Ethiopia on 31 August 2009 and the Mission commenced on 1 September 2009 with an official launch by His Excellency Ato Addisu Legese, Deputy Prime Minister of the Federal Democratic Republic of Ethiopia, during which the CSAR, together with the NPOA, was ceremonially handed over by the Deputy Prime Minister to the Leader of the CRM.
11. In the course of its work, the CRM met with senior government officials in the thematic clusters. It also interacted with representatives and officials of various institutions with a bearing on governance, including the Cabinet, the Judiciary and the Attorney General, the General Assembly, Internal Revenue Authority, Auditor



General, the Central Bank, Anti-Corruption Body, and various government departments. The CRM also held discussions with non-stake stakeholder groups, including private sector representatives, civil society organisations, women's groups, and political parties.

12. The CRM then met with the National Governing Council on 2<sup>nd</sup> September 2009. The same day, they held interactive sessions with the President of the Supreme Court, the Constitutional Court, High Court of Justice and Judicial Service Commission.
13. On 3 September 2008, the Mission held an interactive session with Ministers, heads and representatives of 27 Ministries and other Government agencies. Due to the impressive list and wide array of issues, the deliberations could not be completed and the meeting was adjourned till the following day. In the afternoon of the same day, the Panel met with women, the youth, the physically-challenged, trade unions, religious groups, universities and other civil society organisations.
14. On 4 September 2009, the CRM continued the interactive session with Ministers, heads and representatives of Ministries and other Government agencies. They also met with various other bodies, including the National Electoral Board, Human Rights Commission, Ethics and Corruption Commission, and National Bank of Ethiopia.
15. The CRM met with the private sector on Saturday 5 September 2009. Some members of the team also met with political parties in the afternoon of the same day. The meeting with the Parliament of Ethiopia took place on Monday 7<sup>th</sup> September 2009.

### **Box 1: CRM Consultations during the Country Review Mission**

The National Governing Commission printed only few copies of the historic self-assessment report. Stakeholders had to contend with duplicated summaries of the CSAR. This was frustrating not only to stakeholders but also to the CRM. Despite this constraint, the CRM held an interactive session. The high level of representation at the consultative and interactive meetings is noteworthy. Commendably, all the stakeholder groups were very candid in their assessment of the governance challenges facing the country. At the prompting of the CRM, institutions such as the Federal Ethics and Anti-Corruption Body and United Ethiopian Democratic Forces (UEDF) made written submissions to the Mission.

The CRM also noted an assertion by the United Ethiopian Democratic Forces (UEDF), the main opposition party in Parliament, that there were irregularities and methodological bias in the self-assessment process. However, only two members of the 23-member National Governing Council agreed with this preposition on the CSAR. The Representative of the UEDF voted against the adoption of the CSAR while the representatives of the Oromo Federalist Democratic Movement Party, another opposition party in Parliament, abstained from voting.

*Source:* Compiled by the CRM, September 2009.



16. From 9 to 16 September 2009, the CRM visited the Regional States. Members of the Team held interactive sessions with stakeholders in Tigray, Oromia, Addis Ababa City Council, Dire Dawa, Harari, Gambella and Benishagui-Gumeze. The regional visits allowed the CRM to validate the CSAR with key stakeholders in the Regions and have their perspectives on the governance situation in Ethiopia. In each region, the sessions commenced with a courtesy call on district officials. Thereafter, the CRM met with stakeholder groups who all gave their perspectives on governance and strides in development in Ethiopia. Prominent among these were women's groups, the youth, people with disabilities, the elderly, minority groups, non-governmental organisations (NGOs), academia, the media, small businesses, faith-based organisations (FBOs), trade unions, private sector operators, and community-based organisations (CBOs). The visits to all the regions were very useful in providing the CRM with a clear picture of the state of governance and decentralisation in Ethiopia.

17. The Team returned to Addis Ababa for a wrap-up session with Prime Minister Meles Zenawi, on 17 September 2009. In all, the Mission had very fruitful deliberations and exchanges.

#### **1.4 Structure of the Report**

18. This report is in seven chapters. This introductory chapter is followed by a historical and contextual overview of Ethiopia. Chapters Three to Six evaluate the four APRM thematic areas (Democracy and Political Governance; Economic Governance and Management; Corporate Governance; and Socio-Economic Development) respectively. Each of these chapters has two sections- the first analyses the extent to which Ethiopia has subscribed to the codes and standards of good governance listed in the APRM questionnaire and how many of them have been signed, ratified and domesticated. The second part appraises the APRM's objectives for that thematic area. Each section begins with a summary of the CSAR, followed by the findings of the CRM and, finally, the APR Panel's recommendations on the identified challenges. Effort has also been made to highlight commendable practice in boxes.
19. Chapter Seven discusses the cross-cutting issues considered critical due to their wider impact on governance and therefore requiring holistic, immediate and urgent attention.
20. The NPOA received from Ethiopia and the comments of the Government are annexed to the report, as mandated by the APRM rules.



# CHAPTER TWO

## 2. HISTORICAL BACKGROUND AND CONTEXT

### 2.1 Overview

21 Ethiopia, one of the world's oldest countries, has had a long, varied, and troubled history. Unique among African countries, during its three millennia of existence, Ethiopia never was colonised - with the exception of a short-lived Italian occupation, from 1936-41. However, for much of its history, peace has eluded Ethiopia, resulting in lengthy periods of socio-economic and political stagnation.

22 After centuries of feudal monarchical rule, prolonged civil war, and subsequent rule by the Derg regime, the Ethiopian People's Revolutionary Democratic Front (EPRDF) seized power in 1991. Since assuming office, the EPRDF has been squarely facing several formidable challenges: doing away with the authoritarian and repressive rule of the past, and instituting a constitutionally guaranteed federal democratic political system in its place. This process has gone hand in hand with dismantling a state-dominated and underdeveloped command economy, and introducing a market-oriented economy. For a liberation movement that emerged in 1998 from the long-drawn out civil war, and now facing the horrendous and daunting challenges of transforming the Ethiopian polity into a political party and state, these challenges were no doubt a daunting task.

23 The new regime was, however, undeterred. It adopted a quadruple transformation that included: negotiating diversity among the nationalities, at the same time as they were building state capacity; democratising the political systems; and, liberalising economic institutions. The new rulers and the peoples of Ethiopia, as well as the national political elite, demonstrated strong political will and commitment in support of the political process to move forward on the road to democracy and development. After almost two decades of relative peace and political stability, and with the cooperation of the international community and development partners, Ethiopia has registered noteworthy achievements in all the APRM thematic areas. Unlike instant coffee, there is no instant socio-economic and political transformation.

24 For the first time ever, a federal democratic political system was introduced by the 1994 FDRE Constitution, consisting of a federal government and nine regional states. Censorship was abolished, another first in the country's modern history, and a vibrant private press mushroomed in major urban areas, especially Addis Ababa. Civil and political liberties, individual human rights and freedoms - freedom of the press, expression, belief, thought, association and assembly - as well as collective/group rights were constitutionally guaranteed. Ethiopian people





25 were able to freely elect their leaders: four national and regional parliamentary elections were held in 1995, 2000, 2005, and 2010, despite some challenges. These are giant strides in political governance.

26 On the economic front, there was also significant progress. Ethiopia has since emerged as one of the fastest growing non-oil economies in Africa, with double-digit growth and continued improvement in infrastructure and access to basic services. Several advances were also made in key areas of human development. Net primary school enrolments quadrupled, from 22 percent in 1991, to 83.4 percent in 2007/08; child mortality nearly halved from 204 per 1,000 births in 1990, to 123 per 1,000 births in 2007/08; and, the number of people with access to clean water more than doubled, from 19 in 1990 to 52 in 2006/07. More recently, poverty reduction has accelerated. The poverty headcount, which stood at 46 percent in 1995/96 and 44 percent in 2000/01, fell to 39 percent in 2005/06. Notwithstanding these gains, and given the country's very low starting point, Ethiopia is a long way from achieving some of the Millennium Development Goals (MDGs) by 2015. As spelt out throughout this report, several formidable challenges remain, especially in the task of strengthening and consolidating a young and fragile democracy. At the same time, the country faces widespread poverty twenty-five years after suffering from a devastating famine that killed more than one million people.

27 While there has been unparalleled development, Ethiopia is still one of the poorest countries in the world. At US\$ 323 (average for the 2007-09 period), Ethiopia's per capita gross domestic product (GDP) is much lower than the sub-Saharan African average.<sup>3</sup> The United Nations Human Development Report (HDR 2009) recently ranked Ethiopia as 171 out of 182 countries surveyed, with an HDI score of 0.414.

28 At the turn of the millennium, representations and images of Ethiopia, though still conditioned and coloured by the spectre of political and social problems of past years, offer a positive view of the future. As the country continues to celebrate 3,000 years of its existence (which it formally celebrated in 2000, or 2008 according to the Romanic Calendar), the third millennium has come to symbolise Ethiopia's desire for renaissance. The Government of Ethiopia (GoE) has taken the initiative in promulgating this idea as a practical and tangible way of promoting renewal and positive change in the country.

29 The notion of the third millennium renaissance for Ethiopia is, thus, a historic opportunity for modernisation and transformation. If it continues to be managed properly, it offers the country the opportunity to bring about major social transformation, with the possibility of establishing a new political, social and economic order.



29 Modern examples of renaissance are China and India – with Japan being much earlier. These countries have all reinvented themselves and made tremendous economic and social progress. In particular, Japan's rise from a feudal society – like Ethiopia – has had an enduring image among the ruling elite in Ethiopia.<sup>4</sup> The leadership is making a serious attempt to create conditions that will allow the country to achieve the desired goals of the millennium's renaissance in a peaceful environment.

## 2.2 The Dawn of Ethiopia's Different Eras

30. According to legend, Menelik I, the son of King Solomon and the Queen of Sheba, founded the Ethiopian Empire. Missionaries from Egypt and Syria introduced Christianity in the fourth century A.D. Following the rise of Islam in the seventh century, Ethiopia was gradually cut off from European Christendom. The Portuguese established contact with Ethiopia in 1493, primarily to strengthen their influence over the Indian Ocean and to convert Ethiopian Orthodox Christians to Roman Catholicism. There followed a century of conflict between pro- and anti-Catholic factions, resulting in the expulsion of all foreign missionaries in the 1630s. This period of bitter religious conflict contributed to hostility towards foreign Christians and Europeans, persisting into the 20th century, and was a factor in strengthening Ethiopia's self-reliance until the mid-19th century. The reigns of Emperors Theodore II (1855-68), Johannes IV (1872-89), and Menelik II (1889-1913) heralded the dawn of the second and third eras when the Kingdom was consolidated and began to emerge from its medieval isolation. These eras were followed by the reign of Menelik's 11<sup>th</sup> grandson, Lij Iyasu.

31. When Menelik II died, his grandson - Lij Iyasu - succeeded him but did not reign for long. He was deposed in 1916. Menelik's daughter, Zeuditu, came to the throne. She was made an Empress but ruled through a regent and cousin, Ras Tafari Makonnen (1892-1975). In 1930, after the Empress died, the regent - adopting the throne name Haile Selassie - was crowned Emperor. His reign was interrupted in 1936 when Italian Fascist forces invaded and occupied Ethiopia. Five years later, British and Ethiopian forces defeated the Italians and the Emperor returned to the throne.

32. Following civil unrest, which began in February 1974, the aging Haile Selassie I was deposed on 12 September 1974 by a provisional administrative council of soldiers, known as the Derg ("committee"). The Derg would remain at the forefront of political and military affairs in Ethiopia for the next seventeen years.

4 Eshetu Chole (2004), *Underdevelopment in Ethiopia* (OSSREA, Addis Ababa); Bahru Zawde (2007), *A History of Modern Ethiopia 1865 – 1991* (Currey, Oxford).





33. On seizing power, the Derg installed a government that was socialist in name and military in style. Lt. Col. Mengistu Haile Mariam assumed power as Head of State and Derg Chairman, after having his two predecessors killed. Mengistu's years in office were marked by a totalitarian-style government and the country's massive militarisation. From 1977 through early 1978, thousands of suspected enemies of the Derg were tortured and/or killed in a purge called the "red terror." Communism was officially adopted during the late 1970s and early 1980s, with the promulgation of a Soviet-style constitution, a Politburo, and the creation of the Workers' Party of Ethiopia (WPE).
34. A conspiracy of a host of local and international factors precipitated the regime's disintegration. The horrid spectacle of starving people in Welo and Tigray, amidst the pompous parades and celebrations of 1984-85, eroded local and international support for the regime.<sup>5</sup> This was worsened by the regime's failure to initiate dialogue with various armed groups, and war with Somalia. Political changes in the USSR and Eastern Europe compounded Mengistu's problems.
35. The Derg's collapse was hastened by the armed struggle of the masses, particularly in the northern regions of Tigray and Eritrea. In 1989, the Tigrayan People's Liberation Front (TPLF) merged with other opposition movements, some of which were ethnically based, to form the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF). In May 1991, EPRDF forces advanced on Addis Ababa. Mengistu fled the country for asylum in Zimbabwe, where he still resides. The new regime of General Tesfaye Gebrekidan collapsed within a week (21-27 May 1991).<sup>6</sup>
36. Following the fall of the Derg regime in May 1991, the victorious rebel movements set about the task of forming a transitional government. On 1 June 1991, a provisional government was formed with Ato Melese Zenawi, Chairman of the EPRDF, as President. In July 1991, the EPRDF, the Oromo Liberation Front (OLF), and others, established the Transitional Government of Ethiopia (TGE), made up of an 87-member Council of Representatives and guided by a national charter that functioned as a transitional constitution. In June 1992, the OLF withdrew from the government. In March 1993, members of the Southern Ethiopia Peoples' Democratic Coalition left the government.<sup>7</sup>

5 Paul B. Henze (2007), *Ethiopia in Mengistu's Final Years: The Derg in Decline* Vol. 1 (Shama Books, Addis Abeba).

6 Kinfu Abraham (1994), *Ethiopia: From Bullets to the Baldot Box* (RSP, Lawrenceville, NJ).

7 In May 1991, the Eritrean People's Liberation Front (EPLF), led by Isaias Awkerki, assumed control of Eritrea and established a provisional government. This provisional government independently administered Eritrea until 23-25 April 1993, when Eritreans voted overwhelmingly for independence in a UN-monitored referendum. With Ethiopia's consent, Eritrea was declared independent on 27 April 1993, and the United States recognized its independence on 28 April 1993.



37. President Meles Zenawi and members of the TGE pledged to oversee the formation of a multi-party democracy. June 1994 saw the convening of elections for a 547-member constituent assembly that adopted the constitution of the Federal Democratic Republic of Ethiopia in December 1994.
38. The elections for Ethiopia's first popularly-chosen national parliament and regional legislatures were held in May and June 1995. Most opposition parties chose to boycott these elections, ensuring a landslide victory for the EPRDF. The Government of the Federal Democratic Republic of Ethiopia was installed in August 1995.
39. The EPRDF coalition was re-elected in Ethiopia's first ever multiparty elections in 2005. Although the party won a comfortable majority, the opposition made significant gains but disputed the results. The opposition claimed that voting was impaired by government interference and widespread fraud. Street demonstrations, following the announcement of the results, turned violent. The government reacted by cracking down on demonstrators, killing scores of people in the process and injuring others. The allegations of election fraud and anti-opposition violence prompted some international donors to cut aid to the country.
40. Led by Prime Minister Meles Zenawi, the EPRDF government promoted a policy of ethnic federalism, devolving significant powers to regional, ethnically-based authorities/states, allowed to form their own governments. Prior to 1991, the country was divided into 29 administrative units, many derived from historical regions. Now, the country was divided into nine regional states (*kiililoch*, sing. *kiilil*), sixty-eight zones and two chartered cities (*astedader akababiwoch*, sing. *astedader akababi*): Addis Ababa and Dire Dawa. It was further subdivided into 550 *woredas* and several *special woredas*. The EPRDF government adopted a three-tiered governance system consisting of a federal government, regional states, zones and districts (*woredas*) and neighbourhoods (*kabeles*). According to the Constitution, Ethiopia comprises the Federal Government and State members. Constitutionally, extensive power is assigned to regional states empowered to establish their own government with legislative, executive, and judicial powers, just as the Federal Government is given powers to establish its own government at the federal government level<sup>8</sup>. The States respect the powers of the Federal Government and likewise, the Federal Government respects the powers of state members. State government is established at state and other administrative levels - such as zones and districts (*woredas*) and neighbourhoods (*kebeles*) – as deemed necessary. The Federal Government may, when necessary, delegate its powers and functions to the States.
41. Although the Ethiopian State has been transformed from a highly centralised system to a federal and increasingly decentralised one, a number of challenges

8 Article 50 (2) states that "The Federal Government and the States shall have legislative, executive and judicial powers"



- remain. National elections in 2005, the largely uncontested local elections in April 2008, and the parliamentary elections of May 2010, illustrate the fragility of the democratic transition, EPRDF dominance, and the weakened state of the opposition.
42. In January 2009, the Ethiopian Parliament passed legislation to regulate civil society organisations (CSOs). While many CSOs had long argued for a new and coherent framework, the new law is quite restrictive in demarcating areas of operations for different types of CSOs (particularly those receiving more than 10 % of funding from external sources for many areas of activity).

## 2.3 The Red Terror Trials

43. With the growing importance of human rights, the issue of transitional justice - dealing with human rights violations of previous regimes - has assumed prime importance in recent years. Whatever the approach adopted, transitional justice seeks to provide avenues for societies to address past human rights abuses, mass atrocities, or other forms of severe trauma, in order to facilitate a smooth transition to a more democratic or peaceful future.

44. Ethiopia experienced gross and widespread human rights violations from 1974 to 1991. The military regime of Col. Mengistu Hailemariam – the Derg and its Workers’ Party of Ethiopia (WPR) – is well-known for its brutality, especially because of the summary executions of a large number of Emperor Haile Selassie’s political officials, including the Emperor himself. There were also the atrocious Red Terror campaigns against alleged anti-revolutionaries and reactionary elements. A well organised campaign of systematic human rights violations resulted in thousands of summary executions, disappearances, and cases of torture. Estimated numbers of people killed by the Red Terror ranges from 150,000 to 500,000.<sup>9</sup> Even those who managed to survive were forced into exile (and hence rendered irrelevant to national life) or, if they chose to stay in the country, often lost their former drive and élan. The ramifications of this loss were felt not only in the political but also in the cultural and academic spheres.

45. Following the downfall of the Derg regime in May 1991, a Transitional Government of Ethiopia (TGE) was established and assumed its responsibility under international law to exercise the state’s criminal jurisdiction over those responsible for the atrocities committed by the Derg regime.

46. In 1992, the Office of the Special Prosecutor (SPO) was established amidst great optimism about the importance of the principles invoked and the prosecutorial processes. This breaking of new ground in international legal precedent was heralded not only for its representation of the political transformation within Ethiopia, but as a potential model for such proceedings throughout Africa.

9. Tronroll K, C Schaefer, J. Currey and G. Aneme (2009), The Ethiopian Red Terror Trials: Transnational Justice Challenges, James Curry.





47. The objectives of the SPO were: (a) to prosecute the officials of the Derg regime responsible for killing thousands of students, the intelligentsia, and urban elites; and (b) to establish a permanent record of the atrocities by compiling all the written evidence and soliciting literally hundreds of oral testimonies from victims and their families. The range of procedures and various levels of trials prosecuted in different courts throughout the country are collectively known as the Red Terror Trials.
48. After its establishment in 1992, the SPO began immediately investigations and submitted initial charges in October 1994, marking the beginning of the Red Terror trials. At the outset, the trials were welcomed by large segments of the Ethiopian population and the international community. A number of governments did provide support to the SPO and its activities, responding to a twelve-month request circulated in July 1993 for assistance in the three areas of computerisation, infrastructure, and international technical assistance, in the amount of just under one million US dollars. This was sought to supplement an annual Ethiopian government budget subsidy to the SPO of approximately a third of a million US dollars.
49. The SPO laid charges against three groups of alleged perpetrators in the Red Terror trials. In the first group of defendants were policymakers, senior government and military officials of the Derg regime. *Special Prosecutor v. Colonel Mengistu Hailemariam et al.* is the prosecution of the first group of defendants: an initial list of 106 high-ranking Derg government officials, including Colonel Mengistu Hailemariam (former President).
50. The trial of the first category of 'high officials' opened in December 1994, with 46 defendants, and a further 24 individuals - including former President Col. Mengistu Hailemariam - charged '*in absentia*'. A first series of SPO charges were laid against 5,198 military and public officials of the Derg regime. Charges against some 2,258 defendants were handed down by regional supreme courts by delegation from the federal high court. Accordingly, 202 defendants were charged in the Tigray region, 508 defendants in the Amhara region, 421 defendants in the Southern Nations, Nationalities and Peoples region, 198 defendants in the Harari region, and 174 defendants in the Somali region. An unidentified number of defendants were also brought before the Oromia Supreme Court. All the Red Terror cases in the regional Supreme courts began in 1998 in the capital city of each region.
51. Trial proceedings were not without problems. There were several challenges, including protracted delays. After more than a decade, with many defendants still under trial, little of the wider potential of this set of opportunities seems to have been fulfilled. Problems of capacity within the judiciary, combined with inadequate political management of investigation and prosecution processes, resulted in an exceptionally slow timetable for laying the charges and proceeding to the trial of defendants.



52. The twofold mandate, far from representing a unified policy choice, potentially set up an inherently problematic dichotomy: activities to promote the second part of the mandate (a historical record) undermining the successful attainment of the first (just trials). The length of time preceding court appearances combined with the failure to establish and publicise a historical record of the events of the Derg period has meant that, for a large proportion of Ethiopia's overwhelmingly young population, the proceedings have an almost surreal air. This situation is very different from 1992 when legislation mandating the SPO was drawn up. In an attempt to influence urban populations that had seen little of the war in the north, the TGE took the initiative of screening a highly distressing video of the bombardment of the port.

53. It is important not to underestimate the importance of the Special Prosecution for families and communities whose members were victims of Derg-era crimes. What is frustrating, however, has been the failure in forging a national consensus in the fight against impunity, from one generation to the next.

54. What is understood by many to have been the release of some defendants on political rather than judicial grounds has served to undermine confidence in the basis for the continuing – and now extremely protracted – detention of the rest. Both of these problems have been compounded by failures to engage in projects of public education and historical documentation about the past. As a result of this combination of factors, the potential moral and political weight of the Ethiopian Special Prosecutions as a force in the fight against impunity – both globally and within Ethiopia – has been tremendously blunted. It seems that an invaluable opportunity to demonstrate the legal, political, and moral potential of domestic judicial proceedings in Africa has been lost.

## 2.4 The Economy

55. By the beginning of the 1990s, the Ethiopian economy was in deep crisis. The return to relative peace after the defeat of the Derg, and the installation of the EPRDF government in 1991, provided a historical opportunity for recovery. One of the cardinal and declared aims of the new economic policy, publicised by the Ethiopian government in November 1991, was to remove the disincentives and other anomalies inherited from the Mengistu regime.

56. Economic reforms, initiated in 1988 by the Derg government as a 'mixed economy' alternative to the controlled economy, were further implemented and took on the form of a structural adjustment programme, with donor support, from 1994. Early measures included agricultural market liberalisation, price liberalisation, a large devaluation, tax reforms, and some steps towards international trade liberalisation.

57. During the latter part of the 1990s, the new reforms focused more on the financial sector, privatisation, fertiliser market reforms, and initiatives regarding





- the delivery of inputs and extension activities. Sectoral policies included plans related to education, roads, health, and agricultural extension, mainly involving substantial donor-financed capital expenditure. Government has since initiated more policies, strategies, national action plans and programmes in various sectors. Some of the policies of the early 1990s have since been amended, while others are still in their original form.
58. These reforms, combined with peace and favourable weather conditions for most of the past decade, produced good economic outcomes. As a result, Ethiopia's recent economic performance has been very impressive. From 1992–2001, real GDP growth averaged 6 percent a year. Exports grew by about 5 percent a year, although there was considerable volatility across years. Annual inflation averaged about 4 percent and by 2000/01, investment had risen to 16 percent of GDP. These outcomes are much better than from 1975–91. Positive trends are expected to continue for the foreseeable future.
59. However, growth has been highly variable, reflecting the dependence of the economy on a rain-fed agricultural sector subject to capricious weather. The prices of Ethiopia's primary export, coffee, have been on a declining trend and so have its terms of trade, especially in recent years when terms of trade declined by some 40 percent between FY00 and FY03, with the collapse of coffee prices. The 2001/2002 drought (which straddled FY 2002/03) was the most severe since 1984/5. Whilst there was widespread hunger and many people died, famine on the scale that Ethiopia endured in the 1970s and the 1980s was avoided.
60. The war between Eritrea and Ethiopia further disrupted this evolution. It unfortunately reawakened memories of the Derg era. Defence expenditure quickly rose again to an average 10 percent of GDP in 1999 and 2000. Most aid flows were frozen whilst public finance and revenue generation capacity weakened, resulting in social sector capital expenditure cuts, and large increases in domestic financing of the fiscal deficit, risking inflationary pressures.
61. Despite this setback, recent overall performance of the Ethiopian economy has been remarkable. The transition from war to peace, and from a controlled economy to a more market-oriented economy in the early 1990s, was relatively smooth, accompanied by a quick return to broad macroeconomic stability.
62. Ethiopia is one of the fastest growing non-oil economies in the world, with double-digit growth. In 2007/8, Ethiopia's real GDP growth was 11.6 percent, marginally up from 11.5 percent in 2006/07. This rapid growth was driven mainly by the agriculture and services sectors, supported by strong export growth and sustained inflows of official development assistance and foreign direct investment.
63. However, the robust growth performance and considerable development gains from 2003 to 2007 came under threat in 2008 with the emergence of the twin



macroeconomic challenges of high inflation, and a difficult balance of payments situation. The problem was exacerbated by high fuel and food prices on the global market, and adverse weather conditions. These threats have moderated as the government of Ethiopia has taken a number of steps in recent months (e.g., tightening fiscal policy and reducing government's domestic borrowing, mitigating the impact of high food prices on the poor, reducing public enterprise domestic borrowing, tightening money supply, and gradually depreciating the local currency) to address the macroeconomic problems. The 12-month end-of-period inflation rate, after reaching a historical peak of 64 percent in July 2008, fell to -3.7% in July 2009. There was also some improvements in foreign exchange reserves, from barely four weeks of imports cover in October 2008 (US\$ 764 million), to the equivalent of seven weeks of imports at the end of June 2009 (US\$ 1.5 billion). The situation remains tenuous and continues to receive Government attention.

## **2.5 Key Strengths and Challenges**

### **2.5.1. Strengths**

64. Ethiopia has maintained - uninterrupted - its age-old independence, thereby enjoying a unique position in Africa. As the oldest independent African state, Ethiopia has disproved the colonial contention that African's cannot rule themselves. It remains a symbol of the indomitable spirit of African resistance against foreign domination. Its geopolitical location, coupled with the valour of its people, has contributed to the survival of independence. As a result of not being colonised, the country has some unique attributes that can be harnessed for development. Ethiopia has the continent's only ancient written language with its own alphabet. The country also has its own calendar, based on the Coptic calendar, roughly eight years behind the Gregorian calendar. It has the largest number of UNESCO World Heritage Sites (8 out of 78).

65. Ethiopia is also famous for its Olympic gold medalists, rock-hewn churches, and as the place where the coffee bean originated. It is a relatively safe nation and remarkable travel destination. There are not too many African countries that can boast a safety record that matches that of Ethiopia.

### **Ethiopia's Overall Contemporary and Historic Role in Africa**

66. Ethiopia, no doubt, played and continues to play a formidable role in forging and cementing African unity. As the most significant emblem of African freedom in colonial times, the country played a paramount role in bringing Africans to unite under one organisation - the Organisation of African Unity - created in 1963 by 32 independent African states. The country had successfully struggled to host UNECA, established by the UN in 1958, 5 years before the creation of the OAU in 1963. Ethiopia continues to play an important role in African affairs to this day, as shown in Box 1.



## Box 1: Commendable Practice 1: Ethiopia's Role in Africa

Ethiopia was the most significant emblem of African freedom in colonial times. Unique among African countries, the country was, no doubt, the most persistent and uncompromising anti-imperialist conscience and spirit of Africa as a result of its direct armed confrontation with the allied international forces of imperialism. When Africa was divided up by European powers at the Berlin Conference, Ethiopia was one of only two countries that retained its independence. Ethiopia successfully repelled repeated foreign occupations, including the defeat of Italy in the Battle of Adwa in 1896, and it was never colonised. The glorious victory of Adwa was a turning point not only in Ethiopia but, by extension, the rest of Africa. Adwa not only preserved Ethiopia's independence but inspired resistance movements throughout Africa and the Diaspora to intensify armed struggle against foreign domination. Moreover, Ethiopia as one of the three African members of the *League of Nations* and a Charter Member of the United Nations has been a constant and persistent anti-colonialist and anti-imperialist campaigner for the continental liberation and unity of Africa. It played a prominent role in the liberation struggles of several African countries. Nelson Mandela, the former South African President and icon, was one of those who received military training in Ethiopia during the liberation struggle against the apartheid regime. Addis Ababa, the capital, was made the headquarters of the Organisation for African Unity (OAU), created in 1963 by 32 independent African states to foster African unity and integration. It is also the seat of the United Nations Economic Commission for Africa (UNECA), created in April 1958. As one of the founding members of the OAU, which has transformed into the African Union, Ethiopia has always committed itself to the unity and solidarity of Africans. In 2007, H.E. Meles Zenawi, Prime Minister of the Federal Democratic Republic of Ethiopia assumed office as Chairperson of the Heads of State and Government Implementation Committee (HSGIC) of the New Partnership for African Development (NEPAD) as well as the Committee of Participating Heads of State and Government In The African Peer Review Mechanism (APR Forum). The Prime Minister of Ethiopia also represented Africa at the Climate Change Summit (COP15) in Copenhagen, Denmark, held in December 2009. Ethiopia has also played a prominent role in peace efforts initiated by the African Union and the UN. Its troops effectively participated in peacekeeping missions to Burundi, Liberia and Somalia.

Source: Compiled by the CRM, September 2009.

67. Ethiopian Airlines is a pioneering African airline and, one of the most reliable and profitable airlines in developing countries. In addition to facilitating movement in Africa, Ethiopian Airlines also provides basic pilot and aviation maintenance training to trainees from several African countries, including Rwanda, Tanzania, Chad, Djibouti, Madagascar, and Sudan. It also trains employees of Kenya Airways, Air Zimbabwe, Belleview Airlines, Cape Verde Airlines, and Air Madagascar.

## Box 2: Ethiopian Airlines

The 66-year-old Ethiopian Airlines is one of the largest and fastest growing airlines in the world. It provides service to 34 cities in Africa and to a total of 55 destinations across the world. Its aircraft have frequently been chosen as the best airliner in Africa. In 2008, it was voted the best airline in Africa at the African Travel Awards in Lagos, Nigeria, for its excellent network and convenient connections in Africa. It also won the "Airline of the Year" award from the African Airlines Association (AFRAA) in 2009.

Source: Compiled by the CRM, September 2009.



## Rapid Economic Growth

68. Ethiopia has one of the fastest growing economies in the world, with a fast growing annual GDP. In 2007 and 2008, with a GDP growth rate of 11.5 percent, it was one of the fastest growing non-oil dependent African nations. Economic growth, averaging double digits over the past five years, is likely to remain buoyant in the short- and medium-term, despite the perennial threat of drought, rising inflation, and a trade deficit which the authorities are addressing.

### 1.1.2 Key Challenges

#### Ethiopia and the Challenge of Transition towards a Democratic Developmental State

69. In this contemporary era, Ethiopia is a country in transition that aspires to become a 'developmental state', going by the current political discourse in the country.<sup>10</sup> The ruling party/government is reviving the discourse on the suitability of the East Asian developmental model for Ethiopia in order to identify a possible alternative developmental paradigm that can help the country promote fast economic and social development within a short period of time.
70. As a country in transition, Ethiopia has a historical opportunity to lay a firm foundation for a democratic developmental state. But the process of societal transition is rarely a simple matter that proceeds in a linear fashion.<sup>11</sup> In most cases, it involves radical shifts in political arrangements, transformations in the structure of the economy, perceptible changes in attitudes, and significant changes in the relationships between different groups (i.e. social classes, ethnic groups, or other collective interests).
71. Accordingly, contemporary Ethiopia faces many political, economic and social challenges. While notable progress has been achieved in pursuit of political and economic reforms, the country still faces a number of challenges that, if not properly and diligently addressed, could complicate its quest to improve the welfare of the majority of its people. It should, however, be stressed that, regardless of the wishes of the leadership and citizenry, a transition period is often a fairly protracted one, and attempts to shorten it through quick-fix solutions can be counter-productive in the long run.

10 The quest for the East Asian Model of Development, which over the years was dubbed 'developmental state model', is not a new phenomenon in Ethiopia. It goes back to the imperial era of Haile Selassie and his political elites of the 1920s and 1930s. Many Ethiopian intellectuals of the day were passionately obsessed with the Japanese developmental model. However, the Ethiopian ruling elites' desire to adopt and implement the Japanese developmental model was not realised, as it was overtaken by events of alarming proportions. Ethiopia was invaded by Italy in 1935, and the Second World War soon followed.

11 Eshetu Chole (2004), *Underdevelopment in Ethiopia* (OSSREA, Addis Ababa).





72. In other words, the path towards a developmental state is quite complex, complicated and bumpy. Ethiopia has to tread this path carefully and patiently in order to reach its goal. It is only a democratic route to development that can guarantee the country's safety and security and safeguard its dignity. In this quest, Ethiopia should also approach the challenges of democratising the development process in the true spirit of a people-centred and people-driven development.
73. While Ethiopia should be congratulated for its remarkable progress since the dawn of the contemporary era, in 1991, under the EPRDF government, the APR Panel urges that more should be done to address the challenges identified below. The transition offers the country a unique historic opportunity to build an economically viable, democratic, and just society.

### **Deepening Political Reforms and Democratisation**

74. Ethiopia's destiny lies in a democratic route to development. Not only is democracy critical for Ethiopia but it is also the sole guarantee for the survival of this multi-national, multi-religious, and multi-cultural nation/state. However, after observed progress towards democratisation, there is growing concern that the country's political environment has deteriorated in recent years.
75. Although the Ethiopian people have demonstrated a penchant for political participation, there is a tremendous deficit in political engagement by key actors. Relations are somewhat tense between the opposition and ruling party in Ethiopia. Ahead of the general elections in 2010, there were escalating tensions between the long-entrenched ruling party and the opposition. Ethiopians, in large measure, need to transcend the historical psyche of vindictive politics, confrontation, and divisive action. The path to democracy and good governance is non-linear but bumpy. A culture of constructive engagement and dialogue needs to be cultivated to reconcile differences amongst politicians, and also vis-à-vis the larger Ethiopian society.
76. The challenge for Ethiopia as it aspires to the status of a democratic developmental state is to consolidate recent gains in its governance system.

### **Promoting Human Security**

77. As already narrated, the history of Ethiopia is replete with wars and acts of violence. Moreover, contrary to the common portrayal of the country as having to constantly defend itself against external aggression, most of the wars were internal in their genesis and impact.





78. Despite some amount of safety and security since 1991, Ethiopia currently faces a multitude of security challenges that could yet impede national development. It is still technically at war with Eritrea, its former province-turned neighbour. The country fought a costly and brutal war with Eritrea between May 1998 and June 2000 resulting in tens of thousands of casualties (exact estimates of casualties for the conflict are disputed by both sides). Tension between both countries, blamed on Ethiopia's alleged refusal to accept the independent UN-backed border arbitration ruling to award the small town of Badme to Eritrea, still remains high.<sup>12</sup> Ethiopia also has a longstanding rivalry with neighbouring Somalia. A full-scale war was fought between the two countries in 1977 and 1978 and, since then, there have been many instances of cross-border fighting. In July 2006, Ethiopia intervened in Somalia's civil war when it moved troops into the country to support the weak, albeit recognised, interim government struggling to fight off the military advances of the Islamic Courts Union and other militia.

79. In addition, Ethiopia has its own domestic security problems in the form of low-level insurgency from two secessionist movements – the Ogaden National Liberation Front (ONLF) and the Oromo Liberation Front (OLF) – both allegedly backed by Eritrea. With the Asmara government increasingly desperate over the current deadlock, and Ethiopia becoming increasingly irritated over Eritrea's alleged backing of anti-government forces in both Ethiopia and Somalia, there are fears that a new round of fighting could erupt at any moment. With Eritrea currently lacking the military capability to wage another war or have its cause endorsed by the international community, it seems to have chosen to wage war against Ethiopia by backing proxies in both Ethiopia and Somalia, including radical Islamists with links to Al Qaida.<sup>13</sup> The security situation has not been helped by the continuing political fallout that followed the May 2005 general election, with the government's brutal crackdown on opposition supporters.

### **Establishing a Clear Role for the Private Sector**

80. The formal or organised private sector in Ethiopia is recovering from its decimation under the Derg regime. Yet, it remains both weak and in an uneasy or ambivalent relationship with government. Despite steps that have been taken to bolster the private sector, such as simplifying administrative procedures, clarifying rules regulating business activities, and shortening the time required to obtain

12. HS Global Insight, Monday 24 August, 2009.

13. Ibid, p.2.



necessary licenses, government still maintains a major role in the economy.<sup>14</sup> The democratic developmental state described above should not be seen as the enemy of the market, nor should market forces be seen as an enemy of a strong, effective state. Although the EPRDP government has taken definite steps for economic reform through trade deregulation, liberalisation, privatisation, and an 'agricultural development-led industrialisation', the private sector remains relatively small, characterised by small companies, low labour productivity, and a high degree of corruption. The state should seek to harness positive elements of the market towards achieving the critical task of promoting the emergence of a national capitalist class in key sectors of the economy, thereby fostering economic growth and development.

81. Moreover, the desire for a strong role for the state in Ethiopia should not be interpreted as a market vs. non-market issue. Markets are vital but imperfect in the distribution or sharing of the fruits of development. The question is to identify major market failures in any particular context and take corrective measures. Also the issue is not one of the size of the state but of its appropriate role. Although it is important to be cautious over the failures of governmental interventions and the dangers of rent-seeking, there is little doubt that governments can promote sustainable and equitable development. The developmental state was highly successful in East Asia. But there is a need to be wary of a simple, straightforward imitation of East Asian policies. Instead, one has to ask whether and in what way policy lessons can be derived and applied in the different context of Ethiopia and the present-day global economy. What the East Asian examples clearly demonstrate are that the state can fortify the "*invisible hand*" of the market with great success, especially in the quest for dynamic comparative advantage and technological upgrading. The state can also protect the economy from the risks and vulnerabilities that unfettered markets sometimes impose, such as those that can result from capital market liberalisation. Ethiopia needs to come up with a development plan clearly articulating the appropriate strategic role of the state in economic development.

## Promoting a Culture of Entrepreneurship

82. Entrepreneurship can play an important role in structural economic change and in improving well-being. Across the world, governments and international

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The telecommunications sector for instance, is a state monopoly. In addition, according to the constitution, the ownership of land belongs only to "the state and the people". Citizens can lease land for up to 99 years but are not allowed to sell it. Several sectors of the economy are not open to private investors but instead are reserved solely for the government. Among them are the transmission and generation of electricity, postal services, and weapons manufacturing. Foreign firms are excluded from many areas of the economy including banking, insurance, broadcasting, air transportation that use aircraft with a seating capacity of more than 20 passengers, saw mills, movie theatres, travel agencies, bakery products and pastries for the domestic market, the export of raw coffee, retail and wholesale trade, brokerage services and shipping.



institutions are investing increasing resources to promote entrepreneurship. Ethiopia needs to gain a greater understanding of the ways in which entrepreneurial capacity can be harnessed for overall economic development. In particular, there should be more of an effort for a greater understanding of the sources of entrepreneurial growth in the economy, especially the informal sector and small and medium enterprises, and how public policy may strengthen the contributions of entrepreneurs to innovation, technological catch-up, and competition. Key issues that should be addressed include: (a) the concept and measurement of entrepreneurship; (b) the influence of entrepreneurship on economic development, (c) the institutional prerequisites for a dynamic entrepreneurial and small business sector; and, (d) the regional and country level dynamics of entrepreneurship.

## **Infrastructure**

83. The state of physical infrastructure in Ethiopia is a serious hindrance to development. Indicators, such as those for road network density, access to electricity and water, telephone and internet access, are all worse than sub-Saharan Africa averages. The government's ambitious road expansion and improvement programme is commendable, as shown in Box 2.4. This programme is already lowering the very high transport and market development costs, especially in rural areas. In the case of electricity, government has opened up generation to the private sector but not the natural monopolies of transmission and distribution. However, the private sector response has been limited.

84. A very contentious issue surrounds the telecommunications policy where there is a state-owned monopoly: the Ethiopian Telecommunications Corporation (ETC). Halting liberalisation has been confined to allowing joint ventures with ETC in some areas, such as cellular phones. There has been virtually no interest from either foreign or domestic investors in such joint ventures.

85. Ethiopia had cutting-edge technology at the turn of the century. The introduction of telecommunications in the country dates back to 1894, seventeen years after the invention of telephony. While the Ethiopian Telecommunications Corporation is the oldest public telecommunications operator in Africa, it is still a monopoly. This has stifled innovation and retarded expansion.



## Box 2.4: Commendable Practice 2: Ethiopia's Road Development Programme

With support from the World Bank and other development partners, the Government of Ethiopia undertook an ambitious plan for the expansion of its road network in the 1990s. It formulated the 10-year Road Sector Development Program (RSDP 1997–2007), a two-phased integrated package of investments, reforms, and institutional reorganisation which was later extended to include a third phase, up to the end of June 2010.

The Programme was designed to achieve the following:

- Improve trunk and regional/rural road access to meet agricultural and other economic development needs;
- Build institutional capacity in both the public and private sectors for sustainable road development and maintenance; and,
- Provide economic opportunity for the rural poor both through increased employment in rural road works and affordable transport and services.

Thirteen years after inception, there has been a remarkable transformation in both Ethiopia's road conditions and the road sector. In all, more than 75,000 kilometres of road, including rural access roads, have been constructed or rehabilitated. During phase I, 8,709 km of roads were constructed or rehabilitated.

The first two components of the project alone upgraded the country's major connectors, including the Modjo-Awash-Gewane-Mille (442 km) on the import-export corridor, and the Awash-Hirna-Kulubi-Dire Dawa-Harar (311 km), a gateway to the eastern part of Ethiopia and Somalia. Phase II included the rehabilitation of 988 km of roads, upgrades to 1,758 km, and the construction of 628 km of new gravel roads. As of September 2008, heavy or emergency maintenance had been completed.

Source: World Bank Ethiopia Road Sector Development Project and Ethiopian Roads Authority. Compiled by the CRM, September 2009.

86. Despite massive investments into fixed-wireless and mobile network infrastructure - including third generation mobile technology, as well as a national fibre optic backbone - in recent years, Ethiopia currently has the second lowest telephone penetration rate in Africa. The mobile market penetration is still one of the lowest in the world at little more than 3 percent. Fixed-line penetration is even lower, and this has also impacted on the development of the Internet sector. Prices of broadband connections are excessive. In fact, the 2010 ICT Development Index compiled by the International Telecommunications Union ranked Ethiopia 154 out of 159 countries, globally. The ICT Development Index (IDI) is a composite index made up of 11 indicators covering three sub-indices – ICT access, use and skills. It tracks the overall progress countries are making towards becoming information societies.<sup>15</sup>
87. The recent signing of a management deal between France Telecom and Ethiopian incumbent ETC is an encouraging development. Ethiopia needs to follow evolutions in the technology and respond to the needs of its business community and the population at large. This will ensure that it is not left out of the information revolution.

15 . See International Telecommunications Union (2010) *Measuring the Information Society*, ITU, Geneva.





## CHAPTER THREE

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### 3. DEMOCRACY AND GOOD POLITICAL GOVERNANCE

#### 3.1 Overview

88. It is clear from the preceding chapters that Ethiopia has made a paradigm shift in governance from a unitary state to a federal state. From an imperial political order with feudal underpinnings, it has transformed into a federal state built on the principles of autonomy and self-determination of constituent nations, nationalities and peoples, allowing for secession, under certain entrenched constitutional provisions. The origins of Ethiopia's nationalities-based federalism are to be found in the centuries-old struggle of the earlier eras of various nationalities, nations and peoples against imperial domination and militarist control. The Ethiopian People's Revolutionary Democratic Front (EPRDF) was the lead instrument of this transformation to a federal multi-party democratic system encouraging self-governance and self-reliant development. As this new order is a work in progress, its success depends largely on how the political institutions are consolidated and sustained.

89. A system of governance founded on a nationalities-based conception of governance must be able to design and establish innovative institutions and develop a strong sense of tolerance and cooperation across nationalities and ethnic groups, if it is to succeed. Ethiopia has a number of such institutions notably, the House of the Federation and the Ministry of Federal Affairs. Their role is to engender and facilitate cooperative inter-governmental relations between the federal government and nationality-based regional states, in furtherance of the country's vision of federalism and its utilisation of its diversity as a valued resource in forging unity. The House of the Federation's authority for constitutional review and setting standards for resource allocation to ensure the well-being of regional states, and the strengthening of an over-all Ethiopian nationality, makes it potentially at once an important guardian of Ethiopian federalism and a guarantor of the of regional state autonomy. The point worth emphasising in this respect is that this conception of federalism is not an adversarial or unduly legalistic one, pitting the federal government against the states, the states against one another, or nationalities and ethnic groups against each other. It is a conception well-suited to pragmatically managing the political mobilisation dynamics of diverse nationalities and ethnicities in plural societies, particularly those undergoing post-conflict transitions. The reverse is true in unitary societies that grant self-rule to nationalities and ethnic groups (peoples). Sub-national and local levels of governance take the form of shared power as they constitute federal arrangements at the national (federal) level of governance.





90. In the case of Ethiopia, federalism based on principles of autonomy and self-determination for nations, nationalities and peoples must be viewed in the broader historical context of the long-drawn out struggle against perceived Amhara hegemony, and the failure of the control model of government to manage nationalities-based conflicts which saw the Derg seeking a military solution to such problems in Ethiopia.
91. The country's federalism has, however, sometimes been criticised for "essentialising" ethnic identities, "privileging" them over other identity types and, in the process, heightening ethnic tension and conflict. Yet, in an important sense, Ethiopia's federalism is a refreshing approach to governance. This is because it moves away from regarding ethnicity as a negative or dysfunctional political and socio-economic social force. Instead, it emphasises the positively creative, crosscutting, utilitarian value of ethnicity for democracy and development. It anchors democratic politics and development as a bargaining process, based on mutuality and reciprocity among ethnic and national groups, constituting the fundamental components of the social demography and political tapestry of the typical African state. This is indeed in the spirit of Articles 20(1) and 22(1) of the African Charter on Human and Peoples' Rights.
92. Critics also fail to consider what has been referred to as ethnic and national resurgence, not only in Africa but across the world, in places like the United Kingdom, France, Belgium, Canada and Switzerland, where the persistence of ethnic conflicts has resulted in the creation of multi-ethnic nations, with substantial local autonomy or self-rule granted to ethnic minorities. Ethnic identity is not *bad per se* but requires adaptation as part of a broader process of widening democratic spaces in an inclusive, participatory and accountable way, in line with the rule of law and the promotion of not only civil and political rights, but also cultural, economic, and social rights
93. A number of major challenges, however, must be tackled. First, the need for a constructive approach to political asymmetries between the regional states and the ensuing regional inequalities. In the same way, applying the policy of equity to redress the historic disadvantages experienced by some national and ethnic groups, particularly in education and in public service, must be reconciled with the merit principle. In other words, while affirmative action might be necessary to right historic wrongs, it must not become an end in itself. Secondly, while the policy of decentralisation has further devolved powers and functions down to the *woreda* and *kebele* levels, in the spirit of federalism, serious problems of capacity, corruption and inefficiency threaten to defeat the spirit of decentralisation. These must be fully addressed.



94. The problem with the principle of democratic centralism is that it does not allow for compromise and consensus building outside of the ruling party framework. The party tends to demand strict party discipline even down to the level of the *kebele*, thereby sometimes frustrating or negating the policy of decentralisation. Rigid adherence to democratic centralism in a multiparty democratic arrangement can yield top-down governance and intolerance.

95. Thirdly, there is an urgent need to strengthen cross-national and oversight institutions, like the National Election Board of Ethiopia, the Human Rights Commission, the Federal Ethics and Anti Corruption Commission, and the Ombudsman, among others, and to develop appropriate democratic values and a political culture that will prevent re-hegemonisation by a national group or coalition of national and ethnic groups, and enable Ethiopians to sustain a system of governance that finds “*beauty in its unity and diversity in its beauty*” - as stated in its creed.. This can come about through the practice of federalism as cooperative federalism; respect for the rule of law; enhanced separation of powers; strengthening the legislature and the judiciary in particular, to play their countervailing oversight roles; and, encouraging competitive electoral politics and a robust civil society.

96. To further emphasise the need for political pluralism and political tolerance, there is no doubt that in a fragile emerging federal and democratic entity like Ethiopia, mutual respect amongst political parties is crucial. The ruling party and the opposition should increasingly find common ground and enhance their working relationships rather than sow seeds of disunity and distrust that will vitiate and endanger federalism and democratic consolidation.

### 3.2 Standards and Codes

#### I. Summary of the CSAR

97. The CSAR notes that the following international treaties have been signed and ratified. These are the: International Convention on Economic, Social and Cultural Rights (ICESCR 1993), International Convention on Civil and Political Rights (ICCPR 1993), International Convention on Eradication of Racial Discrimination (CERD 1976), International Convention on Elimination of all Forms of Discrimination against Women (CEDAW 1980), International Convention against Torture and Dehumanizing Treatment (CAT 1994), International Convention on the Rights of the Child (CRC 1991), African Charter on Human and Peoples’ Rights, African Charter on the Rights and Welfare of the Child,



AU Convention on Preventing and Combating Corruption, the Convention on the Political Rights of Women, Convention relating to the Status of Refugees (with some reservations), OAU Convention Governing the specific aspects of refugees problems in Africa, Convention for the Suppression of Traffic in Persons and Exploitation of Prostitution.

98. However, Ethiopia has not ratified the following international instruments: (a) International Convention on the Protection of Rights of all Migrant Workers and Members of their Families (CMW); (b) Protocol to the African Charter on Human and Peoples Rights on the Rights of Women in Africa; (c) Optional Protocol to the International Covenant on Civil and Political Rights, aimed at implementing ICCPR; (d) Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty; (e) Optional Protocol to the International Convention on Elimination of all forms of discrimination against women; (f) Optional Protocol to the Convention against Torture and other Cruel, Inhuman or Degrading Treatment/Punishment (OPCAT); (g) First Optional Protocol to the International Convention on the Rights of the Child, on the involvement of Children in Conflicts; (h) Second Optional protocol to the International Convention on the Rights of the Child, on the sale of children, child prostitution and pornography; and, (i) the OECD Convention on Combating Bribery of Public officials. Below is the table showing Standards and Codes, as signed and ratified by Ethiopia<sup>16</sup>.

## Status of Implementation of International Standards and Codes

**Table 2: Standards and Codes signed and ratified by Ethiopia**

Treaty/Convention Or Protocol	Date of Signature	Date of Accession/ Ratification
The Charter of the United Nations		13/11/1945a
The Universal Declaration of Human Rights		10/12/1948a
International Covenant on Civil and Political Rights		11/06/1993a
The International Covenant on Economic, Social and Cultural Rights		11/06/1993a
Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment		13/04/1994a
International Convention on the Elimination of All Forms of Racial Discrimination		23/07/1976a
Convention on Political Rights of Women		21/01/1969a
Convention on the Elimination of All forms of Discrimination against Women		10/10/1981r
Convention on the Rights of the Child		13/06/1991a

16 Source: CSAR of Ethiopia, dated February 2009, supplemented by information from within and outside Ethiopia sources during the Review.



Convention for the suppression of the Traffic in the Persons and exploitation of Prostitution		10/09/1981r
Convention relating to Status of refugees and its Protocol		10/11/1969a
Geneva Convention Relative to the Protection of Civilian Persons in Time of War		02/12/1969r
Convention on Persons with Disabilities		07/07/2010 r
<b>Regional Instruments ratified by Ethiopia.</b>	<b>Signed</b>	<b>Acceded/Ratified</b>
The Constitutive Act of the African Union (2000)	12/07/2000s	08/03/2001r
The African Charter on Human and Peoples Rights (1990)		15/06/1998r
The AU Convention on Preventing and Combating Corruption		01/06 2004r
The AU Peace and Security Protocol		29/05 2003r
African Charter on the Rights and Welfare of the Child (1990)		02/10/ 2002r
OUA Convention Governing the Specific Aspects of Refugees Problems in Africa	10 September 1969s	15/10/ 1973r
Protocol to the African Charter on Human and People's Rights on the Rights of Women in Africa (2003)	01 June 2004s	
International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families		Not yet ratified
Optional Protocol to the Convention on the Rights of the Child on the involvement of Children in Armed Conflict		Not yet ratified
Second Optional Protocol to the International Convention on the Rights of the Child, on the Sale of Children, Child Prostitution and Pornography.		Not yet ratified
The First Optional Protocol to the International Convention on Civil and Political Rights		Not yet ratified
The Second Optional Protocol to the International Convention on Civil and Political Rights		Not yet ratified
The Optional Protocol to the African Charter on Human and Peoples Rights on the Rights of Women in Africa		Not yet ratified
Optional Protocol to the International Convention on Elimination of all forms of Discrimination against women.		Not yet ratified
Optional Protocol to the Convention against Torture and other Cruel, Inhuman or Degrading Treatment/Punishment (OPCAT);		Not yet ratified

**Key: a= accession, r= ratification, s=signing**

## II. Findings of the CRM

99. The CRM learnt from official sources that Ethiopia was party to 6 core instruments (ICCPR, ICESCR, CERD, CAT, CEDAW, and CRC) which it has signed and ratified. Ethiopia is yet to ratify one important core treaty: the Convention on Migrant Workers. The CRM heard that government had not ratified optional protocols, especially those that empower individuals to complain





about the government in international fora. Government officials told the CRM that their government did not want to ratify optional protocols that would subject it to complaints raised by individuals at international fora.

100. Although the Government of Ethiopia is yet to ratify important international conventions:- CMW, OP1-ICCPR; OP11-ICCPR; OP-CEDAW; OP-CAT; OP1-CRC; OP11-CRC; the Ethiopian Constitution contains the international law-friendly provision stipulating that all ratified international conventions can be invoked and applied in Ethiopian Courts. While interacting with members of the judiciary, the CRM was informed that their judicial officers can invoke international laws in application to domestic courts.

101. Though Ethiopia law is friendly to international law, Ethiopia has not fully implemented those conventions already ratified. Ethiopia is behind in its reporting obligations on major international human rights treaties. For instance, Ethiopia made its first reporting since ratification of the Convention against Torture, the International Convention on Civil and Political Rights, and the International Convention on Economic, Social and Cultural rights on 20 July 2009<sup>17</sup>. However, Ethiopia has consistently reported on the international Convention on the Rights of the Child, despite financial constraints, lack of sufficient and qualified human resources, lack of coordination amongst implementing institutions, as well as the lack of awareness mentioned in the CSAR.

102. During interactions with stakeholders, the CRM heard that there was a low level or near total lack of awareness on the part of citizens about international standards and codes that have either been signed or ratified by the country. Knowledge of human rights instruments ratified by Ethiopia is low. Some stakeholders expressed ignorance about standards and codes, even those ratified by the Ethiopian Government.

### III. Recommendations

103. The APR recommends that Ethiopia:

- Make efforts to ratify all outstanding international conventions, codes and standards; (*Ministry of Foreign Affairs, Ministry of Justice*) and,
- Address challenges faced in failing to ratify these conventions. (*Ministry of Foreign Affairs, Ministry of Justice, Ministry of Finance and Ministry of Capacity Building*)





### 3.3

## Assessment of the Performance of APRM Objectives

### **Objective 1: Prevention and Reduction of Intra-and Inter-State Conflicts**

#### I. Summary of the CSAR

##### *Intra-State Conflicts*

104. Intra-state conflicts invariably occur within clans or groups within the same nationality or ethnic-based communities; between nationalities or ethnic communities within the same regional state; or between nationalities or ethnic communities across regional state borders. The CSAR concludes that these conflicts, when they occur, are often caused or driven by (a) resource scarcities resulting from environmental degradation and climate change, causing drought that affects pasture and water points; (b) competition over the introduction of new resources such as food aid, the construction of new water dams, and new permanent settlements; (c) competing territorial claims by different national or ethnic groups; (d) power struggles related to issues of identity (e.g. indigenous versus non-indigenous) and political representation.

105. Besides these sources of conflict, the CSAR identifies a number of other potential sources of conflict: economic inequalities and inequitable distribution of wealth, both within and between regional states; mismanagement of diversity, especially as it pertains to religion; improperly addressed challenges of refugees and displaced people; and, the emergence of organised crime.

106. The CSAR reports that according to the federal police, several organised criminal groups - largely in border areas – have attempted to control smuggling routes and the contraband trade. These groups exist in inter-state border areas between Ethiopia and Djibouti, in Dire Dawa City, and in the Ethiopian-Somalia border areas. There are also organised armed criminal groups in the Wellega area, in Dembidollo *wereda*. The CSAR stresses that according to the federal police, these criminal groups have no larger economic linkages neither do they have any political connections. As such, if the problem goes unchecked, it could encourage robbery and other crimes such as cattle raiding and terrorist acts. Regional police authorities currently register small arms without identifying their source. These lax practices can pose a serious problem.

107. Sources of violent conflicts are typically latent and do not erupt into conflict without triggers. In the context of Ethiopia, the CSAR identified flawed governance interventions in regional and local administration disputes, the lack of a culture of good governance and rule of law, and illicit inflows of small arms and light



weapons, as triggers that have ignited conflicts. For example, the 2004 and 2008 conflicts in Oromia and Benishangul-Gumuz states were caused by claims and counter-claims over land, the lack of a culture of respect for the rule of law, aggravated by population growth pressures.

### ***Inter-State conflicts***

108. Ethiopia has been experiencing violent conflicts with its neighbours. These conflicts reflect the political economy of the sub-region within which Ethiopia is located. Prevalent characteristics are: fluid pastoral movements among states with irredentist ambitions and exclusionist ideologies; and, a broader, international environment of diverse and competing interests. Indeed, Ethiopia does exist in a precarious neighbourhood. Despite the odds, it has been able to resolve conflicts into which it has been drawn in order to protect its national interests, or for other reasons. Conflicts with Sudan and Djibouti have been resolved. Currently, interventions that include a ruling from the International Court of Justice in The Hague seem to be containing the long-standing conflict with Eritrea. Yet relations between Ethiopia and Eritrea have not been normalised. While there is an absence of violence, there exist a situation of no war, no peace. It is still to be seen whether an end to conflict can lead to normal relations and the establishment of a productive partnership. According to the CSAR, the armed conflict that erupted in 1998 seized on border demarcation as an immediate cause. The economy and differences over regional policy are the main driving factors.
109. There have also been cross-border conflicts at the Ethiopian, Kenyan and Somali borders - the area known as the Karamoja cluster by the Inter-Governmental Authority for Development (IGAD) - due to a desire to restock herds and gain better access to water points and grazing land.

### ***Mechanisms for addressing Intra-State and Inter-State Conflicts***

110. The CSAR provides evidence of a high degree of success in conflict prevention, management, resolution, and transformation with respect to intra-state conflicts and inter-state conflicts. A number of critical laws and institutions are designed to address conflicts within and between regional states, and between Ethiopia and other states. For conflicts within and between regional states within Ethiopia, institutions provided to address them include the Constitution of the Federal Democratic Republic of Ethiopia, the House of the Federation, and the Ministry of Federal Affairs. There is also a range of other inter-regional state commissions and boards, laws and policies to this end.



111. According to the CSAR, the Ethiopian government's foreign policy document commits Ethiopia to promoting economic and cultural collaboration with neighbouring countries and not intervening in their internal affairs. The CSAR also reports that Ethiopia is an effective participant in IGAD and is a member of IGAD's Conflict Early Warning and Response Mechanism (CEWARN). The conflict between Ethiopia and Eritrea remains Ethiopia's major preoccupation as far as conflicts with its neighbours are concerned. The CSAR identifies a range of institutions that have contributed to conflict management between the two countries. IGAD, the AU, and the UN Security Council have all played significant roles in the quest for peace between the two countries. The Organisation of African Unity (OAU) - the AU's predecessor - led international efforts that resulted in the signing of the Algiers Agreement. Border demarcation challenges were addressed by the border commission and the International Court of Justice at The Hague, while UNMEE was to monitor the cessation of hostilities between the two states. The CSAR also notes, but without giving any details, initiatives and efforts by non-governmental organisations to resolve the Ethio-Eritrea conflict through problem-solving dialogue. It suggests that more dialogue be encouraged.
112. The CSAR also discusses Ethiopia's armed intervention in Somalia and explains that this was in response to the declaration of war on Ethiopia by Islamic jihadists who controlled Somalia and used its territory as a spring board to destabilise Ethiopia. Ethiopia's intervention was meant to remove the security threat and to support the Transitional Government of Somalia. The CSAR further reports that there was some international criticism of Ethiopia's invasion of Somalia but notes that such criticism was not widespread. Indeed, the UN Security Council, AU and IGAD supported the intervention, acknowledging the terrorist threat to Ethiopia and Ethiopia's justification for taking appropriation action. According to the CSAR, Ethiopia accomplished its objectives in Somalia and, therefore, withdrew its troops.
113. With respect to the management of border and cross-border issues with Sudan, Kenya, and Djibouti, the CSAR shows that Ethiopia and these countries have crafted joint institutions that are working well. The Ethio-Sudan joint commission enhanced cooperation between the two countries in the re-demarcation of their common border and in areas of economic, social and infrastructural development. There are ongoing discussions with Sudan about security issues, including illegal trade and movements of citizens across borders with SNNPRS, Gambella, Amhara and Tigray Regional States. Regional joint commissions also exist between both countries and they are similarly seized of these issues. With Djibouti and Kenya, illegal trade and pastoralist conflicts are the main issues to be addressed, according to the CSAR, and in so doing, CEWARN event and situation reports are proving useful to all parties in creating awareness and taking early action. Unfortunately, according to the CSAR, internal institutions are weak, unable to provide the requisite support. No strong internal early



warning and response mechanisms exist at country level. Furthermore, there seems to be no good infrastructure to ensure prompt and effective responses. The Ministry of Federal Affairs is said to be in the process of developing early warning capabilities. The CSAR also mentions that the Ministry of Federal Affairs is also attempting to monitor religious conflicts that have the potential of becoming violent. However, it is yet to develop the institutional capacity for effective preventive action.

### ***Challenges faced and steps taken to address them***

114. The CSAR lists seven challenges reportedly faced by regional and international organisations in effectively addressing inter-state conflicts involving Ethiopia. These challenges are: (a) human and financial resource constraints; (b) inadequate logistics and trained manpower to perform large-scale peacekeeping and conflict prevention functions effectively; (c) inadequate coordination between sub-regional and other actors in comprehending and assessing conflict situations; (d) inadequate United Nations follow-up and support on conflicts in the sub-region; (e) the lack of political will on the part of the international community to take resolute action against those who undermine sub-regional peace and security; (f) continental and regional conflict management mechanisms at early stages of development; and therefore, (g) inability to provide sustainable solutions to regional dilemmas and challenges.

115. The CSAR reports that steps taken by regional and sub-regional organisations to address the challenges identified include the following: (a) sensitisation and awareness campaigns in various international fora about challenges faced by regional and sub-regional organisations; (b) advocacy for support to AU and IGAD from the international community; (c) work to strengthen the AU Peace and Security Council so that it can play a lead role in African conflict situations; (d) pressure for predictable and sustained funding by the UN for AU-led peace operations; (e) facilitating the work of the AU Commission with the signing of a Headquarters Agreement revitalising IGAD so that it will be able to play fully its role in sub-regional economic integration, Ethiopia being the current chair of IGAD; (f) appointing a special envoy to follow up on the implementation of the Comprehensive Peace Agreement in Sudan.

## **II. Findings of the CRM**

### ***Intra-Regional State Conflicts***

116. The CRM observed the challenge to Ethiopia in constructing a new federal order. This is against the backdrop of an African and sub-regional environment often characterised by strife and violent conflicts, and an international context characterised by an upsurge of nationalism and sectarianism. Such events have





bred violence in the past and could still pose serious threats to the nascent federation. Whilst the creation of regional states within the Ethiopian Federation has enhanced the political, social, and cultural standing of nations, nationalities and ethnic groups within the federation, it seemed to have also sharpened differences between indigenous and non-indigenous ethnic and national groups within and between regional states. Some of these differences have escalated into violent conflicts. Moreover, the potential for conflict is entrenched in the nature of the federal system of governance. How Ethiopia conforms to international norms and codes, as well as how it develops institutions and processes for the prevention, management and transformation of internal conflicts and conflicts with its neighbours, will enable it to effectively consolidate and sustain its system of federal democratic governance and self-reliant development.

117. Fortunately, the CRM consultations pointed to the fact that the Ethiopian federal system of governance has established a range of formal legal institutions and is drawing upon appropriate traditional institutions and mechanisms at local, regional, and federal levels of governance to address situations of conflict. Many of these institutions - as discussed in CSAR - are mentioned above. As a result, intra-state conflicts, to a large extent, while potentially threatening are being adequately addressed thus far. There can be no relenting on earnest, persistent efforts to manage and transform conflicts. The CRM believes that federal and regional state authorities, as well as the peoples of Ethiopia, would do well to work unceasingly to deepen the legitimacy and effectiveness of those institutions and mechanisms established by the constitution, by proclamations, and by the culture and traditions of the nations, nationalities and peoples of Ethiopia to address the causes and sources of conflicts.

118. To this end, the CRM believes that the various national and regional state conflict management institutions need to be strengthened. Critical among these are the House of the Federation, the Ministry of Federal Affairs, and the bodies that service them, such as the Council of Constitutional Inquiry and relevant regional state organs. In order to strengthen some of the institutions that are important for conflict management and transformation, new structures and approaches are required. Critical among these are joint border commissions and local governance institutions in cross-border areas.

119. The CRM noted the conspicuous absence of the role and impact of the Human Rights Commission as a conflict management and transformation instrument. There is a glaring absence of an Ombudsman to protect and promote equity and social justice. While it is appreciated that it takes time and resources to establish such new institutions, the appropriate sacrifices need to be made to ensure that they become functional and contribute as they are supposed to in a conflict-prone federal democratic experiment.





120. The CRM observed the absence in this section of the CSAR of substantial discussion on the role of the judiciary and security services in conflict management in Ethiopia, notwithstanding several references. Fuller discussion of these institutions takes place elsewhere in the CSAR. It is worth noting, however, that during the CRM visits across Ethiopia, several observations were made about the progress of the judiciary in expeditiously disposing of cases. Many judges reported having no backlog on their dockets, explaining that computer technology, increased resources, and better training have helped to remove the backlog problem. While hailing this progress, some opposition leaders and members of legal associations cautioned against the potential temptation for judges to rush to judgment on their cases since speed in disposing of cases was fast becoming an indicator of a successful judge. Subtle rivalries among judges in this respect could undermine the cause of justice. The CRM believes that this caution is worth noting.

121. The CRM observed that considerable efforts are being made by federal and regional authorities, and reportedly also by local authorities, including traditional authorities, to address various conflicts amongst the communities and peoples of Ethiopia. Considering all that the CRM heard and read during its nation-wide consultations, the more challenging intra-regional state conflicts are those to be found in cross-border communities, especially among pastoralist communities that straddle both sides of shared borders. It seems to the CRM that grazing land and water points usually constitute scarce resources over which there is conflict. Among the recommendations typically advanced for managing such conflicts is providing clearly demarcated borders between regional states and resolving land claims. Whilst this recommendation might be useful in some cases, there may well be a need to rethink this approach in certain cases since land claims and counter-claims between and amongst local groups are sometimes essentially about access to grazing lands and water points, and not as much an exercise of sovereign authority, *per se*. In some of these cases, new approaches to the governance of grazing lands and water resources as a shared property resource of cross-border pastoral communities might be necessary. In such cases, appropriate institutional arrangements for governance need to be developed for access and prudent use of these resources as common property by those cross-border groups. Developing appropriate institutional arrangements might require drawing on long-standing and widely-accepted traditional arrangements that pre-date the modern state, or adapting institutional arrangements developed and used among pastoral communities elsewhere. The CRM has little information about institutional innovation for cross-border governance. There was barely a mention of initiatives to rethink approaches to cross-border governance in conflict-prone environments characterised by scarcity of grazing land and water points among pastoralists.



122. Furthermore, it seems to the CRM that more needs to be done to strengthen the bureau of administration and security of regional states, particularly that of Oromia and its neighbours. Oromia shares borders with all of the regional states except Tigray. Some of these borders are shared with emerging states that are relatively more resource-strapped than others. Going beyond conflict management, these conflicts should be transformed into opportunities for mutual cross-border development. Transforming conflicts into development cooperation requires both institutional capacity and financial resources. More federal support for appropriate capacity development would promote cross-border cooperation between Oromia and the emerging states of Benishangul-Gumuz and Gambella, between Oromia and the SNNP Regional State, and between Oromia and Somali. Priorities should be the creation of joint authorities and programmes for education, health, infrastructural development, the use of cross-border grazing lands and water points by communities occupying common border areas, both requiring substantial federal and international support.

### **Potential Sources of Intra-State Conflict**

123. The CRM notes that creating the Federal Democratic Republic of Ethiopia out of a system of hegemonic control and suppression unleashed two impulses amongst the Ethiopian Nations, Nationalities and Peoples. The first is the impulse for community solidarity and self-actualisation that drives nations, nationalities, and ethnic groups to affirm or reaffirm their sense of identity with a view to pursuing common developmental goals. The second is the impulse for equity within the larger federal arrangement such that these nations, nationalities and peoples relentlessly strive to achieve social, economic, and psychological standing in the federal mosaic. Under these circumstances, the potential for destructive and debilitating conflicts that can weaken and immobilise regional states as well as produce destructive outcomes in the interactions between and among regional states, must not be underestimated. Therefore, it is critical to identify and address potential sources of destructive conflict before they become active sources of conflict. The CSAR identified several sources of internal conflict and potential sources of conflict, as mentioned above. These were taken up during the country consultations.

124. *Resources Allocation Formula:* Throughout the regions visited by the CRM, there was keen interest in the process by which the budget allocation formula is constructed. As reported in the CSAR, the 2008 formula parameters were population size, revenue collection, and expenditure performance. This formula is under review. A revised formula is expected. Although the formula was complemented with affirmation action programmes for emerging regional states,



these states expressed concerns over revenue collection and expenditure performance as parameters. This may be attributed to their lack of capacity compared to the more developed regional states. Despite this concern on the part of emerging regional states, the budget allocation formula process is still considered by all to be sufficiently inclusive, participatory, and geared toward consensus-building. Therefore, the onus is on the federal government to keep this process inclusive, participatory, and consensual. Having started with this practice, the hope is that it should only be improved upon. Any lesser approach would undermine the credibility of the process with the likelihood of transforming it into a source of conflict rather than the currently perceived instrument of cooperation and development.

125.

*Lack of a Rule of Law Culture:* The CSAR asserts that the rule of law is not respected in Ethiopia. While the CRM notes this assertion, it did observe another perspective on the issue during its meetings with local people outside Addis Ababa. This perspective has to do with the clash between current laws and existing norms. Laws are usually written legal prescriptions that determine what is permitted and what is prohibited, and the sanctions attached to violations. Norms are typically cultural practices which may or may not be supported by law. Norms change more slowly than laws. In societies such as Ethiopia, as is the case elsewhere, the transformation from an imperial order to a military order - and now to a federal democratic order - has seen rapid changes in laws and legal systems. Yet, habits, attitudes and social practices struggle to keep pace. For example, while constitutional law now guarantees women equality, social norms resist the full implementation of any such law. Hence, there are persistent challenges to the rule of law that must be constantly tackled by governing institutions and authorities, as well as by ordinary citizens. Failure to do so constantly and earnestly undermines the credibility of laws and diminishes claims to the respect of democratic governance and observance of the rule of law. This is why there cannot be a half-hearted commitment to enforcing constitutional law and statutes that guarantee rights and clarify duties and responsibilities of citizens. Government institutions and functionaries, at both the federal and regional state levels, must be seen to be earnest and diligent custodians of public trust. There cannot be a significant gap between the rules on the books and practice on the ground.

126.

Atendency toward cynicism and moderate alienation seems to be growing in some quarters, largely among some opposition parties. They seem to be increasingly questioning the federal government's commitment to equity, especially in public service appointments; social justice, with respect to treatment of opposition and the use of federal security forces; equal access to economic opportunities; and, democratic values, as pertaining to media access and electoral matters.





127. Among the concrete issues said to be fuelling these concerns is the slow pace of addressing the question of the former officials of the Derg who remain in prison. Similarly, opposition party members who protested and questioned the process and outcomes of the 1995 elections remain in detention. Individuals who discussed these questions with the CRM are fully aware that with respect to the former officials of the Derg, there are complex issues of crimes against humanity and charges of such magnitude do require time to be properly sorted out. Yet, the fact that the processes concerning them are moving at such a slow pace seems to be detracting from the otherwise strong, widespread, and welcomed perception of democratic change ushered in by the EPRDF. The continuing detention of some opposition members long after the 2005 elections is of major concern.
128. To a much lesser extent, some opposition party leaders refer to the ruling party rhetoric in political discourse as a source of concern. They stress that there is an unhelpful stridency and repugnant labelling by the ruling party and the government of those who disagree with its policies and practices. Categories of “revolutionary democrats,” “reactionary democrats,” and “opportunistic democrats”, have been coined by the ruling party and government to distinguish members of the government from the rest of the political class, and to deride and berate the latter. The same categories are assigned to members of the mass media such that those amongst them who support the government are referred to as the “revolutionary media” whilst others are caricatured as reactionary and opportunistic. In a fragile, emerging democratic culture, respect for the opposition is crucial. A ruling party that does not respect the opposition helps to sow seeds of disunity and distrust and will not only dread the day it is likely to become the opposition but, more importantly, will tend to employ every measure to ensure that day never comes. Thus, the possibility of democratic alternation which democracy promises and which keeps the opposition loyal is seriously undermined.
129. *Internally Displaced Persons*: On the whole, regional states are left to face the challenge of the proper settlement of internally displaced persons. In several regional states, the CRM was told that they are hard pressed to carry this burden without more substantial federal government involvement. The CRM is of the view that federal government needs to increase its involvement with regional states in the humanitarian care of IDPs. Inter-regional state cooperation mechanisms for conflict prevention, management, and transformation, as well as for humanitarian care of IDPs, should be strengthened where they exist, and established where they do not.
130. *Refugees*: As stated above, the CRM was informed about the situation of Eritrean refugees. The presence of ex-soldiers amongst them potentially poses a problem in the regional state of Tigray. Deportees who are Ethiopian citizens are also among this group. This situation needs to be addressed more fully by the federal government. It could become a potential security threat. Moreover, it imposes a major resource burden on the regional state.





## ***Strengthening Mechanisms and Processes for addressing Intra-State and Inter-State Conflicts***

131. Some opposition party members expressed their fears that the House of the Federation could become weaker and ineffective as the EPRDF government demands greater party discipline of its members in the House. An overly strong display of partisanship in such a body - whose principal mission is to heal and build bridges across nations and nationalities - would be counter-productive, they argue. It is important that the federal government, as dominated by the ruling coalition, takes this concern into account. The House of the Federation is a distinctive Ethiopia political institutional innovation that performs a function indispensable to the consolidation and sustainability of Ethiopian federalism. Perceptions that have the potential of weakening its legitimacy and casting aspersions over its credibility must be addressed at all cost.
132. There is a call to continuously strengthen institutions responsible for establishing and implementing conflict management and resolution processes. These include the Council of Constitutional Inquiry and the Ministry of Federal Affairs, as well as the courts, in order for their legitimacy in Ethiopia's multi-national federal experiment to grow from strength to strength and with it, deepen the culture of the rule of law. The challenge is to develop strong federal institutions considered legitimate by the peoples of regional states without further strengthening the state at the centre. Strong regional state institutions can galvanise local people for self-reliant development without barricading them into the exclusivity of ethnic nationalism. Allowing them to develop the identity of a larger Ethiopian nationality remains a challenge.
133. It falls to the leaders of the various regional state governments - as well as the leaders of the Ethiopian federation - to act prudently and provide exemplary leadership. On their shoulders lie the responsibility of enabling Ethiopians to make the transformation from values and norms of centralisation, command and control, to those of democratic decentralisation, tolerance and equality so that its peoples can find "*beauty in their unity and diversity in its beauty*"—as stated in Ethiopia's creed.
134. Ethiopia's withdrawal from Somalia reduced the conflict it had with hostile elements in that country. However, more flare-ups are still possible as many factors prone to spark violent conflict still remain. These include the active presence in Somalia of Islamic extremists whose operational patterns involve religious extremist interventions in Ethiopia; Somali ethnic irredentists who may not be active but pose a potential challenge; and, the bitter memory, and scars of warfare and armed rebellion in the Ogaden. The CSAR did not provide



any analysis or prognosis of these issues neither did the CRM have much of an opportunity to raise such questions with Ethiopian federal government authorities. One would expect that the Ethiopian government and Ethiopian centres of strategic studies would be engaged in pertinent analyses of these potential challenges and would put in place appropriate early warning and early action systems. The CRM joins its voice to those of others in the international community in signalling that greater international efforts are needed to stabilise Somalia because, *inter alia*, of the potential negative impact of those conflicts on Somalia's neighbours, especially Ethiopia.

135. The CRM is also of the view that Ethiopia stands to gain a lot from the peace dividend that would accrue from normalising relations with Eritrea, going beyond the current state of no war, no peace. Transcending the present state of a chilly peace and transforming it into a normal relationship would be mutually beneficial for both Ethiopia and Eritrea. Therefore, the CRM joins its voice with those of others in the African region and larger international community urging the normalisation of relations between the two countries.

### III. Recommendations

136. The APR Panel recommends that:

- The Human Rights Commission receive more human and logistical support so that it can also become a partner identifying and addressing potential sources of violent conflict. [Government, Legislature]
- The Human Rights Commission establish full-fledged Regional Human Rights Offices in all Ethiopia's regional states. [Human Rights Commission]
- The office of the Ombudsman become fully operational and extend coverage to the various regional states. [Government and Legislature at federal and regional state levels]
- Efforts to reach a national consensus on the budget resource allocation formula take the form of a widely consultative process, encompassing all Ethiopians. [Government and Legislature at federal and regional state levels, CSOs]
- Federal Government share a considerably larger portion of the burden of care and resettlement for IDPs and refugees. [Government and Legislature]
- An internal early warning system be developed that can be linked to CEWARN and strengthen the Organisation's early warning capabilities. [Government, Ministry of Foreign Affairs]



***Objective 2: To foster constitutional democracy, including periodic competition and opportunity for choice, the rule of law, a Bill of Rights and the supremacy of the Constitution, as firmly established in the Constitution***

## **I. Summary of the CSAR**

### **Competition for Power and Promotion of Democratic Governance**

#### **Collective and Individual Political Rights**

137. According to the CSAR, Chapter Three of the Constitution of the Federal Republic of Ethiopia guarantees two types of fundamental rights and freedoms: “human rights,” and “democratic rights”.
138. The report also points out that in the Constitution, the Judiciary, the Human Rights Commission, and the Ombudsman, are designated principal institutions for the observance and respect of the fundamental human rights and freedoms guaranteed under the Constitution. Sovereignty is vested by the Constitution in the “Nations, Nationalities and Peoples of Ethiopia,” in addition to entrenching its supremacy as the supreme law of the land, and prohibiting the assumption of state power in any manner other than that provided for under the Constitution. The CSAR concludes from these observations that under this constitution, Ethiopia operates a system of government based on the entrenched principle of the separation of powers, with checks and balances, at federal and regional state levels. The Constitution also prescribes a parliamentary system of government as described below. (See Objective 4, To uphold the Principle of Separation of Powers, including protection of the independence of the Judiciary and of an effective Parliament.)

#### **The Right to Form Political Parties**

139. Regarding the right to form political parties, the CSAR notes that under Article 31, and Article 38(b), the Ethiopian Constitution provides for competitive party politics. The revised political parties’ registration Proclamation No. 573/2008 outlines the procedure for political party registration with the National Election Board (NEBE). Furthermore, according to the report, Proclamation No. 573/2008 not only spells out the sources of party financing, but also requires political parties to establish acceptable income and expenditure accounting procedures, and prepare and publish annual audit reports. Article 59 of the Electoral Law guarantees political parties and their supporters equitable access to state-owned mass media, including radio, TV, and newspapers.



## Transparency and Credibility of the Electoral Law

140. The CSAR observes that the Electoral Law - Proclamation No.111/1995, and the amended Proclamation No. 532/2007 - are directed towards ensuring transparent electoral processes in Ethiopia. In addition, the report points out that, under Proclamation No. 532/2007 “*public observers*” can observe the electoral process at the *wereda* and *kebele* election offices, and at polling stations.

## The National Election Board (NEBE)

141. The CSAR notes that the National Election Board, “*independent of any influence,*” is established by Article 102 of the Ethiopian Constitution to conduct free and fair elections in an impartial manner, under particulars determined by law. The report also notes that Proclamation No.532/2007 provides for nine members, appointed by the House of Peoples’ Representatives (HoPR), upon the recommendation of the Prime Minister, with consideration given to national contribution and gender representation. At least one member shall be a lawyer. According to the report, NEBE members each serve a five-year term, renewable for one additional term. In nominating NEBE members, the Prime Minister is required by Article 6(2) to hold sufficient consultations with the Forum for Political Organisations made up of parties holding seats in the House of Peoples’ Representatives, “*to ascertain that the nominees are independent and impartial.*”

142. According to the CSAR, the Board is accountable to the HoPR which may terminate the term of a member: if he resigns for personal reasons; or if the HoPR believes that the Board member is unable to properly carry out his duties, due to illness; or the Board member has committed serious misconduct.

143. The CSAR points out that, although three of the nine members now serving on the 2009 Board, were nominated by opposition parties, controversy trails Board nomination and appointment processes. Elaborating upon this observation, the report points out that while some opposition parties argued that granting the Prime Minister the power to nominate Board members would not guarantee the neutrality of the nominees, the ruling party countered with the argument that nominees were non-partisan individuals selected on the basis of their professional capacity. According to the report, the neutrality issue was also related to the selection of officers to the lower structures of the Board, with some opposition parties holding that such officials were mainly ruling party supporters.

144. Describing the process for adjudicating election-related disputes, the CSAR notes that Articles 92-96 of Proclamation No. 532/2007 provides for mechanisms





to handle complaints and disputes arising from the electoral process. According to the report, these mechanisms include the requirement for NEBE to establish a Joint Forum at every level for political parties to resolve election disputes through dialogue, provide polling station and constituency grievance hearing committees, and offer recourse to the courts.

## **Extent and Effectiveness of Decentralisation**

145. On decentralisation, the CSAR notes that, although the country is one of Africa's oldest states, Ethiopia has limited experience in decentralised governance and administration. For much of its constitutional and political history, Ethiopia was a highly centralised polity, leaving little responsibility and authority to sub-national levels of administration. In this respect, the report observes that the 1991 assumption of power by the Transitional Government of Ethiopia (TGE) - under the Ethiopian Peoples' Revolutionary Democratic Forces (EPRDF) - foreshadowed the end of the centralised state. It signalled the initial process of designing and structuring a decentralised federal state, made up of the federal government, regional state governments, *weredas* - below the regions - to serve as basic units of governance and development, and rural and urban kebele administrations – the lowest layer of administration - to promote participatory grassroots-based governance and development. This decentralised federal structure, according to the report, was anchored on two fundamental objectives: (a) to provide a level field for the equality of all 'nations, nationalities, and peoples'; and (b) to ensure fair and equitable socio-economic progress for all the people of the country.

146. The CSAR concludes that, although decentralisation has, to a considerable extent, devolved power and resources from central to local levels - thereby empowering citizens to participate in policy-making processes at all levels in Ethiopia - a number of challenges remain. Notably, cumbersome structures and processes for procurement of goods and services; endemic staff and skill shortages; weak decision-making systems and inadequate organisational structures at different levels; and, institutional capacity constraints in formulating and implementing policies and programmes.

## **Security Services, Rule of Law and Civilian Oversight**

147. According to the CSAR, the Constitution enjoins and requires the security services, like other organs of the state and their officials, not only to ensure the observance of, and obedience to, the Constitution, but also to respect and enforce the constitutional provisions guaranteeing the fundamental rights and



freedoms of citizens. The report further notes that the Constitution vests the organisation of the Security Services and oversight over them in the House of Peoples' Representatives (HoPR).

## **II. Findings of the CRM**

### **Supremacy of the Constitution and Rule of Law**

148. There was a general consensus during the CRM consultations that since the overthrow of the Derg in July 1991, and viewed against a history of authoritarian rule dating back to imperial rule, Ethiopia has been making gradual but steady progress. Occasional bumps occur along the way in developing and strengthening a political culture of the supremacy of the constitution and institutionalising government under the rule of law.

149. In its consultations with various stakeholders, the CRM was impressed by the general faith in, and commitment to, the intrinsic and instrumental value of democracy in ensuring the survival and sustainable development of the country. The consensus was that national institutions for promoting democracy, like the Human Rights Commission, the National Election Board of Ethiopia, the Federal Anti-Corruption Commission, and the Ombudsman, must therefore, and of necessity, be strengthened and consolidated so that they would provide the anchor for good governance, peace, security and development.

150. Yet there was also a general agreement that major constraints continue to impede the development of democracy and the institutions to promote it. They stem from the combination of a residual anti-democratic political culture dating back to the imperial and Derg years, and poverty and capacity constraints - notably financial and human resource constraints - which must be resolutely tackled and overcome.

151. The CRM observes undercurrents of perceptions, especially among opposition groups, that critical institutions and agencies like the FEACC and the NEBE are not independent.<sup>18</sup> Although the CRM was given no proof or concrete evidence

<sup>18</sup>

The CSAR of Ethiopia states that "there is little consensus on the institutional independence and credibility of the FEACC. Two concerns revolve around this issue. First, the fact that the Commission is answerable to the Prime Minister rather than to Parliament, in the eyes of some observers, has cast doubt on its operational independence and raises the possibility that it may be subject to executive interference in its operations. Second, there are allegations that it might be used as a political tool to neutralize political opponents. ...". Page 169. The CSAR further states that "in a Focus Group Discussion (FGD) with these groups, many believed that the Commission was not independent and lacked integrity in carrying out its mission. The predominant view was that it was highly partisan in its activities in serving the Government and the ruling party...". Page 171



to support these perceptions, they are noted as potential flash points. More constructive engagement and a demonstrable show of political will from the political class is required to reach a consensus on how best to build capacity for these critical institutions of democratic consolidation and national unity.

## Electoral System and Party Competition

152. The CRM finds it a noteworthy and reassuring departure from the past that post-1991 Ethiopia has conducted regular and competitive elections as follows: Constituent Assembly elections in 1994; general elections into the country's first popularly-elected national parliament and regional councils or legislatures, in May and June 1995; the first multi-party elections in 2000; another set of multi-party elections in May 2005. Voter turn-out has increased with each set of elections, reaching a record 90% of registered voters in the 2005 elections. The general elections at federal and regional levels were last held in May 2010 with 93 percent participation rates.
153. From its stakeholder consultations, the CRM generally noted the existence of democratic and participatory nomination processes within the parties to select candidates from the constituency for elections to public political office at various levels. It was not possible, however, to determine the extent of compliance with the processes.
154. Elections, particularly the 2005 elections, have been contentious and controversial, with allegations of fraud, vote-rigging, and intimidation at constituency levels against the ruling coalition party, the Ethiopian People's Revolutionary Democratic Front (EPRDF). Although the European Election Observer Mission to the 2005 general elections concluded that the elections fell short of international standards, other observer missions - notably the African Union and the U.S. Carter Centre - found them credible, arguing that they reflected competitive conditions, and constituted a "milestone."
155. However, the CRM noted that opposition groups expressed reservations about the management and conduct of the 2005 elections, in particular. This also affected their confidence in the electoral process as presently constituted, including the mode of enabling and disabling the NEBE and the post-election dispute resolution mechanisms leading up to the 2010 general elections. It is in this respect that the CRM welcomed the on-going All-Party Talks to reach a consensus about the process leading up to the 2010 elections.



156. Ethiopia held its fourth parliamentary elections on 23 May 2010 when the ruling EPRDF party won 499 of the 547 seats in parliament. According to the election results released by the National Election Board of Ethiopia (NEBE) on 21 June 2010, the EPRDF won a landslide victory in 9 of the 11 regions and cities, where 93 percent of eligible voters participated in the elections. African Union (AU) election observers reported that the election was completely “free and fair” and met all AU election standards. Although the opposition parties rejected the election results as being “completely fraudulent” and reported pre-election intimidation, the AU observer team found no evidence to support the opposition’s charges. President Ketumile Masire, chief AU observer and former president of Botswana noted that the AU was unable to observe the pre-election period and could not, therefore, verify allegations of intimidation.

**Table 3. Final Results of the 2010 General Election**

No.	Party	Results Obtained
1	The Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF)	499
2	The Somali People’s Democratic Party (SPDP)	24
3	The Benishangul Gumuz Peoples Democratic Party (BGPDP)	9
4	The Afar National Democratic Party (ANDP)	8
5	The Gambela People’s Unity Democratic Movement (GPUDM)	3
6	The Harari National League (HNL)	1
7	The Argoba People Democratic Organisation (APDO)	1
8	The Ethiopian Federal Democratic Unity Forum (Medrek)	1
9	Independent	1
<b>Total number of seats in the House of Peoples’ Representatives</b>		<b>547</b>

Source: The National Electoral Board of Ethiopia, Addis Ababa.





## Federalism, Decentralisation and Popular Participation

157. The CRM finds it useful to situate the extent and effectiveness of federalism, decentralisation, and popular participation in Ethiopia in the philosophical foundation of federalism. Since Ethiopia lived through a long-drawn out struggle of a coalition of ethnic-based liberation movements against the centralising imperial, and later, Derg regimes, the country's brand of federalism is rooted in historical experience.
158. In Ethiopia, the federating units are Nations, Nationalities and Peoples, each of them granted "*an unconditional right to self-determination, including the right to secession,*" as well as "*a right to a full measure of self-government, which includes the right to establish institutions of government in the territory that it inhabits and to equitable representation in state and Federal governments.*" This conception of federalism has been strategically directed to engineer and promote the decentralisation of powers and functions from the regional state to lower levels of government - denominated zones and districts (*weredas*) and neighbourhoods (*kabeles*). The objective is to ensure popular participation in governmental processes at these lower levels. This form of democratisation is engineered to create policy synergies and bottom-up feedback between these lower levels, the state, and federal government.
159. The challenge of federalism in Ethiopia, therefore, is to strengthen and sustain its strategic design to support the management of democratic and economic governance, and socio-economic development. The CRM's consultations reveal the political will and commitment to this grassroots-oriented, participatory conception and use of decentralised federalism to engender and strengthen functional inter-governmental cooperation. Details of the constitutional structure of the Ethiopian federal system of government (federal, regional state, autonomous administrative district/city, *wereda, kabele*) are outlined in Objective 4 below.
160. The CRM finds it noteworthy and exemplary that the regional states of Oromia, Afar, Somali, Harari, and the chartered city of Dire Dawa, have institutionalised inter-governmental cooperation in the form of regular quarterly-monthly meetings. This is where common problems are discussed to find solutions. The CRM notes the special constitutional and political status of Addis Ababa, both as the capital of the Federal State, and as the capital of the State of Oromia. The dual status of Addis Ababa is in line with the practice in a number of federations, like Malaysia and post-1962 Pakistan, where federal capitals were not separated from their home states or provinces. Article 49(5) stipulates that "*the special interest of the State of Oromia in Addis Ababa, regarding the provision of social services or the utilisation of natural resources and other similar matters, as well as joint*



*administrative matters arising from the location of the city of Addis Ababa within the State of Oromia shall be respected. Particulars shall be determined by law.”*

161. Although a law detailing the particulars of the relationship between Addis Ababa and the regional state of Oromia is yet to be enacted, CRM consultations revealed healthy inter-governmental cooperation between the federal government, the state of Oromia, and the Addis Ababa City Administration in fashioning out the practical and policy implications of these constitutional provisions on the special status of Addis Ababa as capital city. Illustrative of this healthy cooperation are arrangements for networking services like social and physical infrastructures between the Addis Ababa City Administration and the State of Oromia. These networks create beneficial multiplier effects for the development of a number of cities in the State of Oromia, adjoining Addis Ababa. A typical example cited were irrigation projects implemented by the City Administration of Addis Ababa in neighbouring cities in the State of Oromia for water supply to the city of Addis Ababa, with the Addis Ababa City Administration supplying the cities with free water in return.

162. While noting significant achievements in decentralisation, inter-governmental cooperation, and popular participation, the CRM also notes major challenges posed by: (a) capacity and resource problems at all levels of government; (b) lingering political problems relating to the conduct and management of elections such as the tension between the rights of Nations, Nationalities and Peoples, on the one hand, and the civil and political rights of individuals, on the other, reflected in the debate between equity (representativeness) and merit as a criteria of appointment/promotion in the public services, and seemingly intractable intra-state conflicts over land, grazing rights, and water; (c) the scourge of corruption; and, (d) the occasional highhandedness and intolerance of local ruling party cadres at all levels.

### **III. Recommendations**

163. The Panel recommends that:

- Ethiopia enhance and strengthen the institutional and resource capacity of the Parliament, the Human Rights Commission, the Ombudsman and the National Electoral Board of Ethiopia so that they can carry out their respective statutory mandates effectively. [Government, Legislature]
- The All-Party/National Conference as a confidence- and bridge-building strategy, convened well ahead of the 2010 general elections,



- be widened to address outstanding contentious constitutional and political matters relating to the structure of the National Election Body of Ethiopia, electoral law, and electoral process, including party funding and media access. *[Government, Legislature, political parties, CSOs]*
- Vigorous efforts continue to be made to faithfully comply with the spirit, as much as the letter of the Constitution and the rule of law - as the guiding principle of the governmental process - to promote and strengthen constitutional government and federalism. *[Government and Legislature at federal and regional state levels]*
- The Human Rights Commission and the Ombudsman continue to organise workshops and related advocacy and dissemination activities to educate Ethiopians about their rights and civic responsibilities, and to reach out to the police and prison authorities to enhance their respect for the human rights of the citizenry. *[Human Rights Commission, Ombudsman]*
- Ethiopia continue to direct efforts towards practising federalism as cooperative federalism between the various levels of government. The emphasis should be on building capacity and broadening participation by women and other marginal groups, and thereby strengthening administrative and governmental processes at *wereda* and *kebele* levels. *[Government and Legislature at federal and regional state levels]*
- The Government further consolidate National federalism and ameliorate regional inequality by providing “emerging” regional states with federal assistance in their capacity building efforts. *[Government and Legislature]*
- GoE determine the particulars of the relationship between the State of Oromia and the capital city of Addis Ababa - arising out of the location of Addis Ababa in the State of Oromia - enacting the requisite law as stipulated in Article 49(5) of the Constitution. *[Federal Government and Legislature, Oromia State Government and Regional Council, and Addis Ababa City Administration]*



**Objective 3: To Promote and Protect Human Rights (i.e. economic, social, cultural, civil and political rights)**

**I. Summary of CSAR**

164. The CSAR asserts that the Ethiopian Constitution provides for the protection of the exhaustive list of the civil, political, economic, social and cultural rights of the individual, as protected under the major human rights related international instruments ratified by Ethiopia. In addition to the Constitution, other laws have been passed to strengthen human rights and to prevent abuses. The report notes that over the last decade, human rights protection has improved considerably from what it used to be under the regimes in power prior to 1991. The improvement was achieved mainly through: (a) the entrenchment of a Bill of Rights in the Federal Constitution, which came into force in 1995; (b) the creation of the institutions of the Human Rights Commission and the Ombudsman, with specific mandates to promote and, along with the judiciary, to protect human rights; and, (c) massive and continuous human rights and good governance training for key law enforcement personnel, including judges, prosecutors and police, as well as other security agencies, and the general public.

165. The CSAR discusses at length individual rights to equal protection under the law, access to justice, and the right of every Nation, Nationality and People to self-determination. It also enumerates the economic, social and cultural rights under Article 41 of the Constitution which provides extensive protection and imposes obligations on government at federal and state levels to facilitate the enjoyment of these rights by the individual.

166. According to the CSAR, during the last decade, the country performed extremely well, especially in the education, health, infrastructure, telecommunications and housing sectors, although, as it also observes, government performance over housing continues to be constrained by limited available resources.

167. However, the CSAR points out that various stakeholders have complained of violations and/or undue Government restrictions of the following rights guaranteed by the Constitution:

- Freedom of speech and of the press;
- Freedom from arbitrary arrest and detention;
- Freedom of assembly;





- Freedom of association;
- Freedom of religion; and,
- Political rights.

168. On the freedom of religion, the CSAR observes that Moslem Ethiopians who, in the past, complained of being treated as second-class citizens; obtained equality with believers of all other religious denominations under the Constitution. On political rights, it observes that in the last decade, political participation of “*heretofore-neglected Ethiopians*” was considerably enhanced through the federal system.

169. On the other freedoms, the CSAR notes diverse complaints of violations and restrictions. The 2007 US State Department Country Report, for example, referred to incidents of arbitrary and unlawful deprivation of life and liberty perpetrated by government forces. These violations and restrictions relate mostly to the violence and events during and after the 2005 parliamentary elections when 193 civilians and 6 police officers killed. Many of opposition party leaders and their supporters were arrested and charged with criminal offences such as genocide and treason for political speeches they made over the elections. In the same period, a number of newspaper editors were arrested and detained on charges of various criminal offences, leading to the shutting down of about 10 newspapers. Most of those charged were tried and convicted by courts of law but were subsequently granted pardon and released at their own request.

170. With regard to law, media representatives complained that the proclamation on the media was very restrictive of their rights. Journalists were allegedly intimidated by some provisions of the revised criminal code. Furthermore, opposition political party leaders complained that ever since the 2005 elections, it had become virtually impossible to hold public meetings with their members and supporters because the authorities empowered to regulate such meetings do not readily grant the necessary permits.

171. On the other hand, the report notes government’s contention that over the 2005 parliamentary election period, opposition political leaders and their supporters - in abuse of the said freedoms - engaged in criminal activities designed to violently overturn the constitutional order. Those killed were engaged in criminal activities and not in lawful demonstrations, and arrests were made not for exercising constitutional freedoms but for involvement in criminal activities. Government further contended that incidents of unlawful arrest, detentions and other malfeasance, were isolated occurrences and should not be portrayed as standard practice. The report notes that a Parliamentary Inquiry Commission that investigated the post-election violence of 2005 exonerated government of blame for overreacting in handling the violence.



II.

## Findings of the CRM

172. Promotion and protection of human rights enshrined in various international instruments constitute a major component of good democratic governance. The Federal Democratic Republic of Ethiopia (FDRE) recognises this concept both in law and in practice.
173. The CRM notes that the Constitution of the FDRE - the supreme law of the land - sets out, in Chapter 3, Fundamental Rights and Freedoms that are generally in conformity with the international and regional Human Rights instruments to which Ethiopia is party, notably, the United Nations Declaration on Human Rights, the International Covenant on Civil and Political Rights, the International Convention on Economic, Social and Cultural Rights, and the African Charter on Human and Peoples Rights. Indeed, those instruments, and others, are incorporated into Ethiopian law by virtue of Article 9(4) of the Constitution, which provides that, “*All international agreements ratified by Ethiopia are an integral part of the law of the land*”. Secondly, the Constitution stipulates in Article 13(2) that, “*The Fundamental rights and freedoms specified in this Chapter shall be interpreted in a manner conforming to the principles of the Universal Declaration of Human Rights, International Covenants on Human Rights and International Instruments adopted by Ethiopia.*”
174. Further to specifying the said rights and freedoms, the Constitution expressly prohibits their violation and, in Article 13(1), it imposes on all Federal and State legislative, executive and judicial organs, the responsibility and duty “*to respect and enforce*” them.
175. In this regard, in addition to Courts of law at both federal and state levels, which have the competence to enforce human rights, Government established two bodies: the Ombudsman, and the Human Rights Commission, mandated to promote the observance and enforcement of the rights and freedoms. During interactive sessions with some of the stakeholders, the CRM was informed that the Human Rights Commission discharges its mandate through receiving complaints, monitoring prisons, interacting with law enforcement agencies, and conducting training courses. These training activities are aimed to promote the observance of human rights by all organs, especially the police and other security agencies, and to raise awareness of these rights in institutions such as schools, and amongst the general public.
176. However, it was acknowledged that while those activities still continue, and more are planned, including outreach programmes in the states, the Commission continues to face considerable challenges since it is relatively new and capacity is still limited. The overall message to the CRM from most stakeholders who



turned up for the interactive sessions confirmed the CSAR report that '*In contrast to the era prior to 1991, the promotion and protection of human rights in the country has, in the last decade, improved considerably following the ascendancy to power of the EPRDF.*'

177. Nevertheless, despite the commitment to the observance and promotion of human rights, Ethiopia is faced with challenges. As noted earlier in the Summary of the CSAR, the CSAR was informed that there were crackdowns on protesters and dissenters, leading to numerous arrests and detentions after the disputed Parliamentary elections of 2005. Some detentions were admittedly arbitrary. Furthermore, the CRM received information about other human rights violations linked to internal conflicts in the Ogaden area particularly, in 2007, and to the local elections in 2008.

178. The Ethiopian Constitution, in line with international human rights instruments, makes provision for derogations to fundamental rights and freedoms in appropriate circumstances. The law authorizing such derogations, however, ought not to render the protected right nugatory. Unfortunately, laws governing the media appear to have had that effect on the freedom of expression protected under Article 29 of the Constitution. Journalists, editors and publishers report harassment and prosecution for alleged violations of press laws, so that many are obliged to routinely practice self-censorship. During the interactive sessions, opposition political party leaders complained that out of fear, the media go to the extent of distorting their public statements. Similarly, under the laws regulating public meetings, opposition political parties are denied their rights to freedom of assembly guaranteed under Article 30 because the authorities refuse to issue the requisite permits.

### **Access to Justice**

179. The Ethiopian Constitution guarantees all citizens equality before the law and access to justice. Article 25 provides, *inter alia*, that all persons are entitled, without discrimination, to the equal and effective protection of the law. Article 37 provides that everyone has the right to bring a justiciable matter to, and to obtain a decision by, a court of law. In criminal trials, an accused person is entitled to representation by a counsel of his choice and if unable to pay, shall be provided with legal representation at state expense. The international instruments to which Ethiopia is party and which, therefore, are integral parts of Ethiopian law, recognise these rights. However, the CRM learnt that these rights are not always upheld in practice. During interactive sessions, the CRM was informed that although there is no legal prohibition, in Ethiopia it is virtually unknown for a victim of human rights violations by government servants or agents to secure reparations from Government by civil suit or otherwise. However, there are



Alternative Dispute Resolution Mechanisms that have traditionally been used, and still are, to resolve conflicts and instances of human rights abuse.

180. A new law, the Charities and Societies Proclamation No. 12/2009, which imposes restrictions on foreign-funded NGOs from disseminating victims' rights and advocating on their behalf, has exacerbated the problem. This new law prohibits international NGOs from working in conflict resolution and peace building, democratisation, human rights-related advocacy, gender, and disabilities. Local NGOs and civic institutions are also required to raise 90 percent of their income from domestic sources, failing which they are denied citizens' rights and thus, considered as international NGOs. In effect, this new law reduces opportunities for victims of human rights abuses to have recourse to justice.

181. With regard to efficiency of the courts, the CRM was informed during one of the interactive sessions at the federal level that a recent reform in judicial procedure had been so successful that the courts, presumably at the federal level, were currently "backlog-free". While this is a laudable feat, some individuals with whom the CRM interacted suggested that there is a need to fully explore how such levels of efficiency were achieved and whether they are being sustained.

### III. Recommendations

182. The APR Panel recommends the following:

- A review of media and other laws pertaining to the exercise of the freedoms of expression, assembly and association with a view to eliminating restrictions on the enjoyment of those freedoms. [*Government and Legislature*]
- Encouragement of mutual respect among political parties and consensus building in matters pertaining to enactment of electoral laws and regulations as a means of nurturing the fledgling multi-party democracy, and pre-empting electoral conflict. [*Government, Legislature and political parties*]
- Provision of adequate resources to human rights institutions to enhance their capacity to discharge their respective mandates. [*Government, Legislature*]
- Courts to resolve elections disputes in a transparent, impartial and expeditious manner. [*Government, Legislature*]





**Objective 4: To Uphold the Principle of Separation of Powers (including protection of independence of the judiciary and of an effective Parliament)**

## I. Summary of CSAR

### Constitutional Structure of the Ethiopian Federation

183. The Federal Democratic Republic of Ethiopia is a federation of nine States and two city capitals. The CSAR notes that the Federal Constitution provides in Article 50 that the Federal Government and the States have legislative, executive, and judicial powers.
184. At the Federal level the Constitution establishes two Houses, namely the House of Peoples' Representatives (HoPR), and the House of the Federation (HoF). At the State level, legislative power is vested in the State Council. The executive power at the federal level is vested in the Prime Minister and the Council of Ministers, while at the state level, it is vested in the State Administration. Judicial power is also vested in Federal and State courts, respectively.
185. The CSAR stresses that because Ethiopia has adopted the parliamentary form of government, the separation of powers is not as clear-cut as in the presidential form of government. The executive is drawn from, and remains part of, the legislature. The Prime Minister, who is the leader of the party or of a coalition of parties that has the majority of seats in the HoPR, is an elected member of the HoPR. In addition to its legislative function, the HoPR has wide powers of oversight and control over government policy and strategy, and investigates the conduct and activities of the executive in the discharge of its duties. It elects the Prime Minister and approves the appointment of members of the Council of Ministers, Commissioners, and the Auditor-General. The report notes that the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) controls the HoPR as well as the HoF and it observes that "*in Ethiopia where the executive emerges from the Parliament and a dominant political party controls the majority in Parliament, the legislature works very closely with the executive.*"
186. Furthermore, the CSAR notes that the legislature exercises some degree of control over the judiciary through its power of approval of the appointment and removal of Federal judges, as well as budget approvals for the judiciary. Secondly, it highlights the fact that, notwithstanding the fact that the Constitution vests judicial power in the courts, the power to resolve constitutional disputes



that involve the interpretation of the Constitution is vested, not in the judiciary, but in the HoF.

## Independence of the Judiciary and Effectiveness of Legislature

187. The CSAR reiterates that the independence of the judiciary is guaranteed by the Federal Constitution and observes that there is little indication of political interference at federal level, though “*it is reported that occasional administrative interferences occur at regional level*”. The CSAR also notes that the Constitution adequately guarantees the independence of the legislature from external influence in the exercise of its legislative functions on all matters assigned to it under the Constitution. It however reiterates the observation that, dominated as it is by the ruling party, the legislature may not pursue its control over the executive aggressively since they both belong to the same party, although members of Parliament are not bound to toe the party line whilst exercising their oversight function.

## II. Findings of the CRM

188. Confirming the CSAR report, the CRM found out that under the constitutional structure of the Ethiopian federation, the powers of a state are classified into three categories, namely: power to legislate, power to execute, and power to adjudicate. The principle of the separation of powers is that these distinct powers should be vested in, and be exercised by, three different organs of state, namely, the legislature, the executive, and the judiciary. No organ shall encroach on the domain of another but provide checks and balances. The rationale for the principle is to avoid or prevent abuse of power that tends to result from concentrating power in one person or one organ. The principle is most prominent in the presidential form of government.

189. The CRM further confirmed that the Constitution of the FDRE provides for the powers and functions of the three organs of state separately, but does not strictly conform to the principle of the separation of powers. First, under Article 55, the Constitution vests in the HoPR not only powers to legislate on general and specific matters within federal jurisdiction, but also wide ranging powers of oversight and control over government policies and strategies, and over the conduct of the executive in the discharge of its powers and functions. Within the structure of the organs of state set out in Article 50, the HoPR is designated the highest authority of the Federal Government. Its equivalent at the state level, the State Council, is similarly designated the highest organ of state authority. Owing to the nature of the parliamentary form of government under which Ethiopia is governed, the separation of legislative and executive powers is blurred. The executive emerges from, and remains part of, the legislature. This is presently



exacerbated by the dominance of the ruling coalition, the EPRDF which, in effect, controls both the legislature and the executive. While under the Constitution the legislature has far-reaching powers and functions, its virtual fusion with the executive and the dominance of the ruling party are bound to compromise its independence in the oversight role.

190. However, that dominance should be seen in the context of Ethiopia's recent political history and not necessarily as a permanent feature. Clearly the successful emergence of the EPRDF from the armed struggle against a totalitarian regime in 1991 and steering the country to an inclusive federal constitution gave it an advantage over other political parties, enabling it to garner an overwhelming victory in the four subsequent parliamentary elections in 1995, 2000, 2005, and 2010.

191. During one of the interactive sessions, some stakeholders advanced a proposition to the effect that "proportional representation" would be a more suitable electoral system for Ethiopia than the single constituency representation ("*first past the post*") model currently in use. That may well be correct, particularly in view of the fact that Ethiopia is a highly diverse society. Proportional representation may better enhance heterogeneous representation and, in the process, minimise such dominance. However, for the time being, until such a time as Ethiopia may choose to adopt that electoral system or a mixture of it with the current system, power sharing under the federal structure is the feature of governance that may reduce the danger of a concentration of powers which that prominence portends.

192. The Constitution elaborately provides for power sharing between the Federal Government and the States. Article 51 sets out the powers and functions of the Federal Government. In Article 52, apart from setting out express powers and functions of States, the Constitution makes a residual provision to the effect that all powers not expressly vested in the Federal Government alone or concurrently with the States, are reserved to the States. The specified powers and functions of States include, *inter alia* -

- to establish a State administration that best advances self-government, a democratic order based on the rule of law to protect and defend the Federal Constitution;
- to enact and execute the State Constitution and other laws....

193. Below the State level, there is further decentralisation of functions and resources to the *wereda* and *kabele* administrative units, to ensure grassroots participation in governance.



194. The CRM learnt from its interactive sessions with diverse stakeholders that empowering regional administrative units at the State and lower levels has so enabled previously neglected areas to advance dramatically over the past decade that they are commonly referred to as “*emerging regions*”. For example, the State of Benshangul/Gumuz, one of the emerging States where schools were previously available only in towns, currently boasts of at least one primary school in every village. Through that power sharing, citizens at the different levels participate in development planning and implementation.
195. In most countries, the power to resolve any constitutional dispute involving interpretation of the Constitution is vested in the courts but, under Article 83 of the Ethiopian Constitution, that function is reserved for the HoF. Such a dispute may pertain to whether any federal or state law contravenes or is inconsistent with the Constitution, or whether any act or omission is unconstitutional. A constitutional issue may be referred by a court when it arises in proceedings before that court, or by any interested party.
196. The CRM was informed during one of the interactive sessions that the rationale for vesting that power in the HoF is that making and understanding the Constitution mainly entails political considerations. For this reason a political organ, rather than a judicial one, is better suited to resolve constitutional issues, taking into account political considerations. This rationale may well be logical and pragmatic. However, the arrangement portends a possible difficulty. In a dispute that is, or is perceived to be, related to partisan politics, an impartial judicial decision would be more readily accepted and respected than one by a single-party-dominated HoF which would be seen as *a judge in its own cause contrary to the cardinal principle of natural justice*.
197. In resolving constitutional disputes, the HoF is assisted by the Council of Constitutional Inquiry, established by the Constitution with the mandate of investigating such disputes and making recommendations thereon. If, upon consideration of the dispute, the Council finds it necessary to interpret the constitution, the dispute - with its recommendation thereon – is submitted to the HoF for a final decision. Where the Council finds that there is no need for constitutional interpretation, it may return the case to the courts.
198. The composition of the Council of Constitutional Inquiry is noteworthy. The Federal Supreme Court President and Vice-President serve respectively, as President and Vice-President of the Council. Other members are: (a) six legal experts of proven professional competence and high moral standing, appointed by the President of the Republic on recommendation of the HoPR; and, (b) three persons designated by the HoF from among its members.





199. With respect to the independence of the judiciary, the Constitution establishes an independent judiciary and provides that courts at all levels shall be free from interference [or] influence of any governmental body, government official, or from any other source. Judges are to exercise their functions independently “*directed solely by the law*”. To buttress the independence of the judiciary, the Constitution guarantees security of tenure for the judges. Apart from the President and Vice-President of the Federal Supreme Court whom the HoPR has to appoint on the Prime Minister’s recommendation, other Federal judges are appointed by the HoPR from candidates selected by the Federal Judicial Administration Council. State judges are similarly appointed by the State Council from candidates nominated by the State Judicial Administration Council, in consultation with the Federal Judicial Administration Council.

200. Furthermore, the CRM learnt that remuneration and other terms and conditions of service for judges compare very favourably with those of other government employees. No judge may be removed from office except, (a) upon attaining the retirement age; or (b) upon the relevant Judicial Administration Council deciding to remove him for, (i) violation of disciplinary rules; (ii) gross incompetence or inefficiency; or (iii) inability to act on account of illness. Such decisions are subject to approval by the HoPR or the State Council, as the case may be.

201. During its interactive sessions at the State level, the CRM was informed that the independence of the judiciary is upheld at the State level but that there were occasional administrative interferences at the district levels.

### III. Recommendations

202. The APPR Panel recommends to:

- Step up efforts to uphold the principle of separation of powers in promoting good governance even within a parliamentary system of government. [Government and Legislature at federal and regional state levels]
- Develop institutional frameworks for Parliamentary inter-party co-operation, particularly in the areas of the legislature’s oversight role. [Government and Legislature at federal and regional state levels]
- Eliminate all forms of interferences with judicial independence, at whatever level they may exist. [Government and Legislature at federal and regional state levels]
- Enhance awareness amongst all organs of state and government, civil society, and the general public, of the principle of independence of



- the judiciary, and its importance in upholding the rule of law and good governance. *[Government at federal and regional state levels]*
- Maintain continuous judicial training to ensure that any speed gained in going to trial and disposal of cases is not achieved at the expense of the quality of justice. *[Government and the Judiciary at federal and regional state levels]*

### **Objective 5: Ensuring Accountability and Efficiency in the Public Service**

#### **I. Summary of CSAR**

##### Measures Taken to Strengthen Institutions

203. According to the CSAR, the overall objective of the Civil Service Reforms is to transform the service into an organic, responsive, client-oriented effective, accountable, and transparent organisation. This applies to the following five reform areas or sub-programmes: top-management system; expenditure management system; human resources management system; service delivery; and, ethics. The Federal Civil Servants Proclamation No. 515/2007 sets out to strengthen the civil service management system, with the Federal Civil Service Agency (FCSA) given powers to supervise the implementation of the Proclamation. According to CSAR, federal government has committed over one billion Birr for civil service training under its human resource development plan. Under these reforms, the civil service is redesigning work processes and adopting new operating systems. Outcomes are: time saved; improved service delivery; and, more efficient budget and accounting, tax and human resource management systems.

204. Complementing civil service reforms is the federal government's capacity-oriented Public Sector Reform Programme, aimed at the expansion of education, the creation of semi-skilled labour and of the commercial farmer, the overhaul of higher education, justice system improvement, creation of a service oriented civil service, expansion of ICT, market information systems development, deepened decentralisation, and the introduction, integration, and promotion of private sector development, among other objectives. To this policy initiative must be added the government's adoption of such measures as Business Processes Re-Engineering (BPR) and the Balanced Score Card to ensure quality service delivery and employee productivity.

205. However, the CSAR also observed that capacity and resource limitations adversely impact on achieving reform objectives, particularly the human



resource component of the reforms, while the Business Process Re-engineering has also been difficult to administer, and has turned out to be time and energy consuming. The FCOSA is hampered in its supervisory role by structural, staffing, organisational, equipment, and funding problems.

206. The CSAR noted that, although the federal government has tended to follow a tempered approach so that all groups are given an opportunity to take civil service jobs, thereby ensuring that the civil and public service generally reflect the country's social composition, it has not reserved political positions, at federal or regional level, for women and other marginal or neglected groups.

207. The CSAR findings show that, although selection, promotion and evaluation procedures for civil servants conform to the law, its expert opinion survey tended to cast doubts on the strict application of the merit principle in the civil service.

## **II. Findings of the CRM**

### **Measures to Ensure Accountable, Efficient and Effective Public Service Institutions**

208. The CRM noted that civil service reform implementation measures have essentially been capacity building programmes, leading to improved quality service delivery and enhanced employee productivity. A central aspect of the reform is to create new attitudes to service and work based on strengthening ethics, accountability and transparency in the civil service, and more widely, in national public political life. In this way, civil service reforms introduced by government intersect seamlessly with the establishment of the FEACC and the Ombudsman.

209. While there has been progress in implementing civil service reforms and achieving desired objectives, it also emerged from the CRM consultations that much remains to be done. A number of constraints to ensuring accountable, transparent, effective and efficient public service institutions require more sustained and determined political will to tackle and remove them. Among these constraints, the CRM noted, were capacity constraints, the perception that political patronage and not merit tends to influence the public service rewards and sanctions system, low remuneration, corruption, the tension between equity (representativeness) and merit in recruitment and promotion, and weak administration at the *kebele* level. There is a pressing need to address the challenges posed by these constraints.



### III. Recommendations

210. The APR Panel recommends:

- Capacity building for the FSCA and the Regional Civil Service Bureaus, with the establishment of supervisory boards to which they shall be accountable. [Government and Legislature at federal and regional state levels]
- The civil service reform programme's human resources management sub-system – a major component that has not yet been implemented - be rapidly completed. [Government, FCSA]
- The Ombudsman Office be independent and given adequate resources and access to the media to effectively respond to civil servants' administrative complaints. [Government and Legislature]
- The Ministry of Capacity Building continue with its various training programmes with the Government of Ethiopia designing and implementing requisite mechanisms for a national training policy. [Government, Ministry of Capacity Building, FCSA]
- The creation of a more professional civil service, with security of tenure and insulated from partisan party politics. To this end, pragmatic attempts should be made to reconcile the principle of representativeness with that of merit in recruitment and promotion within the public services. [Government, FCSA] and,
- Enactment of the Public Service Values Ethics. [Government, Legislature, FCSA].

#### **Objective 6: Fighting Corruption in the Political Sphere**

##### I. Summary of CSAR

Domestic public perception of the magnitude of corruption

211. The CSAR points to differing views on the incidence and magnitude of corruption in Ethiopia. While some hold that it is endemic and structural/systemic; others contend that, although increasingly widespread, it is not systemic; yet others view it as nothing more than petty corruption being successfully tackled and reduced thanks to vigorous attempts at eradication by governments at all levels. However, data from the CSAR shows that public opinion believes that corruption





is most severe in municipalities, in tax collection agencies, in courts, in kebele and *wereda* administrations, and in the police. Educational institutions and parliament are perceived to be the least corrupt.

212. The CSAR identifies major causes of corruption in the country as follows: poor governance; lack of accountability and transparency; low levels of a democratic culture and tradition; inadequate accounting; a weak legal and judicial system; the collapse in moral values; and, an over-regulated bureaucracy.

213. CSAR findings show that Ethiopian public opinion generally agrees on the need to step up the anti-corruption crusade since failure to contain or eradicate it will impede national democracy and development. This may slow down the effects of government's poverty reduction programme and reduce government revenue.

214. Key challenges in the national anti-corruption crusade include: (a) absence of a fully developed civil service code of ethics; (b) weak mechanisms for ensuring observance of regulations and procedures; and, (c) manpower shortages and weaknesses in supervisory and auditing agencies.

### **Measures for Combating Corruption and Results Achieved**

#### *Establishment of the Federal Ethics and Anti-Corruption Agency (FEACC)*

215. According to the CSAR, the Federal Ethics and Anti-Corruption Commission (FEACC), established in 2001, is the leading agency in the country's anti-corruption crusade.

216. The FEACC has three interrelated core missions, as elaborated in Proclamation No.433/2005. These are to educate the public about the evils of corruption; to investigate and prosecute those engaged in corrupt practices; and to take preventive and proactive steps to discourage corruption. The FEACC occasionally delegates its authority to regional state governments in alleged cases of corruption involving federally-funded programmes, institutions and organisations in the regional states. It has also helped a number of regional state governments set up anti-corruption bodies. According to the CSAR, some results achieved by the FEACC in its anti-corruption crusade are outlined below:

- The establishment of seven anti-corruption commissions in 9 regional states
- Setting up ethical offices in 267 government agencies and development organisations to monitor the state of corruption, and to coordinate ethical and anti-corruption activities in those organisations.



- Members of the public who have cooperated in pinpointing possible acts of corruption in public organisations are provided legal protection. The FEACC stepped in to revoke administrative revenge measures against 50 whistleblowers in the public service.
- Investigation of 445 alleged corruption cases and 200 referred for prosecution.
- Anti-corruption seminars and ethics education for 10,264 participants from regional and federal public services.
- Dissemination of anti-corruption messages, and posters and brochures in print and electronic media.
- Conduct of 52 pre-audit and management studies as part of its proactive mission to discourage corruption.
- Follow-up action on the recommended implementation of systems and procedures to discourage corruption in the public service.

## II. Findings of the CRM

217 The CRM notes varying opinions among stakeholders about the existence and magnitude of corruption in Ethiopia. In spite of their disagreements, the stakeholders agree that corruption is a major problem requiring collective action by all strata of Ethiopian state and society. Sources of corruption were generally identified as tax collection, the police, extreme poverty, and poor governance at *wereda* administration levels.

218 However, the CRM notes that the Ethiopian Government has zero-tolerance for corruption and is aggressively leading the anti-corruption crusade, which it has also linked to civil service reforms. To this end, as the CRM found out, the government prosecuted and secured sentencing of indicted individuals found guilty in high profile corruption court cases. The FEACC, for example, has secured jail sentences, ranging from eight months to eighteen years, for 100 public officials against whom it filed corruption lawsuits.

219 The CRM also noted concern about FEACC's independence. While it was not in a position to verify opposition party allegations of bias against FEACC, the CRM believes that government should initiate national dialogue on how to strengthen FEACC institutional structures to win acceptance across the political spectrum.

220 The CRM finds it a healthy and confidence-building development that the Ethiopian Government initiated legislation - the Asset Registration Bill adopted by



Parliament in 2010 - to register the income and property of high-level politicians and senior public servants. Parliament also adopted the Whistleblowers' Protection Bill, in 2010. The CRM urges speedy implementation of this legislation.

### III. Recommendations

221 The APPR Panel recommends that:

- Public service clean-up efforts be continued for more transparent operations through strengthening ethics and accountability mechanisms, such as the FEACC and the Ombudsman, empowering them with more fiscal and reporting autonomy, and creating supervisory watchdog bodies. *[Government, Legislature]*
- The Public Accounts Committee of Parliament be strengthened, especially in its oversight role and monitoring of the Auditor-General's Report to Parliament. *[Government, Legislature at federal and regional state levels]*
- The FEACC, Ombudsman, Auditor-General, FSCA and Regional Civil Service Bureaus capacity and resource needs be addressed urgently. *[Government and Legislature at federal and regional state levels]*
- The Whistleblowers' Protection Bill in Parliament be passed expeditiously. *[Government and Legislature]*
- Religious groups and other non-governmental organisations/CSOs be encouraged to mount nationwide anti-corruption campaigns in the form of advocacy and dissemination activities, in collaboration with FEACC. *[Government, religious groups, NGOs/ CSOs]*
- New curricula emphasising anti-corruption messages, integrity and honesty in private and public life be introduced at all levels of the school system. *[Government]*
- Gaps in revenue collection systems be plugged by strengthening and enhancing the capacity of revenue collection agencies, such as the customs and tax offices, with the requisite legislation and facilities. *[Government and Legislature at federal and regional state levels]*
- The draft law and policy document on the registration of the incomes and property of political officeholders and senior public servants be passed. *[Government and Legislature]*



## **Objective Seven: Promotion and Protection of the Rights of Women**

### **I. Summary of the CSAR**

222 Ethiopia is a party to the International Convention on Elimination of all forms of Discrimination against Women (CEDAW), and has submitted its initial report and three periodic reports to the CEDAW Committee. However, Ethiopia has not ratified the additional Protocol to CEDAW that gives the right to direct individual communication by victims, or concerned organisations, to the CEDAW Committee when provisions of the Convention are found to be violated by the state party. It also has not ratified the Additional protocol to the African Charter on Human and People's Rights on the Rights of Women in Africa. At the national level, Ethiopia has incorporated women's rights into its Constitution, providing for equal rights between women and men. The Constitution also prohibits harmful practices affecting women's physical or psychological well-being. Apart from the Constitutional provisions, all human rights conventions ratified by Ethiopia are domesticated automatically.

223 However, two issues were raised in relation to the Constitution. The first concern is the adjudication rights given to religious and customary law in matters of personal relations such as divorce and inheritance; under article 34 of the Constitution. Article 34 provides that submission to customary and religious courts is permitted if both disputing parties agree. But experience shows that women are not in a position to refuse the jurisdiction of religious or customary courts due to societal pressure and stigmatisation. Another challenge is that Regional Governments are allowed to enact family laws accommodating polygamous marriages or other practices that violate women's rights guaranteed under the national Constitution. Although these regional laws do protect women rights in some regions, these regional laws should conform to fundamental human rights principles enshrined in the Constitution.

224 Since the adoption of the 1994 Constitution, various laws have been amended for harmonisation purposes. The Family Law that used to be part of the 1960 Civil Code of Ethiopia (currently known as the Revised Family Law of Ethiopia) as well as the Pension Law, the National Law, and the Criminal law have been amended. The Civil Service Law as well as the Labour laws have provided for the equal rights of Women in employment and protection of maternity rights, and the right to be free from workplace violence. The Penal Code of 1957 (currently now titled the Criminal Code after its revision in 2004), also strengthened existing provisions and added new ones to protect women from Harmful Traditional practices (HTP) including Female Genital Mutilation (FGM), as well as from sexual offences committed on minors and adult persons. The revised Criminal Law explicitly prohibits domestic violence against women.





225 However, there are still women rights' abuses: violence against women, female genital mutilation, abductions, domestic violence, and rape. Campaigns by both government and NGOs are being carried out against these abuses but there is a death of resources to fight these vices.

226 Various measures have also been put in place to encourage women to play an active role in society. As a result, the number of women in both regional councils and national parliament has increased over time. When the EPRDF came into power, women won 13 seats (2.75 percent) under the EPRDF ticket in the 1995 general elections. During the 2000 elections, the ruling party made further efforts to increase women's participation to 42 seats (14 percent) of the total seats. Women's representation in parliament rose again in the 2005 elections when close to 22 percent of the seats were won by women. Women won 152 seats (27.7 percent) in the 2010 elections. Three women now chair parliamentary committees while two other women are deputies of these committees, though this is still inadequate. Women parliamentarians do not seem to have achieved much in terms of influencing decisions in general, as well as pushing for a women's agenda. This may be attributable to a lack of capacity and the structural problems women face.

## II. Findings of the CRM

227 The CRM confirmed that Ethiopia ratified international instruments such as the International Convention on Elimination of all forms of Discrimination against Women (CEDAW), the Convention of the Political Rights of Women, and the African Charter on Human and Peoples Rights. However, it has not ratified the Optional Protocol to the International Convention on Elimination of all Forms of Discrimination against Women, nor the Protocol to the African Charter on Human and Peoples Rights on the Rights of Women in Africa. The Ethiopian Constitution (Article 35) does provide equal rights and protection to women and men. Women have equal rights in marriage, the right to maternity leave with full pay, as well as a right to full consultations over national development policy formulation, project design and execution, particularly where projects affect women. Under the same (article 35), the State is obliged to enforce the rights of women to eliminate the influences of harmful customs. Laws, customs and practices that oppress or cause bodily harm to women are prohibited. Harmful Traditional Practices (HTPs) - Female Genital Mutilation, abduction, and rape - have been explicitly criminalised by law. All persons are equal before the law and entitled to equal protection by the law. Women are entitled to affirmative measures to eliminate the historical legacy of inequality against women.



## Measures to Promote and Protect the Rights of Women

228 The 1993 Ethiopian National Policy on Women - the guiding principle for the advancement of women, gender equality, incorporating directives for those involved in women's issues to translate instruments of equal rights into reality - notes that Ethiopian women are actively involved in all aspects of their society's life. Women are both producers and procreators and they are also active participants in the social, political, and cultural activities of their communities. However, their varied and important roles have not always been recognised. Discriminatory political, economic, and social rules and regulations prevailing in Ethiopia have barred women from enjoying the fruits of their labour. Without equal opportunities, they have lagged behind men in all fields of self-advancement.

229 Proportionally, women make up a larger group of the labour force in various economic sectors. Economic development is unthinkable without women's participation. However, because their participation in the economy has not been calculated and valued, Ethiopian women have not received their fair share of the nation's wealth.

230 Therefore, the main National Policy objectives are:

- To facilitate conditions conducive to speeding up equality between men and women so that women can participate in the political, social, and economic life of their country on equal terms with men, ensuring that their right to own property as well as their other human rights are respected. They should not be excluded from enjoying the fruits of their labour or from performing public functions and being decision makers:
- To facilitate necessary conditions whereby rural women can have access to basic social services, and to ways and means of lightening their workload; and,
- To gradually eliminate prejudices as well as customary and other practices based on the idea of male supremacy, and to enable women to hold public office and participate in decision making processes at all levels.

231 Apart from the National Policy on Women, the CRM was told that government developed two women's initiatives - the Development Initiative Project and the Ethiopian Women's Development Fund - to address Ethiopian women's economic poverty, vulnerability and dependency. The Development Initiative is a grass-roots project with the main objective of addressing the gender dimension of poverty and providing women with sustainable economic ability and marketable skills. The Women's Development Fund is a joint government and non-governmental



initiative that encourages women's self-development by carrying out research in specific areas of concern to women. The CRM was, however, unable to establish how these initiatives have been effective in addressing the human rights of women, especially for those at grassroots level.

232 Government established a National Commission for Children's and Women's Affairs in 2005. A Commissioner was named for the Ethiopian Human Rights Commission (EHRG) and an Ombudsperson for Women and Children in the Office of the Ombudsman to investigate alleged human rights violations against women and children. Government also upgraded the Women's Affairs Office to a Ministry, an independent office with increased staff. "*Affirmative action and Girls Scholarship programme are being used to increase the enrolment of female students in educational institutions at different levels*".<sup>19</sup> Girls' enrolment, especially into higher Institutions of learning, is encouraged by government. The stakeholders told the CRM that government was still committed to addressing women's rights abuses through human rights awareness campaigns, but lacked the capacity to carry out these campaigns. The Ministry of Women's Affairs and Women's Bureaus (departments) at the regional levels are doing their best to educate women about rights and abuses.

233 While interacting with the stakeholders, the CRM was told that Harmful Traditional Practices (HTP) such as Female Genital Mutilation (FGM) are still a challenge to Ethiopia. However, a National Committee on Harmful Traditional Practices had been established to alleviate these practices.

234 The Constitution provides for equal rights to women and men yet the CRM heard that women still face human rights abuses such as discrimination, early marriage, rape, domestic violence that are seemingly entrenched in Ethiopian society. Women have limited authority on family and land matters, especially among pastoralists. Traditional discriminatory practices remain deep-rooted, for example, the 80 percent of girls and women subjected to Female Genital Mutilation and the inheritance of a widow with all her property. There are also strong stereotypical attitudes towards the roles and responsibilities of women and men in the family and society. They prevent women from the full enjoyment of their human rights.

### III. Recommendations

235 The APR Panel recommends that the Ethiopian Government:

<sup>19</sup>

Press Release WOM/1431, Committee on Elimination of Discrimination against Women 64<sup>th</sup> and 64<sup>th</sup> Meetings, 26/01/2004, available on <http://www.un.org/News/Press/docs/2004/wom1431.doc.htm>



- Take urgent action to end all discriminatory traditional practices against women; (*Ministry of Women Affairs and CSOs, The Police and other Law enforcement agencies*) and,
- Empower the Ministry of Women and CSOs to raise awareness amongst women about their rights. (*The Ministry of Women's Affairs and CSOs*).

## **Objective 8: Promotion and Protection of Children's Rights**

### **I. Summary of CSAR**

- 236 The CSAR observes that Ethiopia's Constitution and laws provide comprehensive legal protection for children. Article 36 of the Constitution guarantees a number of children's rights, and it also lays down a basic principle of law pertaining to the protection of children: the best interest of the child must be the guiding principle underpinning all actions concerning children taken by public and private institutions, including legislative bodies, courts, and administrative authorities. Articles 576, 589, 596, and 597 of the Criminal Code of 2004, as well as the Family Code, provide specific protections for children. The Criminal Code also shields minors from undue legal liabilities and punishments, preferring to apply appropriate rehabilitation approaches.

### **Advances Made toward Improving the Plight of Children**

- 237 The CSAR identifies the follow improvements reportedly made in ameliorating the plight of children since the establishment of a democratic dispensation in the country, in 1991:
- Enshrining the special rights of children in the Federal Constitution, thereby demonstrating a fundamental commitment to protecting and advancing children's causes;
  - Revising the Criminal Code to include new provisions that penalise harmful customary practices causing enormous suffering to children;
  - Ratifying the principal international instruments that protect the rights of children. These include the Convention on the Rights of the Child (CRC) and the African Charter on the Rights and Welfare of Children (ACRWC);
  - Establishing a Ministry of Women and Children Affairs to implement pro-child policies, including those that flow from international instruments adopted by government. Progress in this respect is guarded in view of the fact that the Ministry is yet to function with full effectiveness.





- A better understanding of children's problems from findings of scientific studies, including studies on children in difficult circumstances;
- Considerable strides in education as evidenced by public law mandating free and compulsory primary education and free secondary education in public schools, increases in gross and net enrolment reaching 91 percent and 78.6 percent respectively, with the majority of Ethiopian children receiving primary education in their mother tongue (25 languages).
- Free immunisation against childhood diseases with targets to reduce the under five mortality rate from 123 to 85 per 1,000 live births, and the infant mortality rate from 77 to 43 per 1,000 births;
- Establishment of the Integrated Management of Childhood Illnesses (IMCI) as a strategy to improve the quality of health care management for children. This has yielded good results as seen in the expansion of IMCI care to 83 health centres, and training for 322 health professionals in less than 5 years.
- Targeting malaria by distributing 7 million medicated bed nets and expanding rural health centres to over 10,000 in the last decade, with children being the greatest beneficiaries;
- At the Federal level, establishing a special bench for juvenile cases and children protection units within the Federal Police, thus creating a child-friendly law enforcement environment; and,
- Public grassroots-level awareness campaigns and training programmes for law-enforcement personnel on the rights of children.

### ***Outstanding Challenges***

238 Although the CSAR points to considerable improvements in the plight of children over the past few years, it identifies the following challenges yet to be addressed.

- Children remain vulnerable to famine and other forms of economic hardships brought about by drought and poor governance.
- Child labour remains a widespread practice despite constitutional and other legal guarantees and Ethiopia's ratification of relevant child protection conventions. Prolonged tending of animals by children is categorised as child exploitation in relevant international conventions. This practice, one of the rites of passage in most pastoralist societies,



- clashes with international conventions on the promotion and protection of the rights of children and needs to adapt to the provisions of those international codes.
- Other forms of child labour such as using children as house servants, and their commercial use to shine shoes and peddle goods in urban areas, have not been sufficiently addressed by the Ethiopian federal government or the governments of the various regional states where such practices prevail. The CSAR reports that Ethiopian government statistics on child labour are at odds with those made available by UNICEF and other sources.
  - Traditional practices that are harmful to children remain widespread around the country. Female genital mutilation (FGM) is one of the most egregious.
  - Teenage prostitution and sexual exploitation of children are common practices in Addis Ababa and other urban centres. These are attributed, in part, to rural-urban migration, family breakdown, early marriage, and displacement. Although government and NGOs are tackling these problems, much more needs to be done.
  - Child soldiering is said to be practiced infrequently. CSAR revealed that both parties were said to have recruited child soldiers during the Ethiopia-Eritrea war.
  - Child beggars are also seen as a major problem. In addition to children, numerous young mothers are reported seen with their children begging in the streets of Addis Ababa and other urban centres.
  - There is a general rise in the number of children on the streets. Ministry of Labour and UNICEF disagree on the numbers. The Ministry of Labour puts the figures for children living in the street at 150,000. UNICEF claims that the number is much higher. Not only is the number said to be high, it is also said to be rising.

## II. Findings of CRM

239 The CRM observed that the Federal Constitution and laws of Ethiopia provide significant protection and promotion of the rights of children. Ethiopia has also signed and ratified the International Convention on the Rights of the Child. However, the Ethiopian Government has not ratified the Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in



Armed Conflict nor the Optional Protocol to the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography. In view of constitutional and policy commitments already made by the Ethiopian Government to protect and promote the rights of children, the CRM recommends that the Ethiopian Government ratify these optional protocols.

240 The CRM did not have much of an opportunity to discuss with youth and review developments associated with the formation of the youth package. What little information the CRM did gather came from youth sponsored by the Federal Ministry of Youth or the equivalent regional state agency. Nevertheless, current initiatives for improved youth well-being, as reported by CSAR and heard from youth leaders, are impressive. There seems to be a serious commitment from the Prime Minister's office to promote youth advancement. Young people also seem to be participating vigorously and in great numbers in these initiatives. The organisation of youth from *kebele* to federal levels and periodic youth fora at all levels are very impressive. The CRM, however, cautions that efforts be made to ensure that these fora do not simply become talking shops or perfunctory exercises of very little value. Concrete targets for deliverables need to be set and performance monitored.

241 The CRM noted and commends policy measures and programmes put in place by the Ethiopian government to address the plight of children. Enormous strides have been made in education, health care delivery, and other social services. Laudable as these measures are, they do not yet match the magnitude of the challenge. The rise in the numbers of child beggars and the expansion of this practice to child-carrying mothers is disturbing; so also is the rise of child prostitution and the persistence of FGM and other harmful practices. The CRM is mindful that the feudal order was most unkind to children and that significant progress has been made by the federal democratic order to protect children. However, in view of the enormity of the challenge, the CRM urges federal and regional state governments to do more.

242 Finally, the CRM noted the absence of a national youth service programme, despite the fact that youth organisation is given full prominence in national development. Experience elsewhere has shown that a national youth service can be a powerful tool for youth development and national integration. The CRM urges the Ethiopian Government to consider the establishment of such a service.

### III. Recommendations

243 The APR Panel recommends that Ethiopia should undertake the following:

- Ratify forthwith and domesticate the Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict and the Optional



Protocol to the Convention of the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography. [Government, Legislature]

- Intensify national efforts and mobilise international support to reduce child beggary and child prostitution. [Government]
- Take due care to shield the youth package projects from partisan politics so that all youth can claim ownership. [Government]
- Consider the establishment of a National Youth Service Corps that will foster performance of civic duties and internships of a non-military nature by youth among the people of different nationalities and, in so doing enable, young people to develop a healthy respect and appreciation for the cultures of other Ethiopians, and a sense of national unity in diversity. [Government and Legislature]

**Objective Nine: Promotion and Protection of the Rights of Vulnerable Groups including the Disabled, Internally Displaced Persons and Refugees**

**I. Summary of CSAR**

244 The CSAR states that Ethiopia ratified the 1951 Geneva Convention on the Status of Refugees and its 1967 Protocol, as well as the OAU Convention governing the Specific Aspects of the Refugee problem in Africa. The CSAR further categorises three main groups of vulnerable persons: Persons with Disabilities (PWDs); refugees; and Internally Displaced Persons (IDPs). The 2007 National Housing and Population census put the figure of PWDs at 707,731 while the number of refugees was 83,471, according to the 2008 government report on the Implementation of the Convention on the Elimination of all forms of Racial Discrimination. The rights of vulnerable groups, including refugees, internally displaced people, and physically disabled people, are defended by the Constitution. The Rights of Persons with Disabilities are provided for in Article 45 of the Ethiopian Constitution. The CSAR states that with the support of international organisations, such as the UNHCR and Red Cross, the government has set up refugee centres to facilitate service provision. However, some refugee centres are located in arid and isolated areas where the refugees cannot be productive.

245 IDPs occur in periods of drought, natural disasters and ethnic conflicts. Whenever there are displaced persons, government provides various services such as health centres, household items, schools, and potable water. Security is also provided by the Federal police or the army. No tangible results have been realised to date although government has mandated the House of the Federation to handle inter-ethnic clashes (a main cause of IDPs). More systematic mechanisms should be established to handle these clashes.





## II. Findings of the CRM

### Rights of Refugees

- 246 Ethiopia hosts more than 135,000 refugees and asylum seekers, including about 85,200 assisted by the Office of the UN High Commissioner for Refugees and about 50,000 *de facto* refugees living on their own<sup>20</sup>. These refugees include 65,000 Somalis, 25,000 Sudanese, 42,000 Eritreans, who fled turmoil and wars in their countries of origin. The Office of the UN High Commissioner for Refugees is also overseeing 1,500 refugees in urban areas. They come from Somalia, Eritrea, and the Democratic Republic of Congo.
- 247 The CRM confirmed that Ethiopia acceded to the 1951 UN Convention relating to the Status of Refugees, its 1967 protocol, and the 1969 Organisation of African Unity (OAU) Convention. Ethiopia did express reservations on articles 8, 9, 17 and 22 of the 1951 Geneva Convention. In fact, these reservations restrict refugees living in Ethiopia from fully enjoying their rights like any other person living in Ethiopia.
- 248 The 1994 Ethiopian Constitution makes International Agreements “*an integral part of the law of the land*” and gives the executive and legislative branches specific authority to provide asylum. Ethiopian law also grants asylum or refugee status in accordance with these international and regional instruments. In its application, the government established a refugee protection system. The government provides protection against “*refoulement*”: the expulsion or return of refugees to countries where their lives or freedom would be threatened.
- 249 The 2004 Ethiopian Refugee Proclamation establishes a procedure for applying for asylum and incorporates the refugee definitions from both the 1951 Convention relating to the Status on refugees and the 1969 African Refugee Convention. It prohibits government from refusing entry to refugees or asylum seekers and returning them to any country where they would be at risk of political persecution. It grants refugees some rights but makes exceptions to those of movement and work, which indeed contravenes the 1951 Convention. Refugees need permission to leave their camps and their right to work is also limited.
- 250 While interacting with government officials of the Administration for Refugee and Returnee Affairs (ARRA), the CRM learnt that the Ethiopian government, in cooperation with UNHCR, provides both legal and physical protection to refugees in Ethiopia. Upon reception, the government sensitises the refugees about Ethiopian laws, offers them identity documents and movement passes to permit movement in and outside of the camps. Without these movement passes, refugees are not allowed to leave camps.



- 251 Government generally cooperates with the UN High Commissioner for Refugees (UNHCR) and other humanitarian organisations in assisting refugees and returning citizens. The ARRA distributes food provided by the World Food Programme (WFP). At times, there are delays with the food, causing scarcity and hunger among refugees. During such times, refugees have to fend for themselves. Both international and local NGOs support income generating activities like tailoring, bamboo handicrafting, bee keeping, gardening. They also offer peace-building programmes to support government in assisting the refugees. At Sherkole Refugee Camp in Benishangul-Gumuz Province, the International Rescue Committee (IRC) provides water, schools and voluntary testing services for HIV/AIDS. The Rehabilitation and Development Organisation (RADO) provides physical rehabilitation, mine risk education, and assists disabled refugees. The Natural Resource Development and Environment Protection (NRDEP) programme also assists in environment protection through reforestation.
- 252 At refugee camp health centres, one doctor is usually assisted by several nurses and laboratory technicians. These health officials prescribe medication although medicine is never readily available.
- 253 Like other Ethiopian children, the refugees are offered free primary education from Grade 1 to Grade 8. However, they have to travel to nearby regional capital towns for secondary and tertiary educational facilities. Undoubtedly, refugees need a secondary school for their children's further education.

### **Internally Displaced Persons**

- 254 The United Nations High Commissioner for Refugees (UNHCR) estimated there were approximately 200,000 IDPs in the country, including an estimated 62,000 in the Tigray Region, 44,700 in the Gambella Region, 30,000 in the Borena area of the Oromiya Region, and 50,000 on the border of the Oromiya and Somali regions<sup>21</sup>.
- 255 The CRM was informed that conflict between government and insurgent forces in the Ogaden area of the Somali Region resulted in the displacement of thousands of people. Clashes between different clans, often over competition for scarce resources or from disputes over territorial boundaries, caused displaced persons and resulted in deaths and injuries. Apart from clan clashes, other causes of displacement include drought and flooding.
- 256 However inadequate, government has responded to the disaster of displacement

21 US Department of State, Bureau of Democracy, Human Rights, and Labour: Country Reports on Human Rights Practices, Ethiopia, February 2009, available on <http://www.state.gov/g/drl/rls/hrrpt/2008/a/71190071.htm>.



by providing food, shelter and medicine. It usually implements resettlement measures to contain the challenges. In addition, the House of the Federation has been empowered to handle inter-clan and inter-tribal squabbles that lead to clashes and eventual displacements. It was not possible for the CRM to ascertain effectiveness.

## **Rights of the Elderly**

- 257 Ethiopia has elderly people whom the state is obliged to care for. Article 41(5) of the Constitution states that *“the state shall, within available means, allocate resources to provide rehabilitation and assistance to the physically and mentally disabled, the aged, and to the children who are left without parents or guardian”*. Though the elderly are provided for under the law, limited resources prevent government from providing for them. Instead, elderly people are looked after by their grand-children whose parents have often been wiped out by the HIV/AIDS scourge. They are being deprived of their role as grand-parents and pushed into performing parents' roles. In addition, despite their age and lack of care, elderly people are traumatised by the loss of their children and these grandchildren who have no means of survival, medicare or education. During interactions with the stakeholders, the CRM was told that the government was organising the elderly into associations through which it could provide them with loans and grants. The CRM was however unable to ascertain how the Government was assisting these elderly people.

## **Rights of Persons with Disabilities**

- 258 Quoting the Ethiopian Federation of Persons with Disabilities, the 2008 US Department of State report notes that there are approximately seven million persons with disabilities in Ethiopia. There was one mental hospital and an estimated 10 psychiatrists in the country. There is one school for the blind in Addis Ababa. The Federal Ministry of Labour and Social Affairs (MOLSA), responsible for protecting the rights of persons with disabilities, funded prosthetic and orthopaedic centres in five of the nine regional states over the past three years as part of its “National Programme of Action for Rehabilitation of Persons with Disabilities.”<sup>22</sup>
- 259 Ethiopia, despite being a party to the International Convention on the Rights of Persons with Disabilities, has no specific law for the protection of their rights. However, its constitution provides for the right to equality of all persons (Article 25). The CRM was unable to find out how this is translated into programmes for people with disabilities. Although CRM was unable to ascertain whether



government devoted resources to rehabilitate or assist persons with disabilities, the government Developmental Social Welfare Policy (1996) acknowledges that “persons with disabilities in the country do not always have access to rehabilitative services, simply because the availability of these services is very much limited. The rehabilitative services that are available today to persons with disability in the country emphasise institutional care, are costly and therefore greatly limit the number of beneficiaries.” Institutions that do provide care are few in number and concentrated in urban areas. The CRM was neither in position to find out whether government mandated special access to buildings, such as schools, for persons with disabilities or provided services for them, nor was it possible for the CRM to obtain any information about employment and educational facilities available to persons with disabilities.

### III. Recommendations

260 The APR Panel recommends that:

- Ethiopia consider removing its reservations made on the Geneva Convention relating to the status of refugees because they restrict refugees from enjoying the same rights as do other persons residing in Ethiopia. (*Ministry of Foreign Affairs, Ministry of Justice, Department of Immigration*)
- Government continue to put in place pro-active measures to prevent and mitigate disasters that force people to move. (*Ministry of Labour and Social Affairs*)
- Government reinforce policies aimed at assisting all the vulnerable groups including refugees, internally displaced persons, the elderly and persons with disabilities. (*Ministry of Labour and Social Affairs, Department of Immigration*)





# CHAPTER FOUR

## 4. ECONOMIC GOVERNANCE AND MANAGEMENT

### 4.1 Overview

261 As already pointed out, Ethiopia witnessed a wide range of policy reforms in the economic sphere since the fall of the Derg regime, in May 1991. The socialist command economy has given way to a market-oriented liberal economy, although the state still plays a significant role in economic management. Over the past 18 years, as noted in Chapter Two, the country has pursued different but closely linked strategies and programmes that have stimulated economic growth and contributed to high levels of macroeconomic stability.

262 Overall, the Government of Ethiopia (GoE) continued with reforms that started with the introduction of the Agricultural Development-Led Industrialisation (ADLI) strategy in 1992, the basis for the subsequent adoption of other development frameworks under implementation.<sup>23</sup> These include the first generation Poverty Reduction Strategy Paper (PRSP I) - the *Sustainable Development and Poverty Reduction Program* (SDPRP) - covering the period 2002/03-2004/05; its successor (PRSP II) - the *Plan for Accelerated and Sustained Development to End Poverty* (PASDEP) - covering the period 2005/06-2009/10; the National Action Plan on Gender (NAP); the Education Sector Development Plan (ESDP); the Health Sector Development Plan (HSDP); and the Rural Sector Development Programme (RSDP). All these strategies are designed to achieve robust and pro-poor economic growth so as to accelerate progress towards the attainment of the longer-term Millennium Development Goals (MDGs) in 2014/2015, and other international agreed targets.

263 In the context of these economic reform and poverty reduction programmes, government's primary macroeconomic objective has been to promote rapid, broad-based and sustainable private sector-led growth sufficient to reduce poverty. The target economic growth rate is an annual 7.0 percent. On completion of World Bank Interim Country Assistance (ICAS) in 2007, GoE agreed to a five-year CAS, in July 2008. This meant World Bank support in sustaining high levels of investment in key areas (both physical and human capital as well as institutional capacity building),

23 ADLI is designed to bring about sustained structural transformation of the economy such that the agricultural sector will not only supply commodities for domestic food markets, domestic industries and the export market, but will also expand the market for inputs from the expanding industrial sector.



whilst addressing priority policy issues to maximise the impact of such spending. CAS supports Ethiopia in achieving four main strategic objectives, consistent with PASDEP: (i) fostering economic growth; (ii) improving the quality of and access to basic service delivery; (iii) reducing Ethiopia's vulnerability to drought to help improve prospects for sustainability; and (iv) fostering improved governance to support progress on the previous three objectives and empower citizens. PASDEP, covering the period 2005/06 to 2009/10, is the foremost medium-term development framework for accelerating robust and pro-poor economic growth and progress towards the attainment of the MDGs.

264 The performance of macroeconomic variables in the recent past has been remarkable despite repeated internal and external shocks to the economy. Significant achievements were made in the areas of economic growth, inflation control, employment creation, domestic resource mobilisation and the decline in fiscal deficits, export promotion (particularly of non-traditional exports), food security, private sector development and investment, among others. But in the last five years, the country has encountered internal and external shocks that led to high inflationary pressures, trade account deficits, and declining external reserves. However, government adopted several measures to reduce domestic borrowing, diversify export items and markets, expand private sector participation in agriculture and agro-industries, and promote increased investment in the cut-flower industry, as well as improve the regulatory environment for medium- and small-scale industries.

265 In the energy sector, huge investments are being made in hydroelectric power generation – three main hydroelectric power generation stations are currently under construction, *Beles* (460 mega-watts), *Gilgel Gibe II* (420 mega-watts) and *Tekeze* (300 mega-watts). This will increase the country's total power generation capacity to 2,241 mega-watts in 2010/11, from 814 mega-watts in 2007/08. *Fincha Arneti Neshe* (97 mega-watts) as well as windmill power generation (150 mega-watts) are expected to be completed within 2-3 years.

266 With government's commitment to private sector-led growth, a number of reforms aimed at improving the investment climate, attracting private investment (domestic and foreign), and increasing the level of productivity, are being implemented in Ethiopia. In this regard, the commercialisation and privatisation of state owned enterprises (SOEs) - under way for close to a decade - has gained momentum over the past five years with the establishment of the Privatisation and Public Enterprises Supervising Agency (PPESA).



267 However, domestic resource mobilisation levels are low and Ethiopia relies heavily on external resource inflows from the Protection of Basic Services (PBS) programme. Therefore, there is major concern over how to finance the country's development endeavour and achieve the poverty reduction and private sector development targets under PASDEP, and in relation to the MDGs. To address this concern, key reforms are also been undertaken in tax policy and administration. Some of these reforms include reorganizing the Ministry of Revenue and replacing it with an autonomous body – the *Revenue and Customs Authority*; implementation of a national Taxpayer Identification Number (TIN); the introduction of the presumptive tax scheme in order to address the hard-to-tax group; computerizing tax administration; and, conducting comprehensive tax education to enhance taxpayers' compliance. These reforms have significantly improved domestic revenue collection in the recent past, although a number of challenges remain. These include the large size of the informal sector and tax payers who do not keep proper books of account and/or understate their incomes, corruption, and limited human capacity for supervision.

268 Another challenge is the need to promote the deepening of financial Institutions. Even though the number of private banks, bank branches, and microfinance institutions continue to grow, the low level of financial deepening observed in the country is indicative of the need for further financial sector reforms. Additional challenges to macroeconomic management and poverty reduction also remain, amongst which are low savings rates (public and private), food insecurity and reliance on food aid, overheating of the economy, inadequate road transport infrastructure and electric power supply. These challenges are related to donor dependency, vulnerability to internal and external shocks, and high government domestic borrowing levels.

269 In light of all this, government acknowledges the need to boost economic growth; give more emphasis to agriculture and agro-based industries; provide the necessary support to private sector investment, micro and small-enterprises (MSE), and microfinance; undertake further educational – TVET in particular – and financial sector reforms; scale up affordable access to credit in the regional states and in more remote areas of the country; enhance youth employment through capacity development and more on-farm activities; increase revenue mobilisation; and, maintain a lid on government domestic borrowing.

#### 4.2 Standards and Codes

270 In the CSAR, Ethiopia recognises the importance of complying with international standards and codes to provide assurances of transparency and predictability with respect to government actions and policies. This also contributes to a stable



macroeconomic environment. The APRM questionnaire on Economic Governance and Management lists about sixteen standards and codes on the basis of which a country should be evaluated.

## I. **Summary of the CSAR**

271 In recognition of the importance of complying with international standards and codes, as stated above, Ethiopia has adopted several standards and codes at the international and regional level, and internally, especially in the fiscal and financial sector.

272 Below are standards/codes which Ethiopia has ratified and, in some cases, domesticated or streamlined into national legislation:

- Abuja Treaty Establishing the African Economic Community;
- Treaty Establishing the Common Market for Eastern and Southern Africa/COMESA;
- Constitutive Act of the African Union (2000);
- The NEPAD Framework Document Memorandum of Understanding On the APRM (2001);
- African Union Conventions on Preventing and Combating Corruption;
- Inter-Governmental Authority on Development (IGAD); and,
- The Pan-African Parliament.

273 In addition to the above, at the country level, Ethiopia has adopted several proclamations for effective public financial management that include codes of good practice on fiscal transparency, auditing and accounting standards.

274 The main laws, proclamations and regulations for public financial management include:

- Constitution of the Federal Democratic Republic of Ethiopia (1994);
- Proclamation on the definition of powers and duties of the executive organs (04/1995);
- Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996;





- Council of Ministers Financial Regulations No. 17/1997;
- Federal Government of Ethiopia Proclamation establishing the Office of the Federal Auditor-General No. 68/1997;
- Proclamation on the establishment of Ethics and Anti-corruption Commission (235/2001);
- Federal Government of Ethiopia Proclamation Determining Procedures of Public Procurement and Establishing its Supervisory Proclamation No. 430/2005; and,
- Federal Public Procurement Directive, MOFED, (July 2005).

275 According to the CSAR, the country has performed well in implementing the above. The report notes that implementation challenges, where they exist, are mainly due to human resource capacity constraints and a lack of information on the standards and codes.

## II. Findings of the CRM

276 The CRM confirms that Ethiopia has signed and ratified several international standards and codes. However, the CRM is concerned that the team received no detailed or further information on the following:

- Status of implementation of ratified treaties to validate performance of these standards and codes, as stated in the CSAR;
- Mechanisms for monitoring the implementation of the ratified standards and codes;
- The whereabouts of the central depository of ratified and domesticated standards and codes; and,
- The degree of public awareness about ratified standards and codes.

277 Apart from implementation of financial standards and codes, there has been little to show in terms of implementing other standards on economic management and governance. At the time of the CRM visit, there seemed to be little that GoE was doing to close this gap, apart from enrolling international financial institutions for technical assistance.



- 278 The CSAR acknowledges the weaknesses in implementing many standards and codes due to a lack of human and financial resources in most government departments, especially in rural decentralised structures. This is an issue that should be taken seriously.

### III. Recommendations

- 279 The APR Panel recommends that Ethiopia:

- Direct each Ministry and Agency to keep proper records of the standards and codes and practices that have been adopted and have been, or are being implemented, in order to adequately monitor their status. [*Ministry of Foreign Affairs; Parliament*]
- Establish a depository centre at the Ministry of Foreign Affairs for centralised documentation of the standards and codes and practices that have been adopted and have been, or are being implemented for the purposes of adequate monitoring. [*Ministry of Foreign Affairs*]
- Disseminate public information on the standards and codes and practices that have been adopted and have been, or are being implemented. [*Ministry of Foreign Affairs; Parliament*]

## 4.3 Assessment of the Performance of APRM Objectives

### **Objective 1: Promote Macroeconomic Policies that support Sustainable Development**

#### I. Summary of the CSAR

- 280 As reported in the CSAR, macroeconomic performance in the recent past has been remarkable despite internal and external shocks to the economy. Significant achievements have been made in, *inter alia*, economic growth, inflation control, employment creation, domestic resource mobilisation and decline in fiscal deficits, export promotion (particularly of non-tradition exports), food security, private sector development, and investment. Over the past five years, Ethiopia encountered internal and external shocks that led to high inflationary pressures, trade account deficits and declining external reserves. However, government adopted several domestic borrowing reduction measures, diversified export items and markets, expanded private sector participation in agriculture and agro-industry, and promoted investments in the cut-flower industry, as well as improving the regulatory environment for medium- and small-scale industries.



## II. Findings of the CRM

- 281 The findings below relate to macroeconomic policy effectiveness to stabilise and spur economic growth; effectiveness of the private sector-led growth strategy; domestic revenue mobilisation; public expenditure policy and priorities; monetary policy effectiveness; macroeconomic policy; and, industrialisation, as well as investment promotion.

### Macroeconomic Policy, Stabilisation and Growth

- 282 As noted in the CSAR, Ethiopia is currently implementing its second Poverty Reduction Strategy Paper (PRSP II): the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Over time, PRSP II has become the overall government strategy for development. PASDEP shows strong vertical coordination of sectoral strategies with the overall government strategy and is well integrated with the budget through the Macroeconomic and Fiscal Framework (MEFF) and Joint Budget and Aid Reviews (JBAR) prepared by Government and donors.

- 283 PASDEP's strategic vision is one of rapid and sustained growth, primarily through scaled-up development assistance and large domestic investments targeted at eliminating the poverty traps that have hindered national development. This vision shows great elements of continuity with the first PRS (SDPPRP) - the Sustainable Development and Poverty Reduction Program - in areas such as infrastructure, human development, rural development, human security, and capacity building. However, significant new elements have been introduced namely, an explicit link with an exercise on what it would cost to achieve the MDGs in Ethiopia. New elements also include a renewed focus on growth, specifically in the areas of private sector and urban development, industry, and agricultural commercialisation. These innovations reflect both new thinking on the need to rebalance the growth strategy and some developments, such as private-sector led growth in the floriculture sector, and apparent stagnation in urban poverty reduction.

### Economic modelling

- 284 The Government of Ethiopia (GoE) has formulated macroeconomic projections based on PASDEP macroeconomic framework and growth scenarios. In the five-year period 2005/06-2009/10, the targeted rate of real economic growth is 7.0 percent per annum. Critical factors that are identified to support this growth include:

- Maintain annual consumer price inflation at a maximum of 8.0 percent;
- Ensure growth in domestic revenue of about 20 percent per annum, and tax revenue growth of about 22 percent per annum; and,



- Maintain domestic and external balance through sustained domestic revenue increases, increased export earnings, and improved value-addition in agriculture.

285 To achieve these objectives, a number of far reaching monetary, fiscal, exchange rate, trade, industrial, and private sector development policy measures are in various stages of implementation. Policy effectiveness can easily be inferred from recent macroeconomic achievements. The box below summarises the results of consistent and prudent macroeconomic management in Ethiopia. However, due to a lack of data the CRM could not determine the extent to which there was adequate local capacity to do proper economic modelling.

### **Commendable Practice 3: Ethiopia's Macroeconomic Management**

Macroeconomic policy-making is generally sound, as reflected in the following indicators:

- Strong economic growth rates averaging 11.8 percent between 2003/04 to 2008/09;
- Successful control of inflation – sharp drop in the 12 months to June 2009 to 3 percent, aided by falling food price levels;
- Growth in savings and investment - private investment as a share of in GDP rose from 10.1 percent in 2004/05 to 18.2 percent in 2006/07; Gross domestic savings grew rapidly from 1 percent of GDP in 2002/03 to 5.6 percent in 2006/07;
- Reduction in fiscal deficits from 16.4 percent of GDP in 2002/03 to 8.6 percent in 2007/08.

### **Economic growth and income**

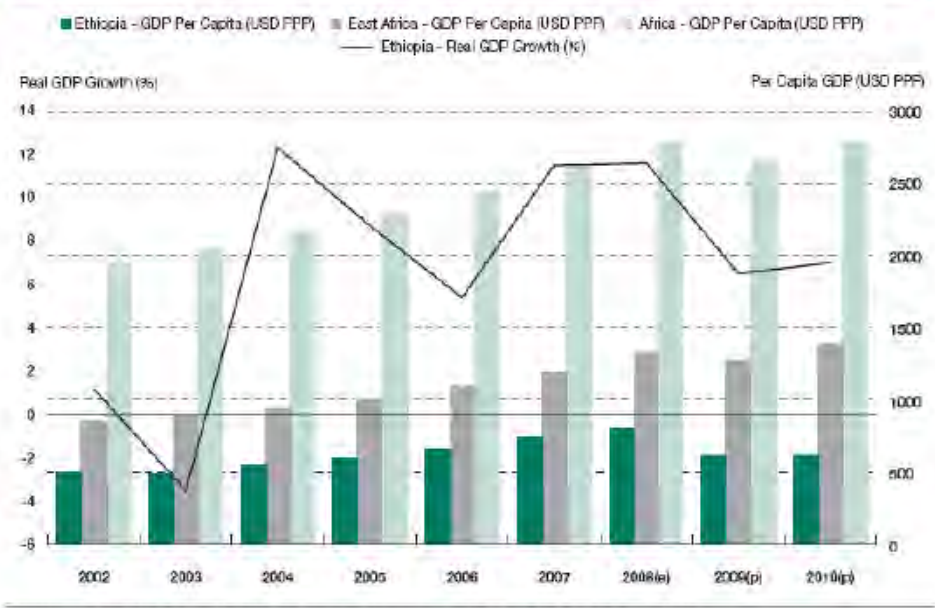
286 During the fiscal year 2007/08, real GDP in Ethiopia grew by 11.6 percent. This was the fifth consecutive year for high rates of growth (11.7 percent in 2003/04, 12.6 percent in 2004/05, 11.5 percent in 2005/06, and 11.5 percent in 2006/07), placing Ethiopia amongst the top performing economies in sub-Saharan Africa. Growth rates over the period 1991-2004 averaged 4.5 percent, while over the period 1974 - 1991, the economy grew, on average, by about 2 percent.

287 Similarly, gross national income (GNI) per capita which averaged US\$ 104.3 over the period 1996-2004, had reached a level of US\$ 220 in 2007, reflecting the upswing in economic growth performance. Furthermore, the rate of per capita GDP growth of 3.3 percent on average, for the period 1997-2007 (8.0 percent in 2006, 8.7 percent in 2007 and 8.8 percent in 2008), has been much higher than the country's rate of population growth of 2.2 percent, over the same period. Figure 1 shows Ethiopia's real GDP growth and per capita GDP in recent years.





**Figure 1 - Real GDP Growth and Per Capita GDP**  
(USD/PPP at current prices)



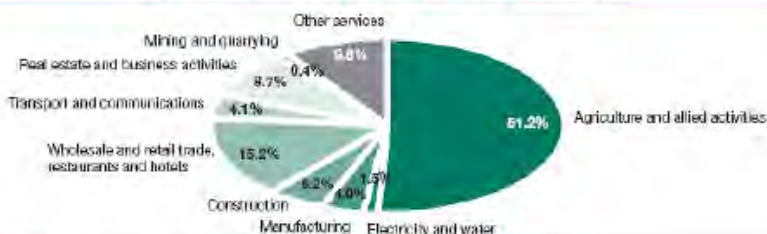
Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

288 Determinants of growth since 1991 include notable economic policy changes undertaken by the current government. Some of these were domestic currency devaluation, price control removal, trade liberalisation, privatisation of public enterprises, and opening up the economy to foreign investment. Focusing on the poverty agenda, in 1992 government adopted the Agricultural Development Led Industrialisation (ADLI) strategy which provided the basis for subsequent policies and national poverty reduction strategies. The ADLI aimed, *inter alia*, at: i) transforming the Ethiopian economy into a fully market-based economy; ii) promoting labour-intensive agricultural growth; and iii) devolution of power from the capital to the states.

289 In recent years, economic growth has been driven by the significant performance of the services and industrial sectors, although agriculture continues to remain the mainstay and driver of the economy (Figure 2). With a share of about 58 percent of GDP in 1997, agriculture's contribution to GDP declined to 46 percent in 2007. The contribution of services grew from 32 percent in 1997 to over 40 percent in 2007. Similarly, the share of the industrial sector grew from about 11 percent in 1997 to over 13 percent in 2007. These are signs that government economic diversification efforts are yielding positive results.



Figure 2 - GDP by Sector in 2007 (percentage)



Source: Authors' estimates based on Ministry of Finance and Economic Development Data.

- 290 Ethiopia's strong economic performance can be attributed to a combination of several factors: improvements in structural policies, strengthening economic institutions, and some good luck. Tariffs and non-trade barriers have been significantly reduced, many sectors have been opened for domestic and foreign investors and, land market distortions are being gradually addressed. Regional states have been given considerable autonomy in developing independent economic policies and a more radical devolution process is underway, moving finances and functionaries to the *woredas* level. The favourable global environment, generous debt write-offs, large and increasing Official Development Assistance (ODA) and remittances, and a long spell of good weather, have all played important roles in moving Ethiopia to a higher growth trajectory. Nevertheless, these favourable factors have been offset to some extent by the rising price of oil, of which Ethiopia imports all of its consumption.
- 291 Ethiopia's economic outlook is quite optimistic. Government, for example, has increased spending on infrastructure development (a large share of project financing is derived from foreign assistance) such as roads, thereby helping to make the economy more efficient. There are plans to invest more heavily in hydroelectric power, which will increase electricity generation. Foreign investment, particularly from China and India, is on the rise and government is encouraging foreign oil companies to explore for oil.
- 292 Construction activity is vibrant. The recent introduction of a value-added tax boosted government revenue. International debt relief slashed Ethiopia's foreign debt and debt servicing costs. According to the World Bank, remittances from Ethiopians living abroad totalled US\$172 million in 2006 and a similar amount was estimated for 2007. Finally, higher prices for coffee should help to underpin agricultural production.
- 293 Despite these very encouraging developments, the economy continues to face serious challenges that could potentially dampen growth in the medium-term. First, inflation shows no signs of abating. Second, export growth is below expectations. During the first half of the fiscal year that began on 7 July 2007, overseas shipments totalled US\$ 552.7 million. This was below the government's



target of US\$ 622.3 million. Third, the currency is overvalued, thus hindering the competitiveness of manufactured exports. Fourth, Ethiopia remains heavily dependent on foreign assistance as a source of budgetary revenue and to cover its large trade deficit. As a result, any sharp decline in foreign assistance could place a significant drag on the economy. Fifth, Ethiopia is prone to periodic droughts that have devastating economic impacts. Finally, as is the case with many African nations, Ethiopia will not be immune from the global economic slowdown nor can it shield itself from the impact of high oil and food prices.

## ***Inflation***

294 Efforts at combating run-away inflation over the last couple of years seem to be paying off, in recent months. After a difficult three-year period during which the rate of inflation accelerated rapidly – peaking at 55.5 percent in the 12-month period to July 2008 – the rate began to decelerate considerably in the first half of 2009. Most recent price increases have been due to exogenous shocks: increases in the price of oil on the global market; a rapid increase in staple food prices (some of which have become export commodities) due to demand pressure brought about by the continued good economic performance; and, housing shortages in urban areas. The introduction of some drastic measures, such as a cap on government borrowings, a rise in bank reserves following a National Bank of Ethiopia (central bank) directive, importation of some food items that are being distributed to the people at reduced prices, and a ban on the export of some essential commodities, have played a key role in the steady decline in the inflation rate, expected to descend into single digits towards the end of 2009. Recent data indicate that inflation dropped sharply to 3 percent in the 12 months to June 2009, aided by falling food price levels.

295 IMF projections indicate that, following the dramatic movements in price indices over the past two years, single-digit inflation may be achievable over the current (fiscal) year, although high food price volatility and stubborn non-food price inflation (15 percent as of June 2009) are significant risk factors. The links between CPI movements and macroeconomic aggregates have not been stable (IMF Country Report No. 08/264, 31 July 2008), so further volatility cannot be ruled out - although the build-up of grain reserves should help to limit speculative price surges.

## ***Exchange rates***

296 The Central Bank has a monopoly on all foreign exchange transactions and supervises all foreign exchange payments and remittances<sup>24</sup>. The country

24

The duties of the National Bank of Ethiopia include, among others, formulating, implementing and monitoring the country's exchange rate policy as well as supervising and regulating bank operations, and setting limits on gold and foreign exchange assets, net foreign exchange positions and terms. Source: National Bank of Ethiopia data, available on <http://www.nbe.gov.et/aboutus/mandates.htm>.

maintains a managed, floating exchange rate system, although in the absence of effective competition in the interbank foreign exchange market. The central bank being the major supplier of foreign exchange, exchange rate movements have been highly compromised. The currency, the Birr, is not convertible. Government carefully monitors and controls its movement and, as a result, it trades in a very narrow range. After depreciating 4.0 percent against the dollar in 2006, the Birr exchange rate dropped by 2.3 percent in 2007 and retreated an additional 1.3 percent in the year-to-date period ending March 5. The Birr is widely considered to be overvalued particularly given Ethiopia's high inflation rate which was 18.4 percent in the year ending December 2007. This was slightly higher than the 17.2 percent rise in the year ending December 2006. Greater exchange rate flexibility is needed to better reflect demand for, and supply of, foreign exchange.

297 As the country considers it necessary to enhance foreign exchange inflows from its large Diaspora community, the CRM noted that the NBE, through Directive No. FXD/30/2006, introduced measures to encourage and facilitate these inflows. Available statistics indicate that these measures are achieving desired objectives; inflows of remittances increased over time; from US\$ 53 million in 2000 to a high of USD\$ 359 million in 2007.

### ***Interest Rates***

298 The CRM learnt that, with the exception of the minimum savings deposit rate (MSDR) used by the NBE as a monetary policy instrument, all interest rates are now market-determined. The MSDR is currently set at 4.0 percent. There is, however, some concern that the government controls interest rates and sets them below the high inflation rate. Commercial banks are not given any interest rate spread limit, resulting in lending rates varying from bank to bank, with an average rate of 11.0 percent in recent times.

### ***Fiscal deficits***

299 With continuing efforts at achieving fiscal sustainability, GoE's fiscal policy has been targeted at reducing the fiscal deficit as a percentage of GDP, while at the same time focusing on expanding socio-economic service delivery and investing in critical infrastructure. To this end, several measures, including rationalising public expenditure, adjusting public sector salaries, limiting the number of zero-tariff related items and import exemptions, and broadening the tax base, have led to gradual declines in the overall deficit as a percentage of GDP. Excluding grants, the overall fiscal deficit decreased from 16.4 percent in 2002/03 to about 13.0 percent in 2003/04; this declined further to 8.6 percent of GDP in 2007/08. The overall fiscal deficit, including grants, fell to 3.1 percent of GDP in 2007/08,





compared to 3.7 percent in 2006/07. This was projected to decline significantly to 1.3 percent of GDP in 2009/10. With grants amounting to between 4 and 5 percent of GDP, donor support continues to be critical in keeping the budget deficit manageable. Improvements in the fiscal position have entailed an increase in domestic revenue mobilisation as well as a fall in public expenditure. Tax revenue as a share of GDP increased in 2007/08 fiscal year, but was offset by a fall in grants.

300 There has also been a considerable shift in domestic revenue composition. The proportion of taxes in total revenue increased from 76 percent in 2001/02 to 80 percent in 2007/08. Within tax revenues, direct taxes declined from nearly 40 percent of total tax revenues in 2001/02 to about 30 percent in 2007/08; indirect taxes rose from 61 percent to 71 percent over the same period. Import duties accounted for 70 percent of indirect taxes and nearly 40 percent of domestic revenue in 2007/08.

### **Poverty**

301 Riding on the tide of this strong growth performance, Ethiopia has made significant strides in improving the living standards of its citizens over the past decade. Household survey evidence suggests that between 1999/00 and 2004/05, real total expenditure per capita grew by 19 percent (15 percent with respect to 1995/96). As discussed in Chapter Six, this has resulted in significant reductions in poverty in recent years. The poverty headcount fell by 12.4 percentage points between 1999/00 and 2004/05 and by 18.5 percentage points from the mid-1990s onwards.

302 Despite this progress, as noted in Chapter Two and as discussed in Chapter Six, Ethiopia is, one of the poorest countries in the world. Monetary poverty remains a significant challenge, particularly considering that around 25 million people continue to live below the poverty line, and about 77.8 percent of the population lives on US\$ 2 a day, or less. Inequality, as measured by the Gini coefficient, increased from 0.28 in 1990/00 to 0.32 in 2004/05, which implies that growth has not been broad-based.

### **Macro-economic stability challenges**

303 Despite the above gains, Ethiopia faced a turbulent external environment during 2008–09, with commodity price surges, and later, as discussed below, the global recession, producing a series of shocks to the balance of payments. Facing declining reserves and high inflation, from late-2008, the authorities implemented an effective macroeconomic adjustment package supported by the Fund, under the rapid-access component (RAC) of the Exogenous Shocks Facility (ESF).



304 This adjustment package focused on fiscal and monetary tightening and the elimination of fuel subsidies. In February 2009, access to the ESF was based on the impact of commodity price surges on the balance of payments.

305 Information obtained by the CRM shows a strong track record in both policy implementation and performance, under the adjustment programme. Key policy objectives of a sharp drop in inflation and partially rebuilding of reserves were achieved, with inflation in the 12 months to June 2009 declining to 3 percent, aided by falling food price levels. Helped by increased donor assistance, foreign reserves ended the year at some US\$ 1.5 billion (1.8 months of import cover).

## **Monetary and Financial Policies**

306 Ethiopia's monetary policy continues to focus on maintaining price and exchange rate stability so as to create a conducive macroeconomic environment that promotes economic growth. To this end, the National Bank of Ethiopia (NBE) employed a mix of both direct and indirect monetary policy instruments to target money supply (M2), using the operational target rule. Major policy instruments include setting the minimum deposit interest rate, setting the reserve requirement ratio, selling Treasury Bills to mop up excess liquidity in the banking system – in 2006/07 the central bank increased the reserve requirement from 5.0 percent to 10.0 percent and aggressively sold treasury bills - and monitoring the ceiling set on Government borrowings from the banking system. Although the NBE has not explicitly adopted inflation targeting, the monetary policy objective for the next five years is to contain inflation below 10.0 percent. Government has also sought to restrain key prices directly by imposing a ban on maize exports and distributing wheat and edible oil to the urban poor. at subsidised prices. The CRM was informed by NBE officials of a strong political commitment to macroeconomic stability, significantly aiding monetary policy implementation.

307 The Monetary Policy Committee (MPC) is one of the NBE committees charged with formulating and directing monetary policy in order to deliver price stability and support government objectives for sustainable growth. The Governor of the NBE Chairs. Other members are the Deputy Governor, Directors of each Directorate of the Bank, and all the advisers to the Governor. In carrying out its mandate, the MPC successfully cooperates with the NBE macroeconomic department, as well as with the fiscal authority, represented by the Ministry of Finance and Economic Development (MOFED). Working hand in hand with the MPC is the country's macroeconomic management team, chaired by the PM. Other team members are the NBE Governor and Deputy Governor, and the Minister for Planning and Economic Development. They meet on a monthly basis to review developments in the economy. Even though the CRM was unable to confirm the widely-acknowledged independence of the NBE, it is of note that



Proclamation No. 83/1994 vests the necessary authority in the bank to perform its functions, unimpeded by any person or authority.

308 Commendably, monetary policy formulation and NBE supervisory and regulatory capacity has improved appreciably, although not to desired levels. There are concerns about effective monetary control, especially liquidity management, in Ethiopia. Information availed to the CRM suggests that the NBE faced significant challenges in maintaining effective control over the stock of reserve money, resulting in considerable fluctuations due to surges in government financing by the central bank (through an advances account) and NBE foreign exchange operations. The CRM learnt that the NBE does not itself have instruments to conduct offsetting sterilisation operations. It has, instead, relied on changes in reserve requirements and moral suasion to influence growth of the monetary aggregates.

309 The NBE identified lack of skilled manpower and institutional dynamism as critical constraints to achieving its goals. To this end, the Bank is undergoing a comprehensive restructuring plan that includes institutional reforms aimed at improving the soundness of the financial system, strengthening the bank's technical capacity to provide timely research and policy advice to government, and enhancing the efficiency of the payment system. A business processes re-engineering programme was implemented to enhance the Bank's supervisory, regulatory and research capacity, and improve service delivery. In 2004/05, two key divisions of the Bank, namely Government Accounts, and the Cash and Foreign Exchange Inspection Division, completed the study and started implementation. Studies on all other departments of the Bank were nearing completion and the recommendations were expected to continue implementation throughout 2008/09.

310 Financial deepening remains an area of concern in the financial sector. Data from the National Bank of Ethiopia suggest that the country's financial markets are both shallow and underdeveloped, dominated as they are by commercial banks. As discussed in more detail in Chapter Five, there is no stock exchange as yet and there are only thirteen banks, three of which are state-owned. The largest bank is the state-owned Commercial Bank of Ethiopia (CBE) which controls about two-thirds of the assets in the banking system. Non-bank financial institutions - alternatives to commercial banks - are also relatively few. Government remains a major competitor with the private sector for commercial bank resources. Therefore, the concentrated nature of the financial system, along with the significant role of the public sector in the system, partly explains the lack of competition for deposits and loans, and a distorted interest rate structure. Indicators of financial deepening, referring to increases in financial asset holdings by economic agents relative to GDP (M2/GDP) which averaged 36.7 percent over the period 2001 to 2006, declined to 32.9 percent in 2007/08, partly



reflecting the tight monetary policy measures taken to mitigate the inflationary pressures of recent years. This low level of financial deepening is an indication of the need for further financial sector reforms.

- 311 The financial sector soundness, robustness and strength indicators do not signal problems in the financial system. This is because the different National Bank of Ethiopia directives put in place in 1996 were rigorously implemented. These directives applied to the supervision of banks, insurance companies and finance institutions. However, as the current period may probably be a high point of Ethiopia's economic cycle, continued close scrutiny by the NBE will be important in sustaining the sector's soundness over time. A slowdown of economic growth and unwinding of high inflation could expose credit risks, particularly as interest rates have been highly negative in real terms. But the CRM notes with some concern the tight control of commercial banks by the Central Bank which may limit space to innovate and introduce new financial products.

### ***Access to credit***

- 312 Access to credit is a challenge in Ethiopia. The CRM learnt that the country is implementing a strategy that will address the efficient functioning of MFIs; in particular, fostering the role of MFIs in intermediating financial assets in the rural areas. To this end, NBE encourages commercial banks to on-lend to microfinance institutions. It is also recognised that there is a geographical imbalance in MFI coverage with very few credit services available in the less-developed regions and pastoralist communities. The NBE and some regional states are of the view that, given the rapid growth of MFIs and the number of commercial banks operating in the country in recent years, access to credit by the general public has significantly improved. However, interactions with stakeholders across the country revealed that this was not necessarily the case. More, therefore, still needs to be done to improve SME access to credit in Ethiopia.

### ***Impact of the global financial crisis***

- 313 Even though one of the issues raised by the CRM is the lack of foreign participation in the financial sector, NBE and MoFED officials are of the view that this may, to a large extent, have insulated the sector - and the country as a whole - from the global financial crises that started with the 2007 sub-prime and the summer 2008 banking crises. While it could be true that contagion effects, normally amplified by the presence of foreign banks, might not have been evident in Ethiopia, there is growing evidence that Ethiopia, like other African countries, has not been spared from adverse impacts of the current global economic crisis.

- 314 The balance of payments outlook for 2009/10 is troubling as global recession takes a toll on remittances, exports, and direct foreign investment; oil prices





move upward again, and the exceptional assistance provided by donors during 2008/09 falls away. This is reflected in a decline in foreign exchange inflows, declines in external reserves - measured in terms of months of import cover, a drop in remittance inflows, and a close to 11 percent depreciation of the Birr in the last 1 year, as reported by the African Development Bank. Declines in international commodity prices (e.g. coffee), a fall in tourist receipts and in inflows of foreign direct investments over the same period, have also been associated with the global economic crisis. The challenge for Ethiopia is to devise measures that will cushion the country from the adverse impacts of the global economic crisis.

## **Fiscal Policy**

- 315 Ethiopia's current fiscal policy objective is to achieve sustained increases in domestic resource mobilisation, public debt sustainability, and the efficient use of highly concessional resources for poverty reduction and development-related activities. Within the government's medium-term economic programme, fiscal policy stresses two main objectives: (i) the re-orientation of budgetary resources away from defence toward poverty alleviation outlays; and, (ii) tax reforms aimed at improving revenue performance. However, the government's recent fiscal activities, to a large extent, continue to highlight the significance of donor support. To this end, and despite the difficult macroeconomic situation of the past two years, government has pursued efforts to enhance domestic revenue mobilisation and exercise prudent public expenditure management. Several tax measures were implemented in 2002/03 to promote revenue mobilisation, one of which was the introduction of VAT. Efforts were also made to improve tax administration and collection, including strengthening the large taxpayer unit, accounting for about 75 percent of total tax revenues, and expanding the activities of the tax reform taskforce. As a result, total tax revenue rose to the equivalent of about 13 percent of GDP in 2005/06, although declining to 9.7 percent in 2007/08. In addition, measures are being pursued to collect tax arrears. They include empowering enforcement and special units to deal with arrears. These units are expected to be strengthened with the introduction of automated tax identification numbers (TIN). Fiscal policy has also been increasingly counter-cyclical in Ethiopia - a relatively low deficit during boom times and high deficits during periods of downturn - a sharp contrast to the pro-cyclical fiscal policy seen in most developing countries.

- 316 According to PASDEP of 2005/06-2009/10, the ongoing tax reform programme will achieve the following:

- Strengthen revenue collection institutions through restructuring, adequate staffing and training, particularly for revenue collection, accounting and audit functions;



- Implement the tax identification number (TIN) system throughout the country;
- Improve the implementation of a presumptive tax system;
- Develop and implement an audit program to cover all taxes; and,
- Expand and improve VAT administration.

317 Furthermore, a recently completed study assesses revenue potential in regional and city administrations. On implementation, study findings are expected to further enhance government domestic revenue mobilisation efforts.

318 The CRM also notes that government dependence on external borrowings to finance its fiscal deficit has been declining over time. As high as 7.4 percent of GDP in 2001/02, it was 1.0 percent in 2007/08. Domestic borrowings, on the other hand, increased dramatically from only 0.5 percent of GDP in 2001/02 to nearly 4.0 percent in 2006/07 before declining to just under 3.0 percent in 2007/08. The formation of a unified revenue agency, the Revenue and Customs Authority, in July 2008, together with on-going tax reforms, are expected to boost domestic revenue in absolute terms and to keep its share of GDP stable at about 13 percent. Combined with a programme of expenditure restraint, this is expected to result in a decline in the fiscal deficit from 3.1 percent of GDP in 2007/08 to 1.8 percent in 2008/09, and further down to 1.3 percent in 2009/10.

319 There has been a considerable shift in domestic revenue composition. The proportion of taxes in total revenue increased from 76 percent in 2001/02 to 80 percent in 2007/08. Within tax revenues, direct taxes declined from nearly 40 percent of total tax revenues in 2001/02 to about 30 percent in 2007/08; indirect taxes rose from 61 percent to 71 percent over the same period. Import duties accounted for 70 percent of indirect taxes and nearly 40 percent of domestic revenue in 2007/08.

### **Privatisation and Private Sector-led Growth Strategy**

320 Recognising the private sector contribution to overall economic growth and poverty reduction, government has pursued policies and programmes to accelerate sector growth and development. PASDEP underscores integration and interdependence between the agricultural and industrial sectors as key to national economic development; it also recognises the importance of spurring an expansion of the services sector. The Industrial and Trade Development Policy Strategy under PASDEP seeks to ensure export-oriented development



by providing support to the private sector, coordinating and guiding the activities of all stakeholders, and addressing market failures. Central to the programme is an active industrial policy, based on selective interventions in strategic sectors. Selected value chains and clusters are targeted, following the highly successful example of the floriculture sector where interventions targeted at technology, coordination, and market failure were directed by public-private partnerships. Infrastructure, power generation, construction and supply-facilitating opportunities are also highlighted in PASDEP as high-potential areas for private sector participation, as are the social sectors, illustrated by the substantial growth of private schools in urban areas.

321 Although steps have been taken to spur private sector growth, such as simplifying administrative procedures, clarifying rules regulating business activities, and reducing the time required to obtain necessary licenses, government still maintains a major role in the economy. The telecommunications sector, for instance, remains a state monopoly. In addition, according to the constitution, land ownership belongs only to “*the state and the people*”. Citizens can lease land for up to 99 years but are not allowed to sell. Several sectors of the economy are closed to private investors, reserved solely for government. As discussed in Chapter Five, amongst them are the transmission and generation of electricity and postal services. Further, foreign firms are excluded from many sectors of the economy, (areas that belong on the negative list) such as banking, insurance, broadcasting, air transportation that uses aircraft with a seating capacity of more than 20 passengers, motels, saw mills, movie theatres, travel agencies, bakery products and pastries for the domestic market, the export of raw coffee, retail and wholesale trade, brokerage services and shipping.

322 The CRM learnt that Ethiopia’s privatisation programme, which started in 1994, has evolved over time and changed from many perspectives. However, it still retains the features of the Ethiopian economic redirection policies launched in 1991. Government established the Ethiopian Privatisation Agency (EPA) in 1994 to implement the programme. The EPA started with the privatisation of small retail trade outlets and hotels as well as small-scale manufacturing and agro-processing enterprises. Government intended to gain first-hand experience, to be applied when it came to privatising medium- and large-scale enterprises, a more complex endeavour.

323 In 2003, the EPA commissioned a study to identify the reasons for the slow progress of Ethiopia’s privatisation programme. Based on the study outcomes and subsequent reviews, the EPA was restructured and a new entity, the Privatisation and Public Enterprise Supervising Authority (PPESA) emerged with renewed vigour and focus. Since the restructuring, privatisation has accelerated. According





to PPESA, 14 enterprises were privatised in 2007 in sectors such as tourism, mining, industry and agro-industry, bringing the total number of public enterprises privatised to 2,471. Eight of these enterprises were privatised through equity sales and the remainder through joint ventures. Enterprises slated for privatisation in 2007/08 include Addis Ababa Yarr Share Company, Combolcha Textile Company, Yerer Flour Mill, and Ethiopian Plywood Company. PPESA is also implementing a Corporate Reform Programme for Public Enterprises aimed at strengthening corporate governance and management standards in public enterprises. Small and micro-enterprise promotion is also critical to private sector development. Government has been providing support to such enterprises in areas such as training, business skill development, micro-credit, information and marketing.

### **Agriculture and agro-based industrialisation**

324 Agriculture is the mainstay of the economy in Ethiopia, accounting for 46.3 percent of the GDP, 83.9 percent of exports, and 80 percent of the labour force. Many other economic activities depend on agriculture, including marketing, processing, and agricultural produce exports. Production is overwhelmingly of a subsistence nature and a large share of commodity exports come from the small agricultural cash-crop sector. Principal crops include coffee, pulses (e.g. beans), oilseeds, cereals, potatoes, sugarcane, and vegetables. Exports are almost entirely agricultural commodities and coffee is the largest foreign exchange earner. Ethiopia is Africa's second biggest maize producer. Ethiopia's livestock population is believed to be the largest in Africa and in 2006/2007, livestock accounted for 10.6 percent of Ethiopia's export income, with leather and leather products making up 7.5 percent, and live animals 3.1 percent.

325 Although it is the mainstay, agricultural productivity in Ethiopia has failed to satisfy the population's food security needs over the last few decades. Ethiopia's agriculture is plagued by periodic drought, soil degradation caused by overgrazing, deforestation, high population density, high levels of taxation and poor infrastructure (making it difficult and expensive to get goods to market). Yet agriculture is the country's most promising resource. There is potential for self-sufficiency in grains and for export development in livestock, grains, vegetables, and fruits. As many as 4.6 million people need food assistance annually. Accordingly, the government is striving to modernise agriculture to achieve the national goal of attaining food security.

326 Government's agricultural development-led industrialisation strategy focuses on two key technologies: information and communications technology, and biotechnology. The strategy considers these technologies essential to rapidly transform the agrarian economy from a largely subsistence mode of production to market-oriented production enterprises, ultimately leading to industrialisation.





327 Ethiopia has great agricultural potential because of its vast areas of fertile land, diverse climate, generally adequate rainfall, and large labour pool. Notwithstanding this potential, Ethiopian agriculture has remained underdeveloped. Drought, repeatedly affecting the country since the early 1970s, a poor economic base (low productivity, weak infrastructure, and low level of technology), and overpopulation, are factors determining poor agricultural sector performance. For instance, according to the World Bank, between 1980 and 1987 agricultural production dropped at an annual rate of 2.1 percent, whilst population grew at an annual rate of 2.4 percent. Consequently, the country faced a tragic famine that resulted in the death of nearly 1 million people, from 1984 to 1986.

328 Industrial development in Ethiopia is still in its infancy and has a narrow base, tied to the agriculture sector. The share of the industrial sector, including manufacturing, construction, hydropower, and mining, has not exceeded 14 percent of GDP on average. The manufacturing sub-sector (cottage industries, small and micro-enterprises and medium- and large-scale manufacturing industries) accounts for only about 5.5 percent of GDP, on average. Similarly, the average share of manufactured products to total exports does not exceed 5.0 percent of GDP. Nevertheless, due to an array of reforms - opening up the economy and creating a conducive investment environment in recent years - steady growth in industrial production and trade has been registered. There has also been a surge in investments, sustained export growth, and increased employment generation.

329 One of the government strategies - the Industrial Development Strategy - aims to accelerate economic development and improve living standards. The strategy is based on the ADLI and has been implemented since 2001/02. The underlying objective of the strategy is to increase benefits earned from economic integration, with the ultimate goal of becoming an industrialised country; enable all industries to utilise their full capacity in order to increase production and productivity; establish and expand industries that are labour intensive and use domestic raw materials; strengthen private sector participation in the development process; and, increase the industrial sector's share of GDP, its employment generation capacity, as well as its contribution to foreign exchange earnings.

330 This involves strengthening inter-sectoral linkages (between agriculture and industry) on the domestic front, and exploiting the potentials and opportunities of regional and global economic integration. The rural-centred ADLI - within the framework of a free market economy - is the principal driving force of this strategy.



331

The following are amongst the measures put forward through the Industrial Development Strategy:

- Creating a conducive environment for industrial development and investment;
- Building a functioning and well-regulated financial sector;
- Investing in infrastructure, transport and telecommunications that lower the cost of business, reliable water supply provision, and power generation, essential inputs to any industrial activity;
- Ensuring the availability of land;
- Establishing an efficient legal framework and contract enforcement, and other administration systems;
- Strengthening activities under the capacity-building initiative, especially the Engineering Capacity Building Program (ECBP);
- Enforcing a working system that can sustain strong market competition;
- Providing direct support and guidance to strategic sectors identified as the textile and garment industries; meat, leather and leather product industries; other agro-processing industries; the construction industry; and small and micro enterprises.

332

Specific targets highlighted in PASDEP (2006/06 - 2009/10) are to improve service times for customs clearance from weeks to a matter of days or hours. Time taken to get a business license has been set to reduce from 25 days to 2 days and achieve a target of less than 1 hour in the longer term, while procedures to access land for businesses have also been streamlined.

### **Investment Promotion.**

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Government policy promotes both foreign and domestic private investment. To this end, appropriate institutional frameworks and incentives to encourage private investment were put in place. Selected tax incentives, export incentives and the creation of a conducive regulatory environment have largely contributed to increases in gross investment. A full list of available incentives is given in Box 3.



### Box 3: Ethiopia's Export Incentives

**The Export Trade Duty Incentive:** this scheme was introduced with the objective of improving foreign currency reserves by enhancing export trade and enabling exporters to access inputs at world market prices. Duty Draw-Back scheme, Voucher Scheme and Bonded manufacturing Warehouse Scheme

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

#### Investment Incentives:

- 100% exemption from payment of import duties and other taxes levied on imports to an investor to import all investment capital goods, as well as spare parts up to 15% of the value of the imported investment capital goods
- Exemption from sales and excise taxes for all export commodities
- **Exemption from Income tax:** Investors engaged in manufacturing, agro-industrial activities, production of agricultural products will be exempted from income tax for a period of 2 to 7 years depending on the type of investment, volume of export, and the region where the investment is undertaken
- Business enterprises that incur losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

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

**Other Conducive Environments for Export and Investment Development:** In addition to the above schemes, Government has designed and created various conducive environments to accelerate the development of exports and investment in the country. They include the following:

**One-stop-shop service:** to provide information required by investors, approve and issue investment permits, trade registration services, operating licenses, etc., to foreign investors.

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

Access to land: New investors, or those who want to expand operations, can lease land, to be mostly facilitated by Regional States. Apart from this, various incentives have been given to investors based on regional investment priority areas.

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

Source: World Bank Ethiopia Road Sector Development Project and Ethiopian Roads Authority. Compiled by the CRM, September 2009.

- 334 The institutional framework includes the Ethiopian Investment Agency (EIA) established with a strong mission to enhance both foreign and domestic investment by promoting national resource potential and investment opportunities, initiating policy implementation measures to create a conducive investment climate, and providing efficient services to investors to bring fast and sustainable economic development to the country.



- 335 This is a one-stop-shop for all investors which renders the following services:
- Provides the necessary information required by investors;
  - Approves and issues investment permits to foreign investors;
  - Provides trade registration services to foreign investors;
  - Issues operating licenses to approved foreign investments;
  - Notarises Memoranda of Association and Articles of Association;
  - Grades construction contractors;
  - Approves and registers technology transfer agreements;
  - Registers export-oriented non-equity based foreign enterprise collaborations;
  - Provides advisory and aftercare services to investors: approves expatriate posts and issues work permits to foreign employees; and,
  - Facilitates the acquisition of land and utilities by foreign investors.

336 Against this backdrop of investment promotion, Ethiopia has done remarkably well in investment performance, particularly with regard to foreign direct investment. According to the Ethiopian Investment Agency (EIA), 1,407 projects with registered investment capital of well over ETB 51.5 billion were licensed during the period, from July 2008 to April 2009. This is expected to create about 172,276 jobs. Furthermore, investment as a percentage of GDP increased from 10.7 percent in 1992/93 to 22 percent in 2007/08. Ethiopia has also enjoyed significant Foreign Direct Investment (FDI) inflows: the total stock of FDI in 2006 was US\$ 3.133 billion, representing 23.5 percent of GDP. Hence, Ethiopia continues to rank very high among other developing countries in terms of its inward FDI Potential Performance Index.

### **External Position**

337 Information availed to the CRM shows that Ethiopia's merchandise exports exhibited strong growth over the past five years, averaging 25.1 percent annually due to increases in both volumes and international prices of most export items. Coffee and non-coffee exports grew at about the same rate of 24 percent in 2007/08. But the heavy dependency on coffee has been gradually falling. Coffee's share in export earnings fell from 39.6 percent in 2004/05 to 35.8 percent in 2007/08 because of relatively faster growth in earnings from non-coffee exports.





- 338 Earnings from oilseeds, Ethiopia's second largest export since 2004/05, grew by an average of 40.8 percent over the past five years. Higher demand from Asian countries, particularly China, pushed up prices. The share of export earnings from oilseeds jumped from only 7.2 percent in 2001/02 to 21.1 percent in 2005/06, before declining to nearly 15 percent in 2007/08. Foreign exchange earnings from exports of leather and leather products increased at an annual average rate of 12.1 percent between 2001 and 2008. Exports of pulses, another traditional export, grew - on average - by 53 percent per annum from 2003/04 to 2007/08. Meat and meat product exports continued to surge as well, exhibiting an annual average growth rate of 79 percent over the same period.
- 339 Non-traditional exports such as flowers and gold also witnessed substantial growth in the last three years. Flowers became the fourth largest export after coffee, oilseeds, and pulses in 2007/08, accounting for 7.6 percent of total merchandise exports. The value of gold exports also grew at an average annual rate of 13.4 percent over the period 2005/06 – 2007/08 due purely to international gold price increases, since the volume of gold exports has generally been falling, from 6,200 tonnes in 2003/04 to 3,800 tonnes in 2007/08.
- 340 Ethiopian imports grew at an average annual rate of 30 percent over the past five fiscal years due mainly to the rising price of oil imports. Fuel imports overtook consumer goods to become the second largest import, next to capital goods, in 2007/08, accounting for 23.8 percent of total imports. The substantial growth in imports in 2007/08 was also due to rapid growth in imported raw materials and semi-finished goods – they surged by 73.5 percent and 64.5 percent, respectively. Following a 5 percent contraction in total value in 2007/08, the share of capital goods in total imports dropped considerably from 36.5 percent in 2006/07 to 26.1 percent in 2007/08.
- 341 The merchandise trade deficit was 21.3 percent of GDP in 2007/08, only slightly higher than in the previous year, and is expected to decline gradually in 2009 and 2010 with the easing of international oil prices. After registering growth of 7.8 percent in 2006/07, net services exports plunged in 2007/08 by 22 percent, mainly due to a considerable increase in the imports of construction services. Thus, the current account deficit widened from 3 percent of GDP in 2006/07, to 4.7 percent in 2007/08 (Table 4).



**Table 4 – Current Account (percentage of GDP at current prices)**

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(D/p)
Trade balance	-14.1	-22.7	-24.3	-20.2	-21.3	-19.8	-18.3
Exports of goods (f.o.b)	6.1	6.9	6.8	6.1	5.8	5.3	5.6
Imports of goods (f.o.b)	20.2	29.6	31.0	26.3	27.1	25.1	23.8
Services	1.9	2.3	1.0	0.8	0.5	-0.3	-0.9
Factor Income	-0.8	-2.9	-0.1	1.5	1.4	-0.1	-0.3
Current transfers	8.8	14.4	14.1	14.9	14.7	15.2	15.7
<b>Current account balance</b>	<b>-4.2</b>	<b>-8.9</b>	<b>-9.2</b>	<b>-3.0</b>	<b>-4.7</b>	<b>-5.0</b>	<b>-3.7</b>

**Source:** National Bank of Ethiopia data: estimates (e) and projections (e) based on author's calculations

342 As is to be expected, Ethiopia faces a turbulent external economic environment of plummeting commodity prices that, coupled with global recession, produced a series of shocks that aggravated the country's balance of payments. Rapid import growth, fuelled in part by public spending, created pressure on reserve levels even prior to the surge in world food and fuel prices in 2007/08. The CRM learnt that the capital account surplus declined from 4 percent of GDP in 2006/07 to 3.6 percent in 2007/08, despite an increase in FDI, as noted above. The deterioration in the current account balance and decline in the capital account surplus resulted in a decline in international reserves of US\$ 263.3 million in 2007/08, compared to an increase of US\$ 85.2 million in 2006/07.

## Recommendations

343 The APR Panel recommends that Ethiopia:

- Continue to pursue its fiscal deficit reduction strategy; (*Ministry of Finance; NBE*) and, scales up efforts at targeting broad-based economic growth that reduces inequality and poverty. (*Ministry of Finance*)
- Support the development of the capital market by setting up a stock exchange and a securities and exchange commission; (*Ministry of Finance*)
- Reduce government intervention in NBE operations, especially state-directed credit and intervention in the operational management of banks; (*GoE; Ministry of Finance*)
- Introduce measures to enhance payments and settlements system-automation; (*NBE*)



- Further liberalise the foreign exchange market such that the Birr can gravitate towards an equilibrium rate that enhances export competitiveness; (*Ministry of Finance; NBE*) and,
- Allow graduated foreign participation in financial institutions, starting with a low equity share.
- Further strengthen linkages between the industrial sector and the resource base of the economy (*Ministry of Commerce*);
- Significantly prune down the negative list to enhance the participation of Ethiopians and foreign nationals in the private sector of the economy; (*Ministry of Finance; Ministry of Commerce*)
- Reorganise and revitalise the Development Bank of Ethiopia so that it can be made to target priority sectors in its lending operations; (*Ministry of Finance*)
- Promote public confidence-building in the activities of the PPEA for the sake of transparency and accountability (*Ministry of Finance*); and,
- Expedite the establishment of a stock exchange and Securities and Exchange Commission (non-existent in Ethiopia) to ensure the open sale of public enterprises being privatised. The Panel is pleading that they be established. (*Ministry of Finance*)

## **Objective 2: Implement Sound, Transparent and Predictable Government Economic Policies**

### **I. Summary of the CSAR**

344 According to the CSAR, economic policy-making and implementation in Ethiopia is guided by an enabling legal framework made available or provided by the Constitution. This document clearly spells out the key mandates and procedures for budget formulation and the macroeconomic framework for every fiscal year. The principles of broad participation and consultation increasingly guide national policy and strategy formulation at different planning levels, making policies more predictable and transparent. Consultation mechanisms include making use of the media - TV and radio - to reach out to the population, as well as targeted consultations with the private sector and civil society. The CSAR cites key economic policy making frameworks that guide Ethiopia: the rolling 3-year Macroeconomic and Fiscal Framework (MEFF); the ADLI; the successive Rural Sector Development Programs (RSDP); the SDPRP; and, PASDEP. These all



provide the overall macro-economic policy and planning frameworks for stimulating growth and eradicating poverty. A popular version of PASDEP was prepared in the different languages of the regional states and widely disseminated by the Poverty Action Network (PANE). The SDPRP and PASDEP Annual Progress Reports (APR) are prepared and disseminated at multi-stakeholder fora.

345 In addition, government has continued more aggressively with its fiscal decentralisation and other related Public Sector Reform programmes to improve public service efficiency and effectiveness at the Federal, regional, *woreda* and *kebele* levels. The second phase of decentralisation at *woreda* levels is in implementation since 2002. Regional constitutions were also revised to facilitate the decentralisation process; these provide powers and responsibilities to *woreda* administrations to exercise self-administration, facilitate local development, levy duties and taxes, prepare and administer their own budgets. In addition, key provisions and processes were established to ensure consultations with all stakeholders in economic policy making. Tools like the Budget Information System (BIS) and the Budget Disbursement Account (BDA) also enhanced transparency and accountability. The BIS and the BDA have since been upgraded into the Integrated Budget and Expenditure (IBEX) system.

346 Other legal frameworks ensuring transparent, credible, and sound economic policy implementation include the Proclamation on the definition of power and duties of the executive organs (04/1995); the Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996; the Council of Ministers Financial Regulations No.17/1997; the Federal Government of Ethiopia Proclamation establishing the Office of the Federal Auditor-General No. 68/1997; the Proclamation on the establishment of Ethics and Anti-corruption Commission (235/2001); the Federal Government of Ethiopia Proclamation Determining Procedures of Public Procurement and Establishing its Supervisory Proclamation No. 430/2005; and, the Federal Public Procurement Directive, MOFED, July 2005. The CSAR notes that existing legal provisions suffice for Ethiopia to fully observe the codes and standards of good practice in this area while pointing out some implementation constraints. However, the CSAR does not give detailed information on the expenditure and revenue mobilisation frameworks.

## II. Findings of the CRM

### Institutional Framework

347 The CRM notes the adequacy of institutional and legal frameworks in place for implementing sound and credible economic policies, as well as the degree of transparency in formulating and implementing such policies. The issues were examined in the following context:





- Institutional agreements for effective policy formulation and implementation;
- Formulation and implementation of fiscal and monetary policy; and,
- Implementation of other key sectoral policies that have a significant impact on the Ethiopian economy, such as the privatisation policy and investment policy.

348 The CRM observed that Ethiopia has comprehensive legislative frameworks that allow for sound and credible economic policy implementation, in a transparent manner. A number of gaps that need to be addressed to further consolidate achievements are identified below.

349 National Planning Institutional Arrangements: The CRM noted the evolution of the planning function within government. Two separate ministries - Finance (MoF) and Economic Development (MEDAC) - have since merged to form the current Ministry of Finance and Economic Development (MOFED). The CRM was not able to establish the existence of any autonomous planning agency assuming, therefore, that MOFED is fully responsible for national macroeconomic planning and management. Prior to MOFED, the MOF was responsible for recurrent budgets, while planning and capital expenditure issues were under the purview of MEDAC. Finalised capital budgets were then sent by MEDAC to MOF for consolidation. This compartmentalisation and associated problems were dispensed with by the Business Processes Re-engineering study that identified MOFED as the sole macroeconomic management planning ministry, with the department of planning in MOFED placed in charge of all planning requirements.

350 The CRM notes, with satisfaction, government efforts towards developing long-term development plans contained in the MDGs Plan (2005/06-2014/15). These efforts, by extension, aim to present Ethiopia's vision of becoming a middle-income country in 20 years time, as well as the country's five year development plan (PASDEP) of 2005/05-2009/10. However as mentioned above, the CRM also notes that all these planning processes are spearheaded by the MOFED planning department since no other planning institution currently exists for this purpose. Whilst acknowledging that the ministry possesses the capacity to formulate policies and translate them into action programmes, the CRM is nevertheless concerned that, given the ongoing decentralisation programme that also necessitates fiscal federalism, the processes may be far too large a burden for the MOFED planning department to handle at the desired pace. The CRM notes that regional states formulate development plans that feed into central plans and wonders whether existing capacity in many of the regional



states, *woredas* and *kebeles* are enough for them to efficiently put together and implement far-reaching development plans and programmes.

## Planning Frameworks

351 As noted in the CSAR, Ethiopia's long-term vision continues to be articulated in the Agricultural Development-Led Industrialisation (ADLI) plan. The second poverty reduction strategy paper - the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) - was completed in 2006 and runs from 2005/06 to 2009/10 Ethiopian fiscal year. Serving as the country's medium-term strategy, this plan was integrated into the constitutionally mandated Five-Year Development Plan to consolidate development under one framework. The Millennium Development Goals that currently serve as the country's longer-term planning framework are also integral to Ethiopia's five-year plan (the PASDEP), as the MDG targets are fully built into the plan. Focus on poverty is a feature of the budgeting and prioritisation process at both national and regional levels.

352 The Macroeconomic and Fiscal Framework (MEFF), which provides information on overall spending targets, is also in place. The sectoral strategies that informed the first PRSP were updated to inform the PASDEP. In general, there is effective integration of cross-cutting issues such as gender and the environment in Ethiopia's development frameworks and budgeting processes. PASDEP shows a strong vertical coordination of sectoral strategies with the overarching government strategy and the programme is well integrated with the budget through the Macroeconomic and Fiscal Framework (MEFF) and Joint Budget and Aid Reviews (JBAR) prepared by government and donors. Donor support to PASDEP and other government initiatives for growth and poverty reduction is channelled through the Protection of Basic Services (PBS) support that replaced General Budget Support (GBS) after the 2005 elections. The PBS is an initiative designed by the donor community in cooperation with the government and various stakeholders. It aims to expand and sustain the basic human development programmes that are almost exclusively provided by government. Following the post-election violence of 2005, a number of donor constituencies decided that they could no longer provide assistance to the GBS mechanism. The PBS package comprises funds to protect basic services, provide health commodities, improve developmental and financial transparency, and facilitate citizen participation in social accountability.

353 PASDEP's strategic vision is one of rapid and sustained growth, primarily through scaled-up development assistance and large domestic investments targeted at eliminating the poverty traps that have hindered national development. This vision shows great elements of continuity with the PRSP 1 - the Sustainable Development and Poverty Reduction Program (SDPRP) - in areas such



as infrastructure, human development, rural development, human security, and capacity building. New elements include a renewed focus on growth, specifically in private sector and urban development, industry, and agricultural commercialisation. These innovations reflect both new thinking on the need to rebalance the growth strategy and recent developments, such as the private-sector led growth in the floriculture sector, and the apparent stagnation in urban poverty reduction.

354 Further, and in addition to PASDEP, each region of the Ethiopian Federation has a 5-year development (strategic) plan aligned to PASDEP and MDG-compliant. Regional plans clearly spell out state policies and strategies in the different sectors (poverty reduction, education, health). At the *woreda* level, plans are prepared every year to feed directly into the regional development plans. These plans are put together through wide consultations with NGOS, CSOs, at the *woreda* and *kebele* levels.

355 As at federal level, government agencies, NGO's, donors, and other stakeholders are jointly responsible for implementing state plans and programmes. In this regard, planning in Ethiopia and in the regions is both top-down and bottom-up. The planning committee, made up of NGOs, CSOs, the private sector, and the regional council (MPs), is key to the planning processes. After consultations at all levels and with different stakeholders, the final plan document goes to the regional council and parliament for approval. Similarly, a number of standing committees in the regions (across sectors) oversee developmental issues at grassroots levels. Members of these committees visit *woredas* on a regular basis to conduct needs assessments and monitor the progress of the plan, and budget implementation. The committee reports back to the regional assembly (Parliament). Ethiopia's strategy is to democratise the development process so as to accomplish holistic, human-centred development rather than the sole pursuit of macroeconomic growth. In the Africa's Alternative Framework to Structural Adjustment Programme (**AAF-SAP**)and the African Charter, the Economic Commission for Africa (ECA) strongly advocates for people-centred development.

## Expenditure Framework

356 Fiscal policy implementation in Ethiopia guides resource envelopes to a selection of priority areas within the MEFF, the PIP and PASDEP. This translates into federal and regional state budgets for each financial year as the vehicle for operationalising the MEFF. The CRM observed that over the years, government has increasingly involved a wide spectrum of society and all concerned stakeholders - right up through the *kebeles* and *woredas* - in the budget process. Hence the budget process has become quite elaborate. It starts with the call letter to all public bodies by MOFED in November 25 of every financial year





through to submissions from public bodies and the consolidation of estimates, in February. The call circular indicates ceilings derived from the MEFF – after prior approval by the Council of Ministers. It also indicates the deadline for submitting budget requests and provides guidelines for preparing recurrent and capital submissions, and dealing with external loan and assistance. MoFED then prepares the issues note and holds budget hearings with top management of Ministries and Agencies. At the end of this process, MoFED prepares a proposal for submission to the Prime Minister's Office, to be tabled and approved by the Council of Ministers. The Council of Ministers reviews and approves, for onward transmission to the House of People's Representatives for final discussion, review, and approval.

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At the regional level, similar to what operates at the federal level, the Regional Bureaus of Finance and Economic Development (RBOFED) receive the budget proposals from each line agency and hold budget hearings to review each budget proposal for their respective region. Line agency proposals are prepared at the lowest administrative level (usually *woreda*) and compiled at the regional line agency level before submission to the RBOFED. After the necessary hearings, reviews and adjustments, RBOFED presents (through the Regional Executive Committee) the Regional Consolidated budget proposal to the Regional Assembly, for discussion and approval. On approval by the Regional Assembly, a regional budget conference consisting of all stakeholders in the region (civil society, NGOs, professional associations, etc.) debates the regional budget. Final approval of the budget is given at the conference.

358

In general, there exists a good framework providing for budgetary transparency. The budget process adopts the MEFF framework which, as described, is based on the close interaction of a bottom-up and top-down approach. Ultimately, the annual budget estimates are agreed upon based on identified policies and priority programmes across sectors and regional states, institutions, and government hierarchy. The projected resource envelope is also agreed upon. The CRM notes the impressive framework for budget consultations in Ethiopia, the degree of effectiveness and inclusiveness of these consultations at the local levels, although challenges remain.

## **Revenue Mobilisation Framework**

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The CRM notes that, in recent years, government intensified efforts to increase domestic revenue collection in order to reduce fiscal deficits. As noted earlier, domestic revenue from tax and non-tax sources accounted for about 61 to 66 percent of the national budget in the last five years. Tax revenue alone accounted for about 80 percent of total domestic revenue in 2007/08 (37.2 percent over the





figure for 2006/07). Recognising this growing contribution of tax revenues to the national budget, the CRM examined the soundness and degree of openness of tax policy formulation and implementation. This was done largely through interactions with tax payers and other stakeholders.

360 It was noted that tax policy formulation and implementation are quite transparent and broadly understood as such by taxpayers at the federal and regional states levels, as well as by professional associations and civil society. This is attributable to the fact that, when tax policies are determined, they are clearly spelled out in the Federal Government Proclamation, the *Negarit Gazeta*, and in the budget statement (Federal and Regional States), so that taxpayers know the direction of government in this regard. However, the CRM expressed concern over the declining percentage of tax revenue in the national budget (Table 5).

Table 5 – Public Finances (percentage of GDP at current prices)

	1999/2000	2004/05	2005/06	2006/07	2007/08	2008/09(e)	2009/10(p)
Total revenue and grants	17.4	19.0	18.9	17.7	17.2	18.0	16.8
Tax revenue	10.1	11.7	11.0	10.3	10.3	10.4	10.0
Grants		4.3	4.2	5.0	4.3	5.0	4.2
Total expenditure and net lending	26.7	23.3	22.8	21.4	20.3	19.8	18.1
Current expenditure	21.3	12.5	11.8	10.0	9.7	9.2	9.0
<i>Excluding interest</i>	19.4	11.5	11.0	9.3	9.3	8.4	8.1
Wages and salaries	5.1	5.6	6.2	5.5	5.4	4.9	4.6
Interest	1.9	1.0	0.8	0.7	0.5	0.8	1.0
Capital Expenditure	5.3	10.7	10.9	10.7	10.4	10.4	9.1
<b>Primary balance</b>	-7.4	-3.4	-3.1	-3.0	-2.6	-1.0	-0.3
<b>Overall balance</b>	-9.3	-4.4	-3.9	-3.7	-3.1	-1.8	-1.3

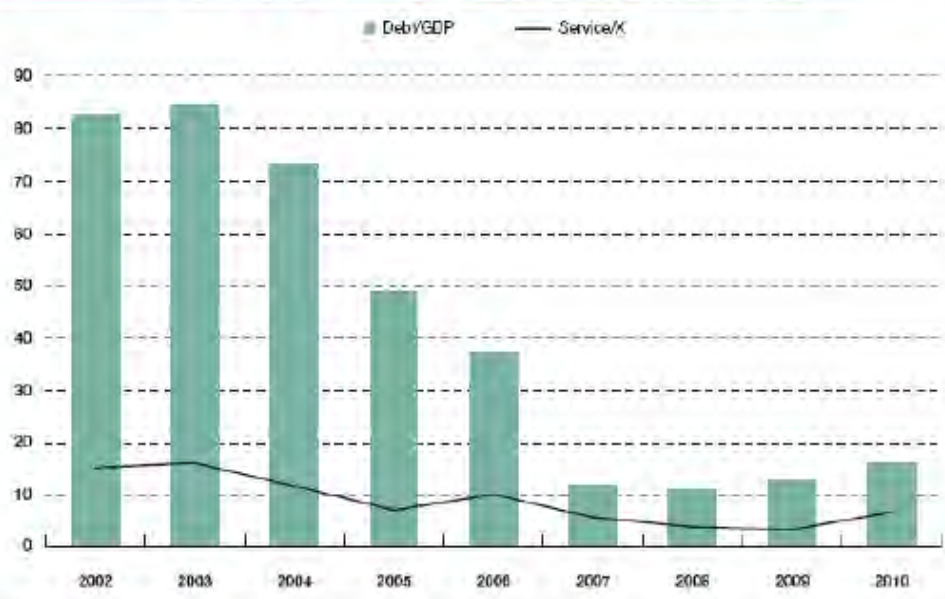
Source: Ministry of Finance and Economic Development data: estimates (e) and projections (e) based on author's calculations

## Debt Management Strategy

361 In line with the fiscal consolidation objective, GoE continues to forge ahead with a strategy to reduce external indebtedness and maintain a sustainable debt framework. Having benefited from the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and coupled with reduced external loan disbursements, the total debt stock of Ethiopia, as a percentage of GDP, dropped to 11.8 percent in 2006/07 from 46.6 percent in 2005/06 (Figure 3).



**Figure 3 - Stock of Total External Debt** (percentage of GDP)  
**and Debt Service** (percentage of exports of goods and services)



Source: IMF.

- 362 However, information obtained by the CRM indicates that Ethiopia’s external debt levels are rising significantly as major public enterprises borrow externally to finance infrastructure investment. The stock of debt (in NPV terms) is set to rise from \$1.3 billion at end-June 2008 to \$6.0 billion by end-June 2011, with almost 70 percent of the increase accounted for by the state-owned electric power (EEPCo) and telecom (ETC) companies. Although the case for large-scale investment in these sectors is compelling, the sizeable and rapid build-up of debt underscores the need to ensure that borrowed funds are being put to effective use, a supportive business environment is being put in place to ensure full take-up of infrastructure outputs, and that public enterprise pricing policy will ensure the full recovery of costs needed to facilitate debt service in the future.
- 363 Nonetheless, Ethiopia remains at moderate risk of debt distress, although the level of risk is higher now than a year ago. It is, therefore, important for Ethiopia to keep a close tab on debt vulnerabilities and make every effort to secure grant and concessional financing for its ambitious public enterprise investment plans. At the same time, there is considerable scope to attract large FDI and increase export growth by means of structural reforms. In addition, emphasis should be placed on strengthening debt management capacity as well as sharing detailed information on future borrowings – both external and domestic – with relevant stakeholders, such as the IMF and the Bank. Finally, given the size of borrowing by public enterprises, it is imperative to expand the current debt strategy and monitoring exercise to include the largest public enterprises and assess potential contingent liabilities.



### III. Recommendations

364 The APR Panel recommends that Ethiopia:

- Establish an autonomous planning agency to strengthen planning functions in the country; divisions of this agency will also be established in regional states; (*Government of Ethiopia (GoE; Ministry of Finance and Economic Development (MOFED)* and,
- Direct the Ministry of Finance and Economic Development and the Customs and Revenue Authority, in conjunction with the Regional Bureaus of Planning and Economic Development in the states, to take necessary steps to broaden the tax net and enhance other revenue- and grant-mobilising efforts at lower levels of government. (*Ministry of Finance and Economic Development (MOFED); Regional Bureaus of Finance and Economic Development (RBOFED), Customs and Revenue Authority (CRA)*)

### **Objective Three: Promote Sound Public Finance Management**

#### I. Summary of the CSAR

##### Policy Framework

365 Public finance management, and the corresponding legal and administrative policy in Ethiopia, is set in the context of the Macroeconomic and Fiscal Framework (MEFF) introduced along with a new indicative financial calendar in 2001/02. The Macroeconomic and Fiscal Framework (MTEF) provides for an annual budget and multi-year programming through the Public Investment Programme (PIP). Annual policy statements are made during the budget speech presented to the House of People's Representatives (HoPR), that is, Parliament.

366 The MEFF is used by government as a tool for establishing the resource envelope and broad sectoral allocations, in line with its overall policy objectives of ending poverty and achieving MDGs targets, while maintaining fiscal discipline. In addition, the MEFF is an instrument by which three-year resources are identified on the basis of the macroeconomic framework. An extended version of the MEFF (stretching to 5 years) has been used in the PASDEP to illustrate the broad financing and affordability implications of the Plan. But it should be emphasised that these 5-year projections can only be indicative. Hence, the MEFF is reviewed at the beginning of each budget cycle.

367 Ethiopia has also adopted a deliberate policy for decentralising its budgetary process by instituting a clear framework and administrative infrastructure



for medium-term fiscal management, as well as an effective system of fiscal decentralisation. The country operates an open and participatory budgeting process that is both top-to-bottom and bottom-to-top. Every year, through the MoFED, government also embarks on a foreign and public debt sustainability analysis in the context of the IMF Article IV Consultations. The CSAR concludes that the legal and regulatory framework is adequate to promote public finance management. There are well-established rules and procedures for collection, budgeting, transfers, accounting and auditing of public finance, at all tiers of government.

## **Institutional Development**

368 Government has developed a legal framework aimed at enhancing openness, timeliness and ownership of the planning and budgeting processes by all stakeholders at the federal and regional levels of government. The CSAR discussed some notable reforms put in place in order to promote sound public finance management in Ethiopia. These include the 1995 Constitution – requiring the Council of Ministers to prepare a draft budget for presentation to the House of People's Representatives for debate and approval<sup>25</sup>; the introduction of Expenditure Management and Control Programme (EMCP); a new chart of accounts; a zero balance cash management system; and, the Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996 directing the Ministry of Finance and Economic Development to establish the format for the annual budgetary submissions and set budget request ceilings. The proclamation also makes the Council of Ministers responsible for ensuring that Regional Governments remain accountable for subsidies and that they have a financial management and reporting system consistent with the proclamation. These reforms have brought about significant advances; increasing the level of credibility in public finance management, especially in fiscal decentralisation, expenditures and revenue administration and management, in the context of the national budget.

369 Additionally, the law in Ethiopia requires that the national budget, once prepared, be submitted to the Council of Ministers for review upon which it is tabled in the House of People's Representatives (HoPR) – the Parliament – deliberated upon and approved, thereby increasing transparency and accountability. To further increase accountability and oversight, the government is also required - under the Protection of Basic Sources (PBS) programme - to post quarterly and annual

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Other key measures include the establishment of an autonomous Revenue and Customs Authority (RCA) responsible for revenue collection; Proclamation on the definition of power and duties of the executive organs (04/1995); Council of Ministers Financial Regulations No.17/1997; Federal Government of Ethiopia Proclamation establishing the Office of the Federal Auditor General No. 68/1997; Proclamation on the establishment of Ethics and Anti-corruption Commission (235/2001); Federal Government of Ethiopia Proclamation Determining Procedures of Public Procurement and Establishing Supervisory Proclamation No. 430/2005; Federal Public Procurement Directive, MOFED, July 2005.





budgets, and periodic fiscal performance indicators (PEFA) on notice boards . This information is also disseminated through radio, TV, print media, such as *Negarit Gazeta*, and other local publications, particularly at regional and *woreda* levels and via the MoFED web site (<http://www.mofed.org>). Similarly, after the first half of the year, MoFED reports to HoPR on budget performance.

- 370 The CSAR also notes some of the important institutional arrangements for sound public finance management: the Integrated Budget and Expenditure (IBEX) system (internal system). The office of the Accountant General (OFAG) and the HoPR act as external controls and provide scrutiny over the executed budget.

### ***Revenue Administration***

- 371 The CSAR notes the constraints that low levels of domestic revenue mobilisation have imposed on the economy in terms of budget deficit and reliance on donor assistance for programme support. In the last decade or so, Ethiopia has developed and implemented a sound tax framework to enhance domestic revenue mobilisation. The main pieces of legislation relate to the Value-Added Tax and Turnover Tax Proclamation of 2003, Excise Tax law rationalisation, and introduction of the Tax Identification Number (TIN). Turnover tax on those who are not eligible for VAT was introduced to preserve the neutrality of the tax system and augment revenue collection by regional Governments. Modern information management systems have also been put in place.

### ***Expenditure Management***

- 372 The CSAR highlights the seriousness government attaches to expenditure management. Hence, the approach used in PASDEP, and within the MEFF, is to start with a thorough assessment of available resources and allocate them to sectors, within resource constraints. Accordingly, no scaling up of foreign aid is considered in projecting the costs. This tailors projections to available domestic and external resource inflows. Government fully costed the PASDEP on the basis of what it would take to reach the MDGs. The belief is that this modest approach should be pursued until concrete evidence of scaled up external financial flows is provided.
- 373 Overall, total PASDEP (2005/06-2009/10) budget projections for agriculture, rural development and education were estimated at 232 billion Birr, with agriculture, rural development and education accounting for the lion's share of projected programme costs. Total projected allocation estimates for both poverty-oriented and non-poverty sectors increased from 36.5 billion Birr in 2004/05 to 53.5 billion Birr by the end of 2009/10. The total projected programme costs for development



and poverty-oriented sectors (recurrent and capital) is expected to reach 44.3 billion Birr by the end of 2009/10 from 14.0 billion birr in 2004/05, taking total projected allocations for the full PASDEP (2005/06 to 2009/10) period to an estimated 174.9 billion Birr. This figure amounts to 76.9% of total expenditure.

374 Ethiopia has also adopted a deliberate policy for decentralising its budgetary process by instituting a clear framework and administrative infrastructure for medium-term fiscal management, as well as an effective system of fiscal decentralisation. The country operates an open and participatory budgeting process that is both top-to-bottom and bottom-to-top; and through the MoFED, also carries out an annual foreign and public debt sustainability analysis in the context of the IMF Article IV Consultations. The CSAR concludes that the legal and regulatory framework is adequate for the promotion of public finance management. There are well-established rules and procedures for collection, budgeting, transfers, accounting, and auditing of public finance, at all tiers of government.

### **Budget Deficit Management**

375 The CSAR notes that government made commendable efforts made over the years towards achieving fiscal sustainability. Fiscal policy measures targeted reducing the budget deficit as a percentage of GDP and, at the same time, focused on expanding socio-economic service provision. Measures such as rationalising public expenditure, adjusting public sector salaries, limiting the number of zero-tariff related items and import exemptions, broadening the tax base, introducing VAT and rental income tax are at different stages of implementation. Success in this regard was revealed by the overall fiscal deficit improvement to -2.9 percent of GDP in 2007/08, from -3.6 percent in 2006/07.

### **Fiscal Decentralisation**

376 Ethiopia initiated the fiscal decentralisation process well before the adoption of the Constitution, through the Transitional Government Proclamation 33/92 defining the nature of fiscal relations between the federal and regional governments. The aim of the proclamation was to enable both levels of governments to carry out their respective duties and responsibilities effectively, assist Regional governments develop their regions on their own initiatives, narrow the gap in growth and development rates between regions, and promote the common interest of regional governments. The supportive legal provisions for fiscal decentralisation are the Proclamation 7/92, affirming the rights of Federal and Regional Governments, and the 1995 Constitution of the Federal Democratic Republic of Ethiopia, ratifying the powers and responsibilities of all levels of governments. To facilitate the decentralisation process further,



Regional Constitutions have been revised to provide self administration powers and responsibilities to *woreda* administrations, facilitate local development, and render decisions on internal affairs. The budgeting and spending guidelines used in the decentralisation effort are in conformity with the criteria for medium term public expenditure allocation stated in the PASDEP, MEFF, and PIP.

## **Implementation Challenges**

377 The CSAR states that implementation challenges mainly arise from the following:

- Institutional and technical capacity inadequacies in most government departments, especially in rural decentralised structures, making them less capable of providing needed support for the success of fiscal decentralisation;
- Low capacity of Regional States and *woredas* to generate own resources and to implement decentralised programmes. Regional states then rely heavily on the Federal Government to fund their budgets;
- The constitutional assignment of revenue-generating powers is currently skewed in favour of central government since the bulk of revenues collectable come from external sources (trade taxes);
- The current inter-governmental grant regime does not create incentive for additional revenue generation by the regional states. The “own-revenue” component of the grants regime effectively imposes an 85 percent tax on any extra revenue regional states generate via taxes or improved administration of existing taxes; and,
- Central government also reduces block grants to regional states by exactly the amount of foreign aid a region receives. States are therefore not eager to pursue additional donor projects.

## **II. Findings of the CRM**

### **Policy Framework**

378 Since adopting the SDPRP, PASDEP and the MDGs, these have guided overall national macro-economic policy and planning frameworks for stimulating growth and eradicating poverty. In tandem with these frameworks, the MEFF is used by the Government as a tool for establishing the resource envelope and broad sectoral allocations, in line with its overall policy objectives of ending poverty and achieving MDG targets, while maintaining fiscal discipline. In addition, the MEFF is an instrument by which three-year resources are identified on the basis of the macroeconomic framework. An extended version of the MEFF (stretching



to 5 years) has been used in the PASDEP to illustrate the broad financing and affordability implications of the Plan.

## **Institutional Arrangements**

379 The CRM notes that Ethiopia's legal and administrative infrastructure does enhance effectiveness in public financial management. Fiscal linkages between the Federal Government and the Regional States are well developed and articulated, and the fiscal mandates of key agencies well defined in the various Proclamations. There are also sound guidelines facilitating effective domestic revenue mobilisation, budgeting, disbursement and accounting at federal and regional state levels. The Ministry of Finance and Economic Development, the Revenue and Customs Authority (RCA), and the Office of the Accountant General (OFAAG) are sufficiently coordinated in the management of public finances. Audit (both by internal auditors and by the office of the Accountant General) and the Budget and Finance Affairs committee oversight functions are also well developed.

380 The CRM notes that, despite well developed institutional arrangements, a number of challenges remain that may prevent institutions from performing as effectively as they otherwise would.

- The lack of a medium to long-term planning horizon – beyond PASDEP - that is sufficiently synchronised with medium- to long-term budget projections;
- While the Ministry of Finance and Economic Development is responsible for recurrent and capital budget allocation, the House of the Federation is responsible for allocation to the regions based on the statutory formulae; and,
- Oversight functions are impaired by the lack of institutional capacity for research and in-depth interrogation both in the Federal Parliament and Regional State Assembly Finance and Budget committees.

## **Revenue Administration**

381 Ethiopia should be commended for developing and implementing a sound tax framework, with a well developed legal aspect. The main pieces of legislation relate to the Value-Added Tax and Turnover Tax Proclamation of 2003, rationalisation of the Excise Tax laws, introduction of the Tax Identification Number (TIN). The introduction of turn over tax on those who are not eligible to VAT is intended to preserve the neutrality of the tax system and augment revenue





collection by regional Governments. Modern information management systems have also been put in place. In this regard, since the beginning of 2005, a tax system that handles all taxes in a single software system known as the Standard Integrated Government Tax Administration System (SIGTAS), is being installed. Currently, SIGTAS is implemented in the Large Taxpayers' Office (LTO) and Addis Ababa Branch offices, as well as regional FIRA offices where the system is intended to administer VAT.

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These measures are all aimed at enhancing the integrity of the tax system by reducing corruption and leakages, enhancing tax compliance, creating reliable tax databases, improving computerisation, offering tax education, and making tax collection client-friendly. Successes arising from these measures include the following:

- Revenue performance (proportion of tax to GDP) has increased from 9.7 percent in 1998/99 to 11.7 percent in 2008/09.
- 80 percent of total domestic revenue was generated from tax sources in 2007/08; this was about 37.2 percent higher than the performance in 2006/07
- Tax revenue contributions to the national budget increased from 61 percent to close to 67 percent in the last 18 months; and,
- Total revenue (excluding grants) increased significantly over the past decade; rising from 9.5 billion Birr in 1998/99 to 29.8 billion Birr in 2007/08.

### **Expenditure Management**

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Ethiopia's overall expenditure performance has been strong, especially in terms of consistently increased allocations to poverty-oriented social sectors, increased financial flows to regional states based on the need for enhanced and even development across different corners of the country, reduction in debt obligations, as well as improved efficiency in public expenditure. As envisaged in the PASDEP, in the next few years, expenditure management is expected to remain prudent, with cuts in recurrent expenditure and priority given to key social sectors such as health, education and agriculture, as well as enhanced support for infrastructure development. Priority social expenditure areas highlighted in PASDEP include food security and capacity building programmes, especially in education. Government has also managed a high level of fiscal discipline by ensuring that the deviation between the budgeted and actual deficit is kept minimal.



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Key institutions involved in expenditure oversight functions are:

- The Parliamentary Budget and Finance Committee (at both federal and regional state levels), which focuses on preliminary estimates in macroeconomic plans and programmes, examines the budget and compiles amendments thereto. The Budget and Finance Committee is further divided into three sub-committees under its mandate: Public Accounts; Revenue; and Recurrent and Capital Budget Sub-Committees; and,
- Deployment of internal Auditors to all ministries and government agencies as well as the MoFED Inspection Department. This department undertakes a role more akin to the traditional Internal Audit function; it covers all federal ministries and also monitors some federal funds, particularly capital at the regional level. The Inspection Department has an audit plan and a rolling program of inspections.

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In addition, there are 12 Parliamentary Standing Committees that oversee and supervise the financial operations of various ministries, departments and agencies. Different committees are assigned to different institutions depending on the relationship between the ministries and the standing committees. Moreover, it should be noted that the Parliamentary Budget and Finance Committee is chaired by a member of the opposition party. Ultimately, the Office of the Federal Auditor General (OFAAG) audits all public expenditures and submits annual reports to the House of People's Representatives (HoPR). However, there are some concerns regarding whether Parliament has the capacity to effectively perform its oversight function.

### **Budget Deficit Management**

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The CRM is concerned that weak capacity to generate domestic revenue in Ethiopia has led to persistent budget deficits over the last ten years. Actual overall fiscal balances (excluding grants) for the years 2002/03 to 2007/08 in ETB billion were -9.37, -6.60, -9.22, -9.83, -13.81, -17.12, respectively. The deficit as a proportion of GDP at constant prices also progressively declined from 12.8 percent in 2002/03 to 9.97 percent in 2007/08. Given on-going government efforts at tax reforms in order to mobilise increased domestic revenue, all indications point to declining fiscal deficits in the longer term.

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The major sources of government revenue in Ethiopia are domestic tax revenue, non-tax revenue, and external donor grants. The domestic revenue component constitutes an estimated 80 percent of financial resources, projected as ETB 35.7 billion, 40.5 billion, and 46.8 billion for 2007/08, 2008/09 and 2009/10,



respectively. Associated with this revenue base are provisional allocations to various priority and poverty-targeted sectors, amounting to ETB 47.2 billion, 49.8 billion and 53.5 billion respectively, over the same period. Given the size of the resource gap (deficit) and the limited capacity of the economy to mobilise domestic resources, the shortfalls will have to be covered from donor assistance, indicating continued reliance on donors in the medium term. There is already a strong partnership between government and development partners within the framework of the SDPRP and the PASDEP, focusing on poverty reduction.

388 Nonetheless, the level of funding needed if Ethiopia is to have any hope of approaching the MDGs implies a significant push over the coming ten years, with a sizeable increase in support from the international community. Furthermore, the level of official development assistance that Ethiopia currently receives (at US\$14 per capita) is substantially lower than that of other low-income countries, including many with higher average per capita incomes, and with better indicators of human development. Therefore, in the global context of increased aid commitments following the Gleneagles agreement, the case for increasing external finance flows to Ethiopia is very strong. Government's commitment to spending on poverty-reducing programs, and its track record of sound financial management and implementation, serve to strengthen the case. Furthermore, the wide range of ongoing institutional and structural reforms will help enhance transparency in government expenditure management and public sector accountability. These efforts are expected to encourage all development actors to mobilise their resources towards the common goal of poverty reduction in Ethiopia. In addition, there is a growing network of national and internationally supported NGOs channeling resources to development programs in Ethiopia. Although the net effect of all of these additional sources of financing are not easy to quantify in the immediate term, it is hoped that this will be sufficient to bridge the finance gap in the longer term.

### **Fiscal Decentralisation**

389 The CRM was informed that Ethiopia started the decentralisation process since 1992, even though this was formally enshrined in the 1995 constitution that described sub-national boundaries and laid out the mechanisms for inter-governmental fiscal relations. The constitution specifically states that regions shall be formed on the basis of a common language, customs and ethnic heritage. In general, the country is structured as a four-tier government: federal government; regional government; *woreda*; and *kebele* administrations. Some of the regions have also created an administrative layer of government - called zones - between *woreda* and regional levels, but these have varying powers and are not explicitly mentioned in the national constitution. In 2009, there were 9



regional states, 66 zones, 550 *woredas* and 2 city (Provisional) administrations (Addis Ababa and Dire Dawa) with almost the same status as regional states. The main objective of fiscal decentralisation is to devolve fiscal decision-making power to lower governments and thereby narrow the vertical fiscal gap as well as ensuring horizontal equalisation.

390 In line with the goals of poverty reduction and devolution of powers to the lowest levels, decentralising powers and duties to the *woreda* level is also being made effective along with capacity building at *woreda* and *kebele* levels. The devolution of power to regional states and then to the *woreda* is a centrepiece of Ethiopia's strategy for ending poverty. The aim is to improve accountability, responsibility and flexibility in service delivery, thereby increasing local participation in democratic decision-making on factors affecting national livelihoods at the grassroots level. Following the big push to *woreda* decentralisation at the beginning of SDPRP, progress has been made on a number of other important areas during PASDEP implementation. Regional constitutions were revised with a focus on the division of power and structural reorganisation to reveal accountability checks and balance at regional, *woreda*, and *kebele* levels. Basic functional responsibilities are now transferred to *woredas* in most regional states. Human power was deployed to *woredas* from the centre at regional government and zonal government levels. The required operational institutions are being set-up for basic public functions including the promotion of asymmetric decentralisation to *kebeles* such as committees, school parent/teacher associations, etc. Some of the important progress includes the draft fiscal decentralisation strategy, introducing grassroots participation frameworks, and conducting pilot assessments to identify gaps, including manpower planning surveys, training needs assessments, bench marking surveys.

391 Proclamation 33/92 spells out the revenue-sharing power between federal and regional governments; this considers the ownership, the national or regional character of the sources of revenue, and convenience in levying and collecting taxes or duties. Moreover, the constitution stipulates that taxes of a highly progressive and distributive nature that are important for economic stabilisation be reserved for the Federal government, while taxes that are more local in nature and levied on relatively immobile assets be assigned to the Regional Governments.

392 To bridge the gap between own revenue and expenditure responsibilities of regional states, the government introduced the block grant transfer mechanism. The objective is to support regional governments in undertaking their assigned functions and provide standard services, narrow the vertical fiscal gap, ensure horizontal equalisation, promote efficiency in financial resource allocations, and





maintain fiscal stability. Block grants are allocated to the regions on the basis of a formula approved by the House of the Federation. A number of variables (*population, development indicators, revenue performance*) are assigned different weights. The variables and weights are regularly revised to factor in the different needs and concerns raised by different regions from time to time. Thus, block grants from the federal government in 2007/08 accounted for 85 percent of total regional resources. All regions except Addis Ababa benefited from the Federal Block grant system.

393 In addition to block grant transfers, there are a number of Specific Purpose grant transfers from the federal government to regions. These are federal resources and are indicated in the budget lines of federal executive bodies. However, they are used to finance such programmes as Food Security, Productive Safety Nets, construction of elementary and primary schools, agricultural and extension worker training, health facility construction, Public Sector Capacity Building (PSCAP), HIV/AIDS and Water, Sanitation and Hygiene (WASH), programmes that, in many instances, fall under the ambit of regional states and *woreda* administrations. Spending on these programmes accounted for a larger proportion (about 23%) of total regional budget spending in 2007/08. Regional states derive only about 15-20 percent of their annual budgets from revenue collection and mobilising funds from donors and NGOs. Regional allocations to *woredas* also correspond to a formula approved by the regional council. *Woredas* prepare their budgets which also have to be approved by the *woreda* council.

394 During the CRM consultations, a number of issues were raised concerning the management and use of decentralised funds. These include:

- Inadequate local capacity to plan, manage and account for the funds;
- Lack of effective oversight mechanisms;
- Limited scope for most regional states to raise the 15-20 percent component;
- Under-spending by some local authorities due to late disbursements from central government and the lack of absorptive capacity at the lower levels;
- Working language differences, in some cases, make auditing block grants to regional state difficult to accomplish.

395 These challenges, as well as those identified in the CSAR, are being addressed by government. As a result, specific measures are being taken or planned to improve the situation.



## Budgetary Consultations and Implementation Challenges

- 396 The Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996 clearly outlines the budgetary process and prescribes clear authority and relationships of all stakeholders in preparing the national budget. Accordingly, the Ministry of Finance and Economic Development (MOFED) issues the directives and regulation required for proper implementation. The financial calendar outlines responsibility, procedures and time frames for each phase of the budget cycle. Communities (*kebeles*) are required to be involved in the planning process so that the ensuing budget (regional and central) is consistent with national development priorities. Overall, and despite the different implementation challenges, fiscal decentralisation seems to be working well for Ethiopia's development aspirations. It is important, moreover, to continuously emphasise the need for more citizen participation in national and regional budgeting, as well as in decentralised resource management. Furthermore, necessary steps are required of government to consolidate linkages between the planning and budgeting processes - although the MEFF addresses this to some extent - expenditure monitoring and reporting processes, and the fiscal decentralisation process.

### III. Recommendations

- 397 The APR Panel recommends that Ethiopia:
- Institutionalise planning and budgeting linkages between central government, regional states and *woredas*, through a well-defined, long-term vision for the country, as well as a gradual movement from the medium- to long-term planning framework; (*Government, MOFED, RBOFED*)
  - Translate the MDGs Plan into a fully integrated and costed long-term national development plan from which short- and medium-term national and regional development plans and associated costs will be derived; (*Government, MOFED, RBOFED*)
  - Establish a national planning agency; (*Government, MOFED*)
  - Further strengthen expenditure reporting and monitoring at all levels of government to enhance accountability; (*MOFED, RBOFED*) and,
  - Enhance the capacity of Parliament to undertake thorough budgetary examination so as to effectively perform its oversight function (*Ministry of Finance; Parliament*).



## **Objective Four: Fighting Corruption and Money Laundering**

### **I. Summary of the CSAR**

398 The CSAR acknowledges that corruption is a cause for concern in Ethiopia, notwithstanding the fact that in recent times, ratings have tended to diverge over the extent of corruption in the country. Public opinion surveys, focus group discussions, and results from international comparative analyses, reveal that many people and business entities are relatively aware of the problem of corruption in the country. Although formerly more pervasive in the public sector, recent cases of private-to-private corruption are also becoming visible in Ethiopia. However, the Government of Ethiopia is fully aware of the seriousness of corruption and has therefore embarked on several efforts to combat corruption and money laundering. To this end, several institutional and legal frameworks have been established to combat corruption and money laundering. The CSAR also notes some of the international standards and codes that the government has ascribed to in this area. The CSAR further notes that one of the most important factors in combating corruption in Ethiopia is the political commitment of government. GoE continues to formally declare its determination to stamp out this scourge from public and private life.

399 However, Ethiopia faces significant implementation challenges in its efforts to fight corruption and money laundering. More specifically, it highlights capacity constraints for inspection and prosecutions on cases of corruption; limited judicial procedures; tolerance to corruption by the general public and therefore, under-reporting of incidents. Further, the CSAR highlights some challenges in terms of the onerous fight against corruption in Ethiopia: absence of proper control systems and pre-audit procedures in making payments; improper handling of funds and maintenance of accounts; absence of a fully developed civil service code of ethics; absence of a mechanism for ensuring that the regulations and procedures issued by higher management are observed; weak monitoring on the part of executive bodies; shortage of manpower in supervisory and auditing agencies; and, weaknesses in looking into reports of supervisory and auditing agencies and implementing the recommended necessary measures.

### **II. Findings of the CRM**

400 The CRM is satisfied with GoE's zero tolerance stance on corruption. Government recognises that the increased prevalence of corruption has negative effects on national socio-economic development efforts. (Box 4) As noted in the CSAR, corruption in Ethiopia, as elsewhere, is not a social phenomenon that can be explained by a simple cause/effect model. It is a complicated issue, often the result of many contingent circumstances that produce varied and wide-ranging effects.



401 Different assessments of corruption in Ethiopia cited by the CSAR have varying conclusions on the level of corruption in the country, suggesting a lack of consensus about the severity of corruption in Ethiopia. The CRM view is that this could be due to a lack of openness in public discussions of corruption in the country. In general, civil society groups and opposition political parties that participated in the APPRM country assessment process stressed that corruption in Ethiopia was widespread.

402 On the basis of the information available to the CRM and in interactions with stakeholders across the country, the CRM takes the view that corruption is an issue of serious concern in Ethiopia. This finding is validated by survey findings from international institutions cited in the CSAR<sup>26</sup>. For instance, contrary to the CSAR assertion that the Global Integrity Index (GII) places Ethiopia among the least corrupt countries in the world and Africa, recent data from the same source lists Ethiopia as being among the biggest backsliders in its 2008 rankings, having fallen 22 places from its 2006 ranking.

403 As noted above, the negative socio-economic impact of corruption is widely acknowledged. But an issue of interest in this Chapter is the impact of corruption on business in Ethiopia. According to a 2001 survey on 600 firms across the country cited by the CSAR, 78.5 percent of those questioned stated that corruption in the public sector negatively influenced their operations and growth. The survey identified customs services and revenue collectors as the most notoriously corrupt government agencies, with the police and the courts coming next in line.

404 As elsewhere, there are numerous factors widely believed to be the major causes of corruption in Ethiopia.<sup>27</sup> This recognition has led to measures aimed at fighting the scourge of corruption involving institutional reform, legal reforms, and social mobilisation programmes undertaken by both public and private bodies, NGOs, and education institutions. These measures seek to address the legal, institutional and social weaknesses that provide opportunities for corruption.

405 At a country level, within the framework of international standards and codes, Ethiopia has adopted several proclamations for effective public financial

<sup>26</sup> Ethiopia's CSAR states that "in its 2007-2008 annual report, the World Economic Forum's Global Competitiveness Report identified corruption as the fourth most problematic factor for doing business in Ethiopia". ..... By the standards of Transparency International (TI), corruption in Ethiopia has remained a serious problem over the past few years". Page 160.

<sup>27</sup> According to the Ethiopian Government's anti-corruption agency, the major causes of corruption in Ethiopia are poor governance, lack of accountability and transparency, low level of democratic culture and tradition, lack of citizen participation, lack of clear regulations and authorisation, low level of institutional control, extreme poverty and inequity and harmful cultural practices. Family and ethnic loyalties and obligations, privatisation, weak financial management, inadequate accounting and auditing, weak legal and judicial system, over regulated bureaucracy, deterioration of acceptable moral and ethical values, unsound policies and inefficient civil service system have also been cited as the primary causes of corruption in Ethiopia.





management including a code of good practice on fiscal transparency, auditing and accounting standards. But, as discussed in detail in Chapter Five, more still needs to be done to strengthen these measures. The challenge for Ethiopia is to create a corruption-free business environment in order to attract more investment and promote wealth and job creation which the country desperate needs.

#### **Box 4: Corruption – an Obstacle to Poverty Reduction?**

Poverty is a multidimensional phenomenon caused by a plurality of factors. Poverty reduction, therefore, requires a comprehensive approach that is either facilitated or constrained by a range of factors. One of these factors causing poverty and impeding poverty reduction on a massive scale is widespread corruption. No country, whether rich or poor, is immune to corruption. Corruption hurts poor people in developing countries disproportionately. It affects their daily life in many different ways, and tends to make them even poorer, by denying them their rightful share of economic resources or life-saving aid. Corruption puts basic public services beyond the reach of those who cannot afford to pay bribes. By diverting scarce resources intended for development, corruption also makes it harder to meet fundamental needs such as those for food, health and education. It creates discrimination between the different groups in society, feeds inequality and injustice, discourages foreign investment and aid, and hinders growth. It is, therefore, a major obstacle to political stability, and to successful social and economic development.

- 406 At the institutional level, the GoE established the Federal Ethics and Anti-Corruption Commission (FEACC) in May 2001. Since its inception, the FEACC launched a three-pronged attack (prevention, investigation and prosecution) on corruption and some encouraging achievements were made in those areas. In an effort to raise its performance in fighting corruption in the years ahead, the FEACC found it absolutely necessary to enhance stakeholder participation in the fight against corruption.
- 407 There were also some improvements in the perception of corruption in recent years, possibly reflecting heightened FEACC activity in fighting high-level corruption. For example, in 2006, the agency played a major role in uncovering a corruption scandal within the Development Bank of Ethiopia. This led to the arrest of several senior officials for bank policy violations and illegal overseas transfers.
- 408 The challenge, however, is to maintain FEACC independence and strengthen its human, financial and material resource capacity, including motivating public service workers. This will be critical to addressing challenges in fighting corruption that fall within the FEACC mandate. Some challenges transcend the mandate of this organisation and require further bureaucratic and legal reforms. Improving the public image of FEACC also requires attention (Box 5).



409 At the social level, GoE has taken measures to develop and implement social mechanisms to fight corruption. Illustrative here is the civic education programme aimed at raising awareness among students, introduced in 2005. However, the CRM could not obtain information on how effectively this programme was being implemented. Also, the extent to which the programme has succeeded in achieving its main objectives is not clear. At the time of this review, there was no independent evaluation of the programme.

#### **Box 5: The Need to Improve the Public Image of FEACC**

Despite the increased public profiling of the FEACC, some stakeholders told the CRM that the institution is not truly independent. The State's drive to fight corruption remains largely without credibility. According to the CSAR, the FEACC is considered by some observers to produce nothing but propaganda, and despite the considerable amount of pending cases, the fight against corruption is perceived as an instrument employed by the ruling party to prosecute and weaken its political opponents. The CSAR further notes that, in the eyes of many people, government's anti-corruption struggle was targeted more towards fighting petty corruption. This suggests that corruption on a grand scale was often overlooked or was not given adequate attention. These groups also questioned government's commitment to the fight against corruption except when it comes to suppressing opposition to the government and the ruling party. They pointed out that lack of transparency and accountability within the government bureaucracy often encouraged corrupt practices.

410 Other challenges in the fight against corruption, however, cannot be adequately addressed through the above measures as they require a political solution. Among these challenges, as identified by the CSAR, are those caused by family and ethnic loyalties. Strengthening and deepening legal and institutional reforms will also be critical to the fight against corruption, especially those that do not directly fall within the mandate of FEACC, including money laundering.

411 The CRM is, however, impressed with the strong political will that exists in Ethiopia to fight corruption. This political will should also be extended to fighting corruption in the private sector where the phenomenon is said to be growing. It was, however, difficult for the Review Mission to estimate the extent of corruption in the private sector due to either lack of data or unwillingness of government and private sector officials to discuss the matter.

412 Further, the prevailing political will in the country should be used to fight the emerging problem of money laundering. According to the CSAR, money laundering is not yet a serious problem in Ethiopia. However, it proved difficult to verify this claim in interactions with stakeholders in selected regions of the country. Nonetheless, money laundering - a practice of disguising illegally obtained funds so that they seem legal - is a crime in many countries, with varying definitions. It is the practice of engaging in financial transactions to conceal the identity, source, or destination of illegally gained money.



- 413 In Ethiopia, the issue of money laundering has taken on a sense of urgency in view of current global and regional terrorist concerns. In the past, the term 'money laundering' was applied only to financial transactions related to organised crime. Today, its definition is often expanded by government and international regulators to mean any financial transaction that generates an asset or a value through an illegal act, which may involve actions such as tax evasion or false accounting.
- 414 The major forms of money laundering in Ethiopia are believed to be drug trafficking, tax evasion, and human trafficking. But an emerging issue of concern is cyber theft – that is, theft conducted by penetrating the computer systems of banks. According to the CSAR, cyber theft was said to be increasing in magnitude and sophistication as the banking industry continues to expand. Cyber theft and money laundering activities pose serious dangers not only to the strength of Ethiopia's financial system, but also to global security. The current ability of money launderers to penetrate virtually any financial system makes every jurisdiction a potential money laundering centre.
- 415 According to the already existing penal code, money laundering is a criminal offence in Ethiopia. However, under the penal code, no specific institution was created to execute the law. Moreover, the penal code lacks specific details based on international conventions or standards to prevent financial crime. Although there is the prevention and suppression of money laundering and the financing of terrorism proclamation, No. 657/2009, the GoE has to find more ways of strengthening existing legislation to fight money laundering. According to the information availed to the CRM, Ethiopian authorities have been discussing the Anti-Money Laundering (AML) regime proposals in order to control money laundering since 2004.
- 416 To strengthen the current law on money laundering, the National Bank of Ethiopia drafted a bill on money laundering which was endorsed by the Council of Ministers on 19 June 2009<sup>28</sup> and passed into law by the Ethiopian Parliament in November 2009. The new law criminalises the practice of money-laundering and includes a provision that establishes a Financial Intelligence Unit. A provision in the new law also obliges depositors to disclose the source of their money when depositing or transferring funds.
- 417 The current bill was first scheduled to be approved by Parliament in 2006, together with the Counterterrorism bill which, too, is awaiting legislative action by Parliament. Once approved, this new piece of legislation will bring Ethiopia in line with international standards on anti-money laundering activities.

<sup>28</sup> The law is derived from the experiences of the IMF and the United Nations Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substance.



418 Besides this legal framework to combat money laundering, Ethiopia's financial institutions do not engage in transactions involving significant proceeds from serious crimes. For this reason, the country is not rated as vulnerable to money laundering by the Bureau of International Narcotics and Law Enforcement Affairs.<sup>29</sup> Ethiopia should strive hard to maintain this reputation.

### III. Recommendations

419 The APPR Panel recommends that Ethiopia:

- Encourage open public debate on the magnitude and incidence of corruption in the country; (*Ministry of Justice; FEACC*)
- Strengthen the human and logistical capacity of FEACC in fighting corruption; (*Ministry of Finance; FEACC*)
- Speed up the ratification of the Anti-Money Laundering Bill; (*Federal House of Representatives*) and,
- Expedite the establishment of the Financial Intelligence Unit to fight the nascent but growing threat posed by money laundering. (*NBE; Ethiopia Police*)

### **Objective Five: Accelerating Regional Integration by Participating in the Harmonisation of Monetary, Trade and Investment Policies**

#### I. Summary of the CSAR

420 The CSAR notes the Ethiopian Government's commitment towards regional integration. The country is a founding member of the Common Market for Eastern and Southern Africa (COMESA) founded in 1994 to replace the Preferential Trade Area (PTA). Since then, Ethiopia has signed and ratified most of the COMESA legal instruments and Protocols and actively participated in and adhered to its regional economic integration objectives and goals. Ethiopia also participates in the Generalised System of Preferences (GSP) and is a member of the Intergovernmental Authority on Development (IGAD). Exports originating

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Every year, U.S. officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in 200 jurisdictions, including Ethiopia. The review includes an assessment of the significance of financial transactions in the country's financial institutions that involve proceeds of serious crime, steps taken or not taken to address financial crime and money laundering, each jurisdiction's vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government's political will to take needed actions.





in Ethiopia are eligible for benefits under the Africa Growth and Opportunity Act (AGOA). The major benefits of regional integration cited in the CSAR have been an increase in Ethiopia's intra-COMESA total trade since 2000 and Ethiopian Airlines has established sufficient flights to other COMESA member states over the years.

421 However, the CSAR acknowledges that Ethiopia has not kept pace with the agreed liberalisation of trade, i.e. a zero percent tariff in order to join the Free Trade Area (FTA). The country is still not a member of the FTA arrangements. According to the CSAR, this is mainly due to the need to tread cautiously arising from fear of potential revenue losses to government from import and export tariff reductions, tough competition for most domestic industries that may result in foreclosures for some, and an influx of fake goods on the market. The CSAR states that the Ethiopian Development and Research Institute (EDRI) is currently finalising a study on COMESA-FTA membership that may serve as a final decision background document.

422 Furthermore, the CSAR notes that there are on-going processes in Ethiopia aimed at putting the required legislation in place to promote regional integration such as: a) The Regional Customs and Bond Guarantee; b) The Charter establishing the Federation of National Associations of Women in Business in Eastern and Southern Africa; c) The Protocol for the Establishment of the Fund for Cooperation, Compensation and Development; d) The Charter on a Regime of Multinational Industrial Enterprises (not ratified); and, e) The Charter for the establishment of a Metallurgical Technology Centre (MTC) (not ratified).

## II. Findings of the CRM

423 The CRM takes the view that, given the current global economic crisis, adversely affecting the African continent, there is urgent need to re-examine existing approaches to international development. One important response for Africa is deeper regional integration which would address long-standing structural weaknesses of African economies. As the 2009 UNCTAD Annual Report on Africa<sup>30</sup> notes, regional integration is essential for sustained development on the continent, especially within the context of the current crisis.

424 Commendably, Ethiopia attaches great importance to regional integration which government regards as a high priority issue. In this respect, the GoE has put in place a number of measures aimed at promoting regional integration as well as international trade.



425 As noted in the CSAR, Ethiopia is a founding member of COMESA. Several institutions have been created to promote sub-regional co-operation and development under COMESA, of which Ethiopia is a member. These include:

- The COMESA Trade and Development Bank in Nairobi, Kenya;
- The COMESA Court of Justice in Khartoum, Sudan;
- The COMESA Clearing House in Harare, Zimbabwe
- The COMESA Association of Commercial Banks in Harare, Zimbabwe;
- The COMESA Leather Institute in Ethiopia;
- The COMESA Re-Insurance Company (ZEP-RE) in Nairobi, Kenya

426 In line with the COMESA trade protocols, Ethiopia has also, among others, done the following:

- Removed some tariff barriers;
- Eliminated some non-tariff barriers;
- Adopted the single COMESA Customs Document (COMESA-CD);
- Installed the Automatic System of Customs Data (ASYCUDA); and,
- Applied the COMESA Third Party Motor Vehicle Insurance Scheme (The Yellow Card).

427 ***However, more still needs to be done for Ethiopia to comply with COMESA trade harmonisation requirements.*** As noted in the CSAR, Ethiopia has not kept pace with the agreed liberalisation of trade, i.e. a zero percent tariff in order to join the Free Trade Area (FTA), and the country is still not yet a member of the FTA arrangements. In interviews, GoE officials expressed worry over the likely impact of the COMESA FTA on the Ethiopian economy. In this respect, they informed the CRM that a study on the effects of the COMESA FTA was under way.

428 GoE officials also admitted that most of the parameters set for macroeconomic convergence that are key to harmonisation are yet to be met in Ethiopia. Similarly, other issues of harmonisation such as trade, investment, macroeconomic policies, and so on, are not explicitly addressed. The CRM cautions that the issue of harmonisation of policies (domestic versus those of COMESA or any other REC) is critical for Ethiopia.



429 The persistence of some Non-Tariff Barriers (NTBs) and other discretionary policies that are, in general, a hindrance to intra-regional trade within the COMESA Region is another challenge that Ethiopia should address. Technical Barriers to Trade (TBTs), which include stringent requirements for packaging, marking, and labelling that create unnecessary barriers to intra-regional trade, should also be addressed.

### **Box 6: The Potential Benefits of the COMESA Free Trade Area**

Ethiopia is a founding member of the Common Market for Eastern and Southern Africa (COMESA). COMESA is a preferential trading area (PTA) with 20 member states stretching from Libya to Zimbabwe. COMESA was formed in December 1994, replacing a Preferential Trade Area in existence since 1981. Nine of the twenty member states formed a free trade area (FTA) in 2000, with Rwanda and Burundi joining the FTA in 2004, and Comoros and Libya in 2006. COMESA is one of the pillars of the African Economic Community. A free trade area is defined as a grouping of countries which agree that goods produced in these countries can be traded without payment of customs duties or charges. Descriptions of goods eligible for duty treatment are agreed in a set of Rules of Origin. The countries also agree to eliminate all Non-tariff Barriers (NTBs) to trade among them.

430 The CRM also noted that Ethiopia has signed 14 Bilateral Trade Agreements (BTA) with both developed and developing countries. Six of these agreements are with African countries, namely, Kenya, Algeria, The Sudan, Libya, Nigeria, and Equatorial Guinea. At the time of writing this report, negotiations on BTA with South Africa and Israel were underway. Commendably, bilateral treaties with the Sudan and Djibouti have resulted in a 0% tariff charge applied to goods originating in the two countries. This is a crucial step towards encouraging trade but it is important that any contradictions arising from these bilateral agreements are addressed.

431 At the regional level, Ethiopia is a founding member of the Sana'a Forum, together with the Republic of the Sudan and Yemen. The Transitional Government of Somalia has also acceded to the Sana'a Forum. According to information availed to the CRM, the Sana'a Forum was established to promote economic integration and peace and stability in the region.

432 The Mission also learnt that Ethiopia is negotiating signing the Economic Partnership Agreements (EPAs) with the European Union under ESA. COMESA has cautioned member states on the EPAs. Major international and African organisations have also sounded caution on the development impact of the EPAs (Box 7).



### **Box 7: Concerns over the Development Impact of the EPAs**

**Economic Partnership Agreements – EPAs – are essentially free-trade arrangements aimed at opening up the markets of poor countries to European goods.** Seventy-six countries from Africa, the Caribbean and Pacific have been negotiating the deals with the European Commission (which negotiates on behalf of European Union member states) for five years. Using trade to lift poor countries out of poverty is meant to be at the heart of these agreements. But ACP governments and campaigners have expressed serious concerns that free trade between an established, wealthy trading bloc like the European Union and their own, poor economies will destroy farmers and industries in their own countries. In-depth empirical investigations and analyses by ACP activist organisations have produced comprehensive and cogent critiques drawing out the destructive anti-development implications of the reciprocal trade liberalisation that drives the proposed EPAs between the gigantic EU and the much smaller weaker ACP countries<sup>(3)</sup>. They expose the aims and the implications of the WTO-type 'trade-related' aspects of the EPAs, defined in the EC's plans as 'new generation' issues. These include investment liberalisation, guaranteed protection for European corporate property and increased 'intellectual property' rights; the opening up of ACP services sectors and government procurement (public tenders) to the operations of European companies, the imposition of inappropriate 'competition' rules and much else.

433

There is a powerful critique pointing to damaging anti-development effects and other dangerous implications of the trade and other liberalisation dimensions of the EPAs, including:

- The inherently unbalanced nature of trade flows between economies of very different sizes that are at totally different levels of development, encouraged by so-called 'reciprocal markets';
- the consequent trade deficits in the weaker economies, contributing to balance of payments difficulties, continued external indebtedness and continuing aid dependence;
- the extensive reduction in tariffs eroding the revenues of governments heavily dependent on custom duties for their budgets, with negative implications for essential public spending;
- the intrinsically unfair competition between large and highly competitive producers/exporters from the EU, in relation to the much smaller and weaker counterparts in the ACP countries;
- the inevitable decline and even closure of 'uncompetitive' companies in the ACP, contributing to the de-industrialisation already set in motion there by IMF and World Bank liberalisation programmes;
- the accompanying retrenchments and exacerbation of unemployment, now reaching generalised and catastrophic proportions in most of the ACP countries;





- the parallel loss of livelihoods of small farmers, and even bigger agricultural producers, in large measure through the influx of subsidised EU agricultural exports, whether directly or indirectly subsidised;
- the undermining of family and community food security, and food sovereignty/security within such regions, and their increasing dependence on imports of even their staple foods;
- the aggravation and deepening of poverty in both rural and urban areas, and the accompanying social stresses, including health crises, above all HIV/AIDS in Africa;
- the consequent survival struggles of the poor, contributing to the environmental pressures already acute due to the extractive operations of transnational corporations in mining and agriculture, and in their fishing and (de)forestation operations, and,
- It is alleged that the European Commission is trying to use the deals to encourage privatisation of basic services such as water and electricity.

434 Despite this critique, enormous pressure is being exerted on ACP governments to conclude EPA agreements. The EC argues that it will not be possible to gain yet another extension of the time in which the EU and the ACP maintain relations defined as 'discriminatory' against other WTO member states.

435 The threat to regional integration that EPAs pose should be taken seriously. Ethiopia should resist signing any agreements that are likely to undermine regional integration. As part of a broader, well-designed development strategy, regional integration could enhance productive capacity, intensify economic diversification, and improve competitiveness. Pooled resources and economies of scale would allow African countries to participate more effectively in the global economy.

436 There is no doubt that intra-African trade in goods is very low, but its potential for growth is high. Moreover, it should be stressed that regional trade is the stepping stone to participating in international trade.

437 The creation of several institutions for economic integration in Africa in the last two decades was expected to boost intra-African trade in goods. Such trade increased from 2.0 percent in the early 1980s to 9.0 percent of total African exports in 2007, but these statistics underestimate the actual flows as they do not include unrecorded trade, which is very important. For instance, the CRM



was informed that there is substantial trade between the Gambela region of Ethiopia and the Sudan. There is also substantial contraband or illegal trade between some Ethiopian regions and neighbouring countries. But even with this caveat, intra-African trade flows are low in comparison to those in other regions, and relative to Africa's trade potential.

438 These challenges are also likely to arise from Ethiopia's impending membership of the WTO. The CRM learnt that Ethiopia has embarked on the accession process to the World Trade Organisation (WTO). The first working party meeting to discuss the accession process was held last year. The CRM cautions that it is important for Ethiopia to carefully study the implications of WTO membership for the country's existing trade arrangements and development prospects.

439 It is also important for Ethiopia to create public awareness of the benefits of regional integration. The CRM noted that there is presently little awareness of the benefits of regional integration among members of the public.

### III. Recommendations

440 The APPR Panel recommends that Ethiopia:

- Expedite ratification of the COMESA FTA in order to ensure the country maximises its benefits from regional integration; (*Ministry of Finance; Ministry of Foreign Affairs; Ministry of Commerce and Industry*)
- Cautiously weigh the benefits and costs of EPA before signing; (*Ministry of Finance; Ministry of Foreign Affairs; Ministry of Commerce and Industry*) and,
- Cautiously weigh the benefits and costs of WTO membership before joining the organisation. (*Ministry of Finance; Ministry of Foreign Affairs; Ministry of Commerce and Industry*)



# CHAPTER FIVE

## CORPORATE GOVERNANCE

### 5.1 Overview

- 441 Compliance of all businesses - small or large - with good corporate governance principles and adoption of good practices is essential not only from the enterprises' point of view but also from an economic and political perspective. From an economic standpoint, good governance of corporations will contribute to reduce uncertainties by lowering their failure rate, reducing capital flight and attracting more savings to investment thereby creating more confidence in the whole economy. It will make potential investors less risk-averse with new businesses, usually considered the riskiest.
- 442 From a political perspective, adoption of good corporate governance principles, in particular, keeping companies accountable to shareholders, fair to other stakeholders and transparent in their internal management (including human resources) and vis-à-vis their partners will help to lay the foundation for accountability and transparency in other areas of social life, particularly in the management of local and national affairs, and in fighting corruption. It will also strengthen the political role of the business community and related social organisations, thereby helping to strengthen good political governance, social peace and democracy.
- 443 Corporate governance (CG) within the context of the APRM seeks to engage corporations both from public and private sector in promoting accountability, transparency and fairness vis-à-vis all stakeholders, shareholders, employees, consumers, local communities, etc. thus improving the efficiency of corporations and making it easier to strike a balance between economic and social goals on the one hand and between the individual and communal goals on the other.
- 444 Due to the country's recent history, corporate governance in Ethiopia is still at the fledgling stage. State-owned enterprises are still more prominent than private corporations, and these are still small and usually family-owned and run. The recent Privatisation Programme has contributed to strengthening the local private sector's role in Ethiopia. Ethiopians bought 80% of the privatised entities.
- 445 According to the CSAR, the number of total registered businesses stood at 82,602 in 2008 compared to less than 2,200 in 1990. However, there is no information or data that presents the structure and importance of the corporate sector. Information on the distribution of firms by size, sector or geographical location



is not available even if there is a consensus that over 60% of corporations are located in Addis Ababa.

446 State-owned enterprises (SOEs) either dominate or operate in full monopoly in strategic sectors such as power generation and distribution, telecommunication and air transport. In the financial sector, over 50 percent of lending activities, mainly to households and small businesses, are controlled by private indigenously owned institutions in urban areas while microfinance institutions cater to the needs and expectations of rural households.

447 The country's investment laws indicate areas of investment reserved for the Ethiopian government or for the Ethiopian government jointly with private investors, those reserved for domestic investors and those open to foreign investors. Production and supply of electric energy with installed capacity of above 25 megawatts, transmission and supply of electrical energy through the Integrated National Grid System, provision of postal services with the exception of courier services, the entire defence industry, air transport of over 20 passengers, and railway transport services are areas reserved for the government. Banking and insurance, production and supply of electricity up to 25 MW are reserved for Ethiopian nationals. Engineering and metallurgical firms, pharmaceutical and fertiliser companies are open to foreign investors only if they partner with Ethiopians, and the latter should own at least 27% of the business. From time to time, the Council of Ministers designates areas reserved solely for domestic investors.

448 In parallel, a legal framework has been developed to ensure transparency and predictability of government policies and regulations to attract and secure foreign investors. Bilateral protection agreements against political risks have also been signed with a number of Asian and European countries. Ethiopia is member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. Foreign investors are entitled to repatriate any income accrued from their investment. The tax regime for foreign investors does not differ from that applied to domestic investors.

449 Ethiopia does not have a stock exchange, but it does have the Ethiopia Commodities Exchange (ECE), which is predominantly membership based. The banking sector is regulated and supervised by the National Bank of Ethiopia. To date, there are 13 registered banks, with an additional 2 in the process of registration. Under the same regulator, there are 30 microfinance institutions and 10 insurance companies. In the banking sector, the first commercial institution remains by large state-owned.





450 The Commercial Code of 1960 is the dominant legal instrument in corporate governance. The Code is under revision and modernisation, but there are no indications from stakeholders as to when the new Code will be operational. The new Code is expected, in particular, to specify in detail the duties and responsibilities of directors.

451 As in many other African countries, the concept of corporate governance has just been introduced and is in its infancy. As indicated during the country consultations, there is currently no national code on corporate governance. There are efforts to improve the framework under which corporations operate and that will contribute to improve corporate governance. In particular, efforts are on going to establish a standardised mechanism for accounting, develop a set of chart of accounting for SMEs and set up a National Accountants and Auditors Board (NAAB). Currently, financial accountability is limited by the absence of national accounting and auditing standards.

452 Ethiopia has signed and ratified twenty-four regional standards and labour codes of the International Labour Organisation (ILO). These are intended to ensure the creation of a conducive environment for workers.

453 The concept of CSR is fairly new for all stakeholders in the country. Reporting on social and ethical issues is not a requirement. However, large corporations are playing an increasing role in the area of creating awareness on HIV/AIDS. The national tripartite policy on HIV/AIDS and the world of work is widely disseminated and has started producing results in terms of raising public awareness and attitude related to HIV/AIDS risk behaviours.

454 According to the CSAR, issues of accountability and responsibility to shareholders and other stakeholders (consumers, employees and creditors) are not prominent and very few are meeting their corporate obligations if compliance is measured by adherence to basic corporate governance principles and internationally accepted corporate governance standards. In the area of intellectual property, the rights of authors are protected through modern law and practices. The establishment of the Ethiopia Intellectual Property Organisation (EIPO) in 2003 is a marked achievement for Ethiopia. It helps in keeping corporations accountable for the use of the rights of authors.

455 However, Ethiopia does not have any specific structure focusing on promoting basic corporate governance principles and on training concerned stakeholders, such as an Institute of Directors. The stakeholders met did not indicate any possibility of establishing an Institute of Directors (IPod), any time soon.



## 5.2 Standards and Codes

### I. Summary of the CSAR

456 The Country Self-Assessment Report (CSAR) contains an exhaustive assessment of measures taken by the Government to comply with and domesticate the standards and codes in the corporate Governance thematic area of the African Peer-Review Mechanism (APRM) process. According to the CSAR, the standards and codes adopted by Ethiopia include:

- Principles of Corporate Governance (OECD and Commonwealth)
- International Accounting Standards
- International Standards on Auditing
- Core Principles of Effective Banking Supervision; and,
- Core Principles for Securities and Insurance Supervision and Regulations.

457 The CSAR states that there is no national corporate governance code in Ethiopia. Existing legislation provides a number of important elements for corporate governance. However, these elements are not found in one place. Some of the documents which have relevance to corporate governance and financial reporting are as follows:

- The Commercial Code of Ethiopia 1960;
- Public Enterprise Proclamations 25/92 and 277/2001;
- Office of the Federal Auditor General Proclamation;
- National Bank Proclamation and Banking Business Proclamation/ Proclamation 591 and 592/2008);
- NGO – Financial Reporting Guidelines; and,
- Memorandum of Associations of various corporations.

458 The CSAR indicates that the Commercial Code (1960) governs all corporations and serves as the company law. The Code contains important provisions that have a bearing on corporate governance. Among these provisions are: (1) in



share companies, dealings between the company and a Director that involves conflict of interest must receive prior approval by the Board of Directors (Art 356); (2) the company may not grant loans to a Director (Art 357); (3) Directors are personally liable to the company for failure to carry out their duties that include a duty of due care and diligence (Article 364) and, (4) the company may sue a misbehaving Director upon approval of shareholders representing 20 percent of the capital (Art 365).

459 The CSAR notes that Ethiopia has also signed and ratified twenty-four regional standards and labour codes of the International Labour Organisation (ILO) and the African Charter on Human Rights. In addition, Ethiopia is party to the Occupational Safety and Health Convention of 1981 (ILO), which covers similar ground as the Codes on Industrial and Environmental Safety and Hygiene of the World Health Organisation (WHO). These standards are also embodied in Ethiopian national laws. However, the CSAR states that Occupational Safety and Health Convention is yet to be considered by the Parliament and that it is expected to be adopted in 2009-2010.

460 The National Bank of Ethiopia has issued thirty-two directives designed to improve the quality of financial information and the performance of various players across the financial and banking sectors. They relate to supervision of banks, insurance companies and microfinance institutions. Most of these directives were issued after 2000, underlining the infancy of the banking and insurance regulatory framework in Ethiopia. At the same time, it highlights the contemporary and progressive approach within the financial services sector.

461 Article 23 of the Banking Business Proclamation No. 292/2008 gives the National Bank of Ethiopia (NBE) the power to request all banks to prepare financial statements in accordance with international financial reporting standards...

462 The National Bank is also in the process of implementing Insurance Core Principles, and Microfinance Consensus Guidelines (CGAP) including the exposure guidelines for supervising insurance companies and microfinance institutions respectively.

463 In parallel, several steps have been taken to anchor good practices in both the private and public sector. They include:

- Engaging in the development of accounting and auditing standards for the private sector (under the auspices of the Office of the Federal Auditor General - OFAG). OFAG, in collaboration, with the Ethiopian Professional Association of Accountants and Auditors (EPAAA), produced in 2005 a



report entitled “Ethiopian Accounting and Auditing Standards Development ‘Road Map’”. The Road Map envisages developing a monitoring body, to be known as the National Board of Accountants, to monitor the profession. According to the CSAR, the Addis Ababa Chamber of Commerce, through the PSD-Hub will help to implement the Road Map;

- Improvement capacity for public sector auditing under the auspices of the Ethiopian Civil Service College (ECSC). The ECSC aims at (i) developing accounting and auditing standards for the public sector; and (ii) providing professional certification to public sector accountants and auditors. This exercise is being undertaken by the Institute for Certifying Accountants and Auditors (ICAA). The ICAA currently focuses on the public sector but plans over time to be the professional accounting and auditing institution in Ethiopia for certifying/regulating accountants and auditors and setting accounting and auditing standards for both the public and private sector; and
- Revision of the Ethiopian Commercial Code of 1960 at the Ministry of Justice;

464 The CSAR notes that, even in cases where the country has adopted international standards, the challenge has always been to effectively domesticate them into the country’s legal system and this has resulted in low enforcement and low awareness level. The CSAR identifies the causes as insufficient translation of the standards into the country’s working languages at Federal and regional levels and issues with timely publication and accessibility.

## II. Findings of the CRM

465 The CRM noted the efforts being made by both Government and the private sector, in particular the Addis Ababa Chamber of Commerce and Sectoral Associations. However, compliance with best practices remains low due to the factors listed above in the CSAR but also due to the structure of the private sector, largely composed of micro and small family-owned businesses.

466 In meetings with the CRM team, stakeholders indicated that the Commercial Code of 1960 is a source of serious challenges in implementing sound corporate governance practices. For example, Article 347 (1) states that only members of a company may manage the company. Subsection 4 of that Article allows body corporate to be a Director, although only a natural person can chair the Board of Directors. This poses a challenge, particularly in defining accountability parameters, where through the body corporate may be the Director, it still has to appoint a person to represent it. This example serves to emphasise the urgent





need to modernise the Commercial Code and consider developing a separate Companies Act outside the Commercial Code.

467 The Federal Democratic Republic of Ethiopia Banking Business Proclamation No. 592/2008 has provisions which promote transparency in the management and operations of banks in that they spell out the qualifications and disqualifications of Directors of a bank, in line with best practices in corporate governance. Article 14 states that a person appointed as director of a bank must be a “*person with honesty, integrity, diligence and reputation to the satisfaction of the NBE*”.

468 The CRM learnt from the NBE that the banking sector has just commenced studying the Basel II Principles. The NBE issues specific directives from time to time. However, the NBE does not have the required capacity and skill-mix to ensure their adequate diffusion (through trainings and meetings of concerned staff in targeted entities) and to follow up with their implementation. NBE remains selective in its intervention. As a result, compliance remains partial, particularly within the MFI sector.

469 The Privatisation and Public Enterprises Supervision Agency, which supervises the state-owned enterprises (SOEs) and prepares them for privatisation ensures that corporate governance principles are upheld by maintaining the respective Boards of Directors of each SOE as autonomous. The Agency sets targets to be achieved and leaves it to the Boards to deliver. The agency also organises orientation and induction programmes for the training of Board members of SOEs, on corporate governance issues at least once a year. Auditing for the SOEs is done by both private sector auditing firms and the Auditor General.

470 However, the CRM noted that Board members of SOEs, in particular, the chairmen are selected among high ranking civil servants in that sector, some of whom are Ministers. This has implications for political interference in monitoring the companies.

471 The CRM in interactions with the private sector and the Privatisation Agency, learnt that the PSD-Hub, in partnership with Office of the Federal Auditor General (OFAG) and the Ethiopian Professional Association of Accountants and Auditors (EPAA), has engaged in developing a project proposal for the Standardisation of Accounting and Auditing in Ethiopia. According to PSD-Hub, the Report is under finalisation.

472 The CRM found very little evidence of implementation of standards and codes in Regional States. None of the business people interacted with at the Regional Government’s meetings had heard of the Commercial Code of 1960 or were even aware that the Code was being reviewed except in the two regions of Oromia and Benishangul-Gumuz, where there was limited awareness of the existence of many of the standards and codes outlined and discussed in the CSAR.



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In the town of Asosa, the regional headquarters for the Benishangul-Gumuz Region, the general consensus among the participants was that the region was an emerging state and little commercial activity took place there. The Regional Government's priority focus should therefore be on building capacity in all spheres of business and commercial sectors.

### III. Recommendations

474 The APR Panel recommends that Ethiopia:

- Ratify and domesticate all outstanding APPRM codes in the corporate governance thematic area;
- Set up an institution to drive the development of corporate governance in the country and to initiate and support awareness and training programmes on good corporate governance nationwide with the involvement of the key stakeholders (*Chambers of Commerce and Sectoral Associations, MoT&I; Privatisation Agency, NBE, Media*);
- Strengthen the capacity of the NBE in its leading role in the financial sector;
- Speed up the implementation of the Private Sector Road Map (MoT&I);
- Expedite the issuance of accounting and auditing standards with the involvement of the key stakeholders (*MoT&I; OFAG; EPAA; AACCSA*); and
- Consider issuing a separate Company Code and expedite the issuance of the Code of Commerce (*Ministry of Justice*)
- Reconsider the criteria for selection of Board Chairmen of SOEs.

### 5.3 Assessment of the Performance of APPRM Objectives

**Objective One: Promoting an Enabling Environment and Effective Regulatory Framework for Economic Activities**

#### 1. Summary of CSAR

#### Business Registration and Licensing

475 According to the CSAR, under Ethiopian law, trade and investment could be undertaken through sole proprietorship, private business organisations,



cooperative societies and governmental enterprises. Business organisations could be formed in one of three types of partnerships. These include ordinary partnerships, general partnerships and limited partnerships. Companies could be organised as share companies, private limited companies or as joint ventures.

476 SOEs operate as independent business units in accordance with Proclamations N° 25/1992 and 1998. They are established by federal law and run on a commercial basis as share companies and as such obey to the Commercial Code as limited liability businesses. SOEs are governed by specific directives and guidelines issued by the Privatisation and Public Enterprises Supervising Agency.

477 Cooperatives are governed by the Commercial Code as private limited cooperatives. They are another important player, mainly in the agriculture and related activities, with some also active in the area of savings,.

478 The CSAR indicated that registration and licensing processes were considered as fragmented and lengthy. Individual traders had to meet cumbersome registration and licensing requirements while business organisations had to pass through fragmented document authentication, registration, licensing and publication processes. Efforts have been made to revise the system and to consolidate and ease investment and commercial registration and licensing laws and processes. The one-stop-shop service has been established as part of ongoing measures to consolidate and ease registration . The publication requirement on business organisations has been lifted, the registration and licensing steps reduced and the processes computerised. According to the Ministry of Trade and Industry (MoTI) this has cut down the time required for authentication, registration and licensing of businesses from months to less than one hour.

479 With regard to effectiveness, the CSAR makes mention of the fact that the licensing organs and ministerial offices in the other sectors often focus on enforcing registration and licensing requirements and seldom exercise ongoing supervisory and monitoring functions. They lack proper orientation to be a regulator and tend to control the market actors during the initial licensing and license renewal stages only.

### **Key Financial Institutions that Support Business Development**

480 The CSAR reports that corporate activities are supported by a limited number of banks and microfinance institutions. In total, the banking sector is composed of three government-owned banks - the Commercial Bank, the Construction and Business Bank and the National Development Bank (which operate throughout



the country), and ten private banks. There are no investment banks, equity funds, pension funds or stock exchange markets that could help corporations diversify the sources of financing. The existing insurance companies (one government-owned and ten private) are not working to diversify their services and their contribution to long-term saving scheme remains very limited (life insurance does represent less than 6% of the sector activity). In the banks, resources are kept in current and savings accounts. As a result, most of the loans are extended on a short, and to some extent, on a medium term basis and the collaterals required by the Banks remained high (up to 170% of the loan amount). According to the CSAR, it should be underlined that the volume of non-performing loans remains limited at no more than 7%. Investments in government bonds do not exceed 11% of the Banks' assets while the government pension authority, the most important pension fund, invested only 0.2% of its resources to acquire shares in large SOEs. Pension funds also keep their resources in bank deposit accounts.

481 The Government of Ethiopia has taken several initiatives to address the financial resource needs of corporations, whether publicly-owned or private, including micro, small and medium-size enterprises, They include the support to the National Development Bank in extending long-term loans to projects in agriculture and industry based more on their rate of return on investment than on collaterals, and the budgetary support to MFIs and the establishment of Export Credit Guarantee Fund.

## The Stock Market

482 The CSAR reports that Securities Markets (for shares and bonds) first emerged in 1960 during the Imperial Era when the State Bank of Ethiopia established a share-dealing department to facilitate the floating of public shares. Recent economic developments in the country led the business community, academia, and the National Bank of Ethiopia to call for the re-establishment of a formal securities market. The National Bank of Ethiopia and the Justice and Legal System Research Institute spearheaded the move for the creation of the securities market in the country as early as 1998 and 2001, and the latter actually came up with a draft Securities and Exchange *Proclamation* in December 2001, and tabled it to the government after incorporating some comments from the NBE and the private sector. The draft, unfortunately, did not materialise then. According to the NBE, it plans to finalise the study during the current 2010-2011 fiscal year. It has already included it in its action plan.

## Business Institutional Support

483 The CSAR states that the traders and manufacturers belong to regional and national chambers of commerce and sectoral associations which in turn form the





eighteen-member Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA). Eleven of the ECCSA's members are regional chambers of commerce and sectoral associations, (each representing one of the nine regions of the country, including Addis Ababa and *Dire Dawa*). Within the Ethiopian financial market there are three associations: (a) the bankers association,; (b) the insurers association; and (c) the association of microfinance institutions.

484 The CSAR also reports that professionals, including accountants, auditors, lawyers, economists, engineers and others in the fields of science and technology also have associations that often carry out professional research and information dissemination. Most of them (about forty currently) are coordinated and promoted by the Ministry of Science and Technology as required by the country's science and technology policy. There are, however, no institutions in the country catering for chartered accountants, auditors, and directors (professionals in these fields often obtain the service from abroad, through membership of ACCA, for instance).

485 In its effort to liberalise the economy and make registration steps easier and faster at the federal or regional level, the Government of Ethiopia introduced Proclamation No. 376/2003. Accordingly, the government issued the Council of Ministers' Regulation number 13/1997 which regulates commercial registration and licensing at the Federal Government level. The Ministry of Trade and Industry issues business licences for all types of business registrations including the renewal procedures. In the regions, the regional Trade, Industry and Tourism Bureaus, including the Transport Bureau in some regions, are the highest organs on policy matters relating to licenses and business registrations. Almost all regions have zonal offices in which the zoned Trade, Industry and Tourism Bureaus in each region accept applications for trade licenses in their respective zones, register businesses, and grant licenses for any commercial activity in the Zones.

### **Regulation and Supervision**

486 The CSAR notes that independent market regulators are in place for specific sectors. The CSAR presents a full inventory of regulators which includes the following:

- The National Bank of Ethiopia (regulates banks, insurance companies, and micro financing institutions);
- The Public Financial Enterprises Supervisory Agency (supervises state-owned banks and Ethiopian Insurance Corporation);
- The Ethiopian Electricity Agency (regulating electricity supply market);
- The Telecommunications Agency (regulating the telecom market);



- The Civil Aviation Authority (regulating the air transport and aviation service market);
- The Transport Authority regulating the road and rail transport services market;
- The Ethiopian Investment Agency (provides investment permits);
- The Ministry of Trade and Industry serves as provider of the general business registration and licensing services and as regulator of the businesses it licenses. It is also charged with investment promotion, expansion of micro and small enterprises, provision of services in trade, establishment of chambers of commerce and professional associations in the trade and industry sectors and provision of one-stop-shop service to investors.

487 In terms of effectiveness, the CSAR cites, for instance, the financial market regulator (the NBE) which has been active in its regulatory, monitoring and supervisory functions. It issues and enforces regulatory directives and supervises and monitors the financial market during their start up and operation more closely and frequently than the organs and regulators for the other sectors. However, Ethiopia is implementing all applicable Basel Committee Recommendations on banking supervision, and it is in the process of implementing Insurance Core Principles (ICP), and Microfinance Consensus Guidelines (CGAP), including the Exposure Guidelines for supervising Insurance Companies and Microfinance Institutions, respectively.

### **State Owned Enterprises (SOEs)**

488 The CSAR indicates that state-owned enterprises (SOEs) fall within the ambit of the Privatisation and Public Enterprises Supervising Agency. As part of its economic policy reform adopted in November 1991, Ethiopia initiated a privatisation programme. In order to direct and execute the privatisation programme, the Government of Ethiopia established, under the Ministry of Trade and Industry, the Ethiopian Privatisation Agency (EPA) in 1994, through Proclamations 87/1994 and 146/1998. In addition to leading the privatisation process, EPA was given powers to execute claims on ownership in respect of properties ceased by the previous Derg regime in 1975. This is provided for by Proclamation 110/1995 as amended by Proclamation 193/2000.

489 According to the CSAR, the participation of foreign investors in the purchase of the privatised state enterprises and the equity ownership of business organisations also was limited compared to the number of domestic investors. The foreign investors bought and invested in the 30 relatively large enterprises out of the 249 government enterprises that have been privatised over the last one and a half decades.



## Financial Sector Supervision

490 The National Bank of Ethiopia supervises the banks, insurers as well the microfinance institutions. The CRM team was informed that there are 13 commercial banks (see Table 2); 10 insurance companies and 30 microfinance institutions. Two more banks are expected to be registered by the end of the year 2009, bringing the total to 15 commercial banks. According to the NBE, the insurance industry is still nascent. Insurance companies include: Africa Insurance Company S.C (established 1/12/1994); Awash Insurance Company S.C (1/10/1994); Global Insurance Company S.C (1/1/1997); Lion Insurance Company S.C (1/7/2007) and Nice Insurance Company of Ethiopia S.C (1/9/1994). Most of the companies have only recently started to offer long and short-term policies.

491 The NBE monitors that financial institutions comply with the audit, financial and corporate governance guidelines that it has issued consistent with the IFRS and Basle I principles. The NBE approves the nomination of the Board of Directors of financial institutions and their codes of conducts and ensures compliance through regular review of their reports and inspection. The NBE also closely monitors that MFIs comply with the MF Consensus Guidelines of CGAP. However, due to its limited capacity, the NBE is not in a position to closely supervise all financial institutions, particularly MFIs.

## Taxation and Custom Administration

492 The Revenue Authority disclosed, at a meeting with the CRM, that the tax system is being modernised and the system's performance is improving. An annual growth of 20% for the last five years, mainly from international trade on average has been recorded by the Authority. Under the new tax system which is constantly being modernised, the process is simpler and small businesses are taxed on the basis of their turnover and no more on the value-added. As such, it introduces more equity among operators. Other measures recently introduced include the reduction of the tax registration and certification process from 2 to 3 months to one day, and the possibility of rescheduling tax payments up to 3 years. Several changes are being considered and will be part of the new tax law, such as the introduction of the VAT. Parastatals are taxed just like other corporations.

493 The principal taxes in Ethiopia are :

- *Income tax* - marginal tax rates range from 10% to 35% for both individual and business income
- *Corporate tax* – the rate is 30% for all corporate taxable projects



- *Turnover tax* – turnover taxpayers are those persons who are not required to be registered for value added tax because the total value of their yearly taxable transactions is less than 500,000 Birr. Examples are grain millers, contractors, etc.
- *Value Added Tax* - tax is levied at the rate of 15% on value-added at every taxable transaction and is transferred to consumers' expenditure. Value-added tax is charged on businesses whose total annual turnover exceeds 500,000 Birr per year.
- *Excise Tax* – this tax is charged on 19 locally produced or imported goods. The base for computation of excise tax is the cost of production in respect of goods produced locally, and cost, insurance and freight (C.I.F.) in respect of goods imported. The rate of tax depends on the type of goods produced or imported, and ranges from 10% to 100%.
- *Stamp Duty* - stamp duty is applied on specific instruments. Depending on the type of instrument, stamp duties tax ranges from 0.5% to 2%, for those instruments whose basis of valuation is flat; and from Birr 5 to Birr 350, for those instruments whose basis of valuation is value.
- *Withholding Tax* - Withholding tax is payable on import of goods and is set at 3% of the same cost, insurance and freight. In case of organisations having legal personality, government agencies, private non-profit institutions, and non-governmental organisations (NGOs), the amount withheld is 2% of the gross amount of payment.
- *Royalty Tax* - Ethiopia recognises patent rights and has established an office to execute laws on patents. A proclamation on breeders' right was also issued a few years ago. An entity receiving royalty payment is liable for 5% tax; and,
- *Dividend Tax* - A shareholder earning dividends is liable to pay 10% of the dividend as tax.

### **III. Findings of the CRM**

#### **Business Registration**

494 In its effort to liberalise the economy and make registration less cumbersome and faster at the federal or regional level, the Government of Ethiopia introduced Proclamation No. 376/2003. Thereafter, it issued the Council of Ministers' Regulation No. 13/1997 which regulates commercial registration and licensing at the Federal Government level. The Ministry of Trade and Industry issues business licences for all types of business registrations, including renewal procedures. In the regions, the regional Trade, Industry and Tourism Bureaus, including the





Transport Bureau in some regions, are the highest organs on policy matters on licenses and business registrations. Almost all regions have zonal offices. The zoned Trade, Industry and Tourism Bureaus in each region accept applications for trade licenses in their respective zones, register businesses and give licenses for any commercial activity in the Zones.

495 Stakeholders informed the CRM that business registration and licensing has improved remarkably in the last decade. The one-stop-shop put in place has greatly helped to simplify the process and cut down the procedures, time and cost of setting up a business. Registration does not take more than one day at regional level and just a few hours at federal level for foreign investors compared to over two to three months a decade ago. For example, under the Ethiopian Investment Agency one-stop-shop, an operational license is delivered in less than one day as opposed to 225 days six years ago and the labour permit is issued in one day as opposed to 58 days six years ago. Access to land does not take more than two weeks. This has translated into a significant increase in the number of approved requests for investment (particularly from foreign investors) from 37 in 2002 to over 1600 in 2008 and new sectors have sprung up, such as the horticulture floriculture. In total newly created enterprises stood at 38,000 representing over US\$55 billion.

496 Over the last decade and half, the Government of Ethiopia has adopted a significant number of codes and regulations that frame the activities of corporations. Overall, the measures undertaken have helped to significantly improve the investment climate and the business environment, both for foreign and local operators. In the last five years, a number of public institutions have been able to improve the quality of their services through regular assessment of the impact of existing regulations on investors and on corporations. Initiatives, such as the creation of the PSD-Hub, have also played a positive role in facilitating the dialogue between the private sector and the public authorities and in strengthening the role of private enterprises. This has significantly increased investments and contributed in no small measure to achieving sustainable GDP growth during that period.

497 Both the private sector and the government have harped on the need to revise the Commercial Code of Ethiopia as much has changed in the world of business since it was enacted in 1960, more than four decades ago. On behalf of the business community, the PSD-Hub is providing technical support to the Ministry of Justice (MoJ) to finalise the revision of the Code. In addition, an independent team of fourteen high level national experts deployed by the PSD-Hub has come up with recommendations and a position paper of the business community on the revision of the Commercial Code. The report, considered a valuable resource to both the MoJ in reviewing the Code and the private sector in its PPP dialogue, is being prepared for publication.



498 However, the raft of regulations and laws are disparate and are not contained in one single document that could serve as easy reference. The ongoing revision of the Commercial Code needs to take account of the existing diversity and offer a common legal framework to all businesses, be they public or private, small or large. The date of its consideration by the Government is yet to be fixed and the major amendments and changes that it will bring remain vague.

### Key Financial Institutions that Support Business Development

499 The Government of Ethiopia has taken several initiatives to address the financial resources needs of both publicly-owned and private corporations, including micro, small and medium-size enterprises,. Such initiatives include providing support to the National Development Bank in extending long-term loans to projects in agriculture and industry based more on their rate of return on investment than on collateral, and the budgetary support to MFIs and establishment of the Export Credit Guarantee Fund.

**Table 6: Commercial Banks in Ethiopia**

NAME OF BANK	BRANCH NETWORK	ESTABLISHMENT DATE
1. Awash International Bank	53	1 November 1994
2. Commercial Bank of Ethiopia	205	1 January 1963
3. Development Bank of Ethiopia	32	7 May 1970
4. Construction & Business Bank	27	10 August 1975
5. Dashen Bank	48	9 May 1995
6. Wegagen Bank	40	12 June 1997
7. Bank of Abyssinia	42	15 February 1996
8. United Bank	36	3 August 1998
9. Nib International Bank	42	2 July 1999
10. Cooperative Bank of Oromia	20	3 June 2004
11. Lion International Bank	17	3 October 2006
12. Zemen Bank	8	17 June 2008
13. Oromia International Bank	1	18 September 2008

Source: NBE website

### The Stock Market

500 Access to finance is a major challenge for the private sector, as it is in many other African countries. The CRM was informed that access to finance was



relatively easier for micro-businesses compared to medium scale enterprises. The creation of the stock market will help to address the needs of corporations and will diversify their funding sources. There is a real business potential for a stock market in the country. The CRM also noted the limited diversity of financial products tailored to the specific needs of the various components of the private and public corporation.

## **Business Institutional Support**

501 The CRM team had interactions with both the Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA) and the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA). Both Chambers of Commerce acknowledged that Government and the private sector have been making significant efforts to propel and stimulate private-sector development in Ethiopia. Reference was made to the PASDEP (2005/6-2009/10), the development strategy document of the government, as well as the SDPRP (2002/3-2004/5). Both documents gave prominence and recognition of the role of the private sector in economic growth and employment creation. This is particularly significant to the development of the private sector, given the country's historical past, where Ethiopia evolved through long periods of non-market economic systems. The team was informed that although the State decreased its weight, it has remained dominant. This tallies with the fact that privatisation is yet to be completed.

### **Commendable Practice 4: The Ethiopian Commodity Exchange. A Mechanism Tailored to the Needs of Small Producers.**

Ethiopia is predominantly an agriculture-based economy, the biggest grain producer in Africa. The traditional local markets are small because of narrow networks of buyers and sellers. The establishment of the Ethiopia Commodity Exchange (ECEX), in line with Arusha Declaration and Plan of Action on African Commodities of 2005, makes it possible for instance, for a trader in India to buy futures of the prized Ethiopian lentils. The ECEX hopes to create a safe and transparent agriculture market, where quality, delivery and payment are assured. ECEX integrates the entire "eco-system" related to the market, spanning the central trading system, warehouse delivery centres, product grade certification, clearing banks, an arbitration tribunal, a market information system linking rural sites, remote electronic trading centres, and a secure data centre to manage membership and market information. ECEX joins other African commodity exchanges in Kenya, Ghana, South Africa, Zambia and the Pan African exchange in Botswana in addressing an age old problem in African commodities. If managed well, the ECEX has the potential benefits of:



- Providing solutions to microfinance problems in Ethiopia.
- Providing an opportunity for Ethiopian small and medium scale farmers and local businesses to participate in organised trans-border business opportunities either as full members of ECEX, with permanent seats or limited members with one year renewable term. Thus, to think outside small businesses.
- Reducing transaction costs for small-scale farmers, who produce 95% of Ethiopia's output
- Providing vital marketing information to traders.
- Market based pricing systems and reducing market risks for small farmers.
- Setting the foundations for a securities Stock Exchange

502 The CRM noted the commendable efforts made by Ethiopia to ensure adequate regulation and supervision of corporations based on transparency and predictability principles. However, such regulations are not assembled in a form that would ease reference. Moreover, their implementation is partly hampered by the institutional capacity constraints of the ministries and agencies responsible, including in the financial sector. One of the major urgent issues that need to be addressed is the lack of national accounting and auditing standards. It is source of serious problems and mistrust between various key players such as private corporations and the Tax Administration.

### **Regulation and Supervision**

503 The CRM noted that there is a consensus that the enabling environment needs to be improved. While significant efforts have been made, much is still being done in terms of strengthening institutional foundation within the regulatory frameworks. The establishment of a level playing field, financial sector reform and the land tenure system should be speeded up. An example cited was the Commercial Code, whose revision was said to have initially started well but has since slowed down and its finalisation is still pending. Neither the date of its consideration by the Government nor the major amendments and changes that the new code will usher in were clearly stated.

504 From its meeting with the EPA, the CRM learnt that the first stage of the privatisation started off with the selling of small retail trade outlets and hotels as well as small-scale manufacturing and agro-processing enterprises. EPA used this step to sharpen its skills and experiences in privatisation. Only domestic investors were allowed to bid for 100% ownership interest. In subsequent





stages of the privatisation process, both local and foreign investors were invited to participate in either joint expansion or improvement programmes with the government or in acquisition of full ownership of the enterprises. The medium and large-scale enterprises were then privatised.

505 The CRM learnt that the privatised companies included standard hotels and restaurants, mines and manufacturing companies. A number of examples were cited : Lega Dembi Gold Mine (sold for US\$ 172 million); Coca Cola Factory (Birr 68 million); National Tobacco Enterprise (US\$ 35.7 million); Pepsi Cola (US\$ 16 million); St George Brewery (US\$ 10 million); Adwa Flour Mill (Birr 2.5 million) and Tana Supermarket (Birr 68 million) to name a few.

506 EPA informed the CRM team that because of the new procedures, the privatisation programme is picking up considerable pace after making steady progress between 2002 and 2005. Such new measures include reducing upfront payment from 50 to 38%, basing the estimation of the value of the company on its earnings and not on the price of its fixed assets, introducing deferred partial payment (up to 65% over a period of 5 years) and diversifying divestiture modalities, which currently include joint venture, leasing and management contract.

### **State Owned Enterprises**

507 A post-privatisation unit within the Agency provides technical support and advice to both privatised companies and SOEs when feasible. In this regard, the Privatisation and Public Enterprises Supervising Agency issues guidelines and directives and monitors their implementation. In particular, it monitors that privatised companies keep to the agreed business plan and the outstanding payments plan. The Agency also approves the strategic plan and the annual plan of each SOE, reviews its performance, issues guidelines and codes of conduct for the board of directors and appoints Board members. It also reviews and fixes the level of bonuses to be distributed.

### **Financial Sector Supervision**

508 The CRM was informed that EPA not only supervises SOEs but also plays a leading role in assisting them. It organises regular training for their managerial staff and boards of directors, and more particularly, it looks for strategic partners that will help improve their performance.

509 The CRM team noted the efforts being made by the NBE to strengthen financial institutions through adequate supervision and technical support when needed. However, the NBE is limited by its existing capacity and resources. The CRM noted



also the limited diversity of the financial products offered to corporations, which in turn affects the investment capacity of corporations. The team suggested cooperation with foreign partners, including from within the region, and called for the financial sector to be opened to partnerships and joint-ventures with foreign financiers.

### **Box 8: The PSD-Hub: A Mechanism Tailored to the Expected Economic and Social Role of the Private Sector**

The Private Sector Development (PSD) Hub was launched in January. The overall objective of the PSD-Hub is to contribute to the economic development of Ethiopia by improving and modernising the entrepreneurial environment and strengthening the capacity of the private sector to constructively contribute to the national dialogue on economic development. With the inception and build-up phase for the period 2005-2007 completed, the PSD-Hub Programme has now gone into the consolidation phase which will last for the three years, from 2008 to 2010.

The specific objectives of the Hub are i) to coordinate and prepare a series of PSD intervention projects for international financial support and ii) to coordinate and commission PSD-related studies to be used as an input in the dialogue with the government. The PSD-Hub is mandated to assist the business community to identify, articulate, develop and prepare intervention projects in each of these areas of action. The Hub further undertakes PSD-related research studies to provide inputs for the business community in its quest to engage in the PPP dialogues.

Annual National PSD Conferences, at which Board representatives of the business community, government agencies, development partners and other stakeholders participate, provide priority focus areas and overall direction for PSD Hub activities. For the Consolidation Phase, a Steering Board consisting of representatives of major stakeholders and partners has been established and fully delegated by the AACCSA Board of Directors to serve as the highest policy making and supervising body of the Hub. The Presidents of AACCSA and ECCSA co-chair the Board.

The First National PSD conference held in March 2006 identified six priority action areas in the context of the public-private partnership forum. These are: company registration, accounting and auditing standardisation, capital markets, finalisation of commercial code revision, competition and corporate governance. The Second National PSD conference, held in April 2007, endorsed these priority areas for the consolidation phase.

## **Taxation and Custom Administration**

510 The CRM noted that customs administration is being modernised as part of efforts to improve the business environment. The ASYCUDA (Automated System of Custom Data) system is now in place and it has speeded up the custom process, which has been reduced from two to three months to a few hours. However, due to the non-existence of national accounting standards that would lead inspection and control and because past practices in the tax and custom administration persist, taxation is still a source of recrimination among corporations.

511 The Revenue Authority, at a meeting with the CRM, disclosed that the tax system is being modernised and the system's performance is improving. An annual growth



of 20% for the last 5 years, mainly from international trade on average has been recorded by the Authority. Under the new tax system, which is constantly being modernised, the process is simpler and computerised and small businesses are taxed on the basis of their turnover and no more on the value-added. As such, it introduces more equity among operators. Other measures recently introduced include the reduction of tax registration and certification from 2 to 3 months to one day and the possibility of rescheduling tax payments up to 3 years. Several changes are being considered and will be part of the new tax law such as the introduction of the VAT. Parastatals are taxed just like other corporations.

### III. Recommendations

512 The APR Panel recommends that Ethiopia:

- Continue in its effort to step up private sector development. (*MoTI; Chambers of Commerce*);
- Develop expediently the Stock Market and create a bonds market in order to deepen and diversify financial instruments (*Ministry of Finance; National Bank of Ethiopia and Ministry of Trade & Industry*);
- Build capacity of regulatory institutions so that they can play their envisaged roles more efficiently (*All government ministries, National Bank of Ethiopia, Chambers of Commerce*);
- Consider opening up its financial sector for possible joint-ventures with foreign financiers to benefit from their knowledge and to strengthen its financial sector (NBE); and,
- Enhance PPP dialogue through existing framework (*Ministry of Trade & Investment and Chambers of Commerce*).

**Objective Two: Ensuring that Corporations act as Good Corporate Citizens with regard to Human Rights, Social Responsibility and Environmental Sustainability**

#### I. Summary of the CSAR

##### Human and Labour Rights

513 The CSAR states that almost all trade unions are weak and as such ineffective in collective bargaining, protection of workers and human rights and the benefits of workers are unperceivable. Instead, collective bargaining and agreements are



influenced mostly by employers. It cites irregularities in relations with workers as prevalent mostly in the flower industry where commercial flower farms exploit cheap labour in addition to displacing farmers. Health and safety standards for workers are often poor, and workers are dangerously exposed to toxins. They are neither supplied with protective clothing, nor sufficiently trained to handle harmful chemicals. According to the CSAR, these irregularities were a serious issue of contention between the ruling party and the opposition during the 2005 general elections. The Ministry of Labour is also reported to be making efforts to improve this situation through collaboration with Ethiopian Horticulture Producers and Exporters Association (EHPEA).

514 Ethiopia does not have a strong institutional mechanism for inspection of employers' compliance with work environmental, health and safety requirements. The CSAR also mentioned that the Ministry of Labour and Social Affairs is responsible for issuing health and safety directives. However, compliance assessments are not often carried out. Random cases have been reported and handled by the Ministry of Labour, which is now collaborating with ILO on three projects under the Decent Work Country Programme. Over the past few years, there has been a palpable and demonstrable commitment to labour inspection, through:

- Enhancing competitiveness and productivity in the floriculture sector through decent work;
- Promoting decent work in the cotton and textiles sector and making it competitive; and,
- Implementing a solid waste management project in Addis Ababa.

515 The CSAR observed that Ethiopia does not have competent institutions handling labour disputes even though the legal framework provides for it. Only three centres, Addis Ababa, *Adama and Bahir Dar*, have established labour benches; there is an appellate labour bench only in Addis Ababa. The CSAR states further that there are labour relations boards in Addis Ababa, *Dire Dawa* and in only six out of nine regions. Due to lack of specialised personnel and inadequate funding, cases take too long to be finalised. For instance, individual labour cases can take up to six months or longer even though the law stipulates that decisions should be made in two months, while collective labour cases may take two to four months instead of two months as specified by the law .

516 The procedure for embarking on strikes also makes it very difficult to stage a legal strike action as the party initiating the action is required to give advance notice to the other parties and the Ministry of Labour and Social Affairs. The reasons for the strike or lock-out have to be specified and both parties are expected to





make an effort to settle the dispute through conciliation, and ensure that the 30 days cooling-off period expires. The strike action must be supported by the majority of workers concerned voting at a meeting in which at least two-thirds of the members of the trade union are present.

## **Gender/ HIV/AIDS**

- 517 The CSAR alludes to the fact that an increasing number of socially-conscious private sector operatives are starting to show interest in gender and HIV/AIDS issues. It also states that Government has responded positively by mainstreaming both these issues. The CSAR cites the example of ELICO, one of the companies under MIDROC Ethiopia Investment Group that initiated HIV/AIDS prevention measures before the joint corporate response initiative was started. Since the late 1990s, ELICO has undertaken a variety of measures, which include: (a) formulation of guidelines for the prevention of AIDS by the Occupational Safety and Health Service Unit;(b) establishment of Anti- HIV/AIDS Club; (c) collection, preparation and dissemination of leaflets, magazines, and newsletters related to AIDS; (d) formation of mini-media and conducting educational programmes during tea breaks; (e) organising educational programmes offered by professionals and people living with HIV/AIDS; (f) provision of voluntary counselling and testing services; (g) provision of medication and financial support to HIV-positive employees and AIDS affected employees' families; and (h) providing jobs to young adults orphaned by HIV/AIDS.

## **Social Responsibility**

- 518 According to the CSAR, no code of corporate social responsibility exists as yet and there are no requirements for corporations to report on social and ethical issues. Equally, there is no corporate social responsibility policy and the concept of CSR is fairly new in the country.
- 519 However, the Ethiopian Horticulture Producers and Exporters Association (EHPEA) issued a voluntary code of practice for sustainable flower production in June 2007. So far, businesses are only required to meet their legally stipulated reporting responsibilities (generally limited to financial reporting). There is an encouraging development where the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) has taken the initiative to develop a corporate code of ethics as part of the larger corporate governance framework being put in place for possible adoption by businesses in the private sector.

- 520 The CSAR also mentions the fact that most businesses in Ethiopia are generally small family undertakings and the number of companies owning shares is quite limited. Though there are some encouraging signs among a few corporations



in social responsibility activities, the level of direct involvement by most of the private sector in such activities is still at a very low level.

521 The development of the corporate governance framework is being handled by international experts and it was envisaged that it would be available for adoption by local businesses by the beginning of 2009. The CSAR also gave the examples of a few corporations that have performed creditably in the area of CSR. It refers to the 2005/2006 Annual Report of Ethiopian Airlines which indicated that the company participated in CSR activities in the areas of health, education, sports, women empowerment and environment. MIDROC is another company also cited in the CSAR as having contributed to the development of its host community by financing different projects, such as the Shakisso Clean Water Project and the Zewditu Memorial Hospital Patients' Waiting Room; it also contributed to the construction of churches, mosques, schools and administrative offices.

### **Environmental Responsibility**

522 The CSAR gives comprehensive information on this aspect. It states that environmental protection initiatives are in place. In fact, the law now requires an environmental impact assessment (EIA) to be carried out before any project is undertaken and environmental audits during the life of the project. Projects which fail to control their emission will be forced to close down. As is the case in most aspects of corporate governance, there are challenges in implementation. No application of EIA requirements on projects is apparent. According to the CSAR, growing concerns expressed by communities over corporate activities are largely limited to adverse environmental impacts arising from agricultural and manufacturing activities in certain sectors. Toxic substances emitted from industrial activities in sugar, textile and tannery were specifically cited as heavy pollutants. The Soda Ash factory at Abjiata is singled out as an environmental hazard. Lake Abjiata used to be home to twelve thousand pelican couples, thousands of fish-eating birds, flamingos etc, but all that has disappeared now, reportedly as a result of the chemical imbalance caused by the production of soda ash.

523 According to the CSAR, a number of initiatives are in place to address environmental challenges. These include:

- EPA's environmental sustainability regulatory system as embedded in Phase One, and in the following approved policy documents; a) Environmental Policy; b) Conservation Strategies (5 volumes); c) Multilateral agreements (13); d) Urban Solid Waste; e) Environmental Proclamations; f) Industrial Pollution Prevention Regulations; g) Effluent and Emissions Standards; h) Audit of major projects requiring EIA



- Establishment of Regional Environmental Agencies in accordance with Proclamation No 299/2002
- A requirement by the Development Bank of Ethiopia that companies submit environmental clearance certificates for projects it is being asked to finance.
- Corporate initiatives supported by the Ethiopian Cleaner Production Centre to ensure cleaner production and waste minimisation. In 2005, five companies were issued with ISO 14001 certificates for instituting environmental management systems.
- Code of Practice for Sustainable Flower Production issued by the EHPEA

## **II. Findings of the CRM**

524 During the review mission, the CRM met several stakeholders from both the public and private sectors who demonstrated a good level of awareness of corporate social responsibility. However, this was more evident within the SOEs and larger business enterprises. Various programmes are regularly designed and supported, mainly in the areas of health and education. However, such support is not compulsory by law. This limits considerably the level of compliance by the majority of enterprises, particularly from the private sector, including foreign investors.

525 Although there is no corporate social responsibility policy in the country, larger corporations tend to have in place specific social responsibility initiatives. For instance, the Commercial Bank indicated that the Bank provides donations or direct financing to support orphans and pay school fees for children taken care of by senior citizens. However, the CRM team through interactions with business representatives confirmed the assertion made in CSAR that most businesses are small and therefore social responsibility is not a common practice among small and medium enterprises.

526 The Government of Ethiopia is in the process of revising the existing labour law to create a better balance between the need to ease conditions under which investors and employers are operating and the need to protect the rights of workers. However, according to several stakeholders, the current revision is not being conducted in a consultative manner. The existing rules guarantee and protect the rights of employees and workers. For example, while the Labour Proclamation provides enough details on compensation in case of industrial injuries, its implementation is hampered by inadequate qualified human and technical resources, particularly in the Regions.



527 The CRM was informed that the Government of Ethiopia is actively pursuing its gender mainstreaming policy and is taking affirmative action to ensure positive discrimination in favour of women. However, the result in the field is yet to reflect this move as the number of women in high position in both the private and public sector remains limited. The CRM witnessed this during the country consultations where women were marginally represented at most stakeholders meetings. The team was informed, in one forum, that this was due not only to the limited number of qualified persons, but also to socio-cultural impediments.

528 The Tripartite National Workplace HIV/AIDS Prevention and Control Policy is widely disseminated and has started producing the desired results in terms of education and awareness and attitude related to HIV/AIDS risk behaviours. However, available information indicates that only a few employers have specific policy to protect employees living with HIV/AIDS. On awareness and education programmes, corporate responsiveness is unequal, including among SOEs. While there is a general consensus and commitment to support HIV/AIDS programmes, only a limited number of corporations allocate resources for HIV/AIDS-related interventions and support HIV/AIDS Committees.

529 The CRM noted the efforts being made by the Government to promote sustainable environment growth. However, there is a lack of human and technical capacity to ensure compliance with existing rules and regulations and to ensure proper and timely reporting. In that context, the role of the media is essential and needs to be particularly strengthened. The experience of several other African countries and those in other developing regions in the world called for special attention to the potentially negative consequences of such degradations in terms of micro-climate changes, including in humid zones, affecting areas traditionally well-endowed with water and rain, drought and desertification.

### **III. Recommendations**

530 The APR Panel recommends the following:

- The capacity of labour institutions, in particular the Labour Relations Board as well as the tribunal of first instance, to be developed so that they can perform their responsibilities adequately (*Ministry of Labour, Trade Unions, Ministry of Justice*);
- Urgently put in place a National Social Responsibility Policy. An awareness programme on social responsibility to be developed and implemented, especially among MSMEs (*Ministry of Trade and Investment, Chambers of Commerce and Media*);





- Affirmative action towards gender mainstreaming to be stepped up. Specific measures to address the gender imbalances, both in public and private sectors, may include quota systems, education and awareness-raising programmes and capacity-building programmes for women; (*Ministries of Women's Affairs; Justice; Trade & Investments; Chambers of Commerce and Media*);
- Comprehensive programs to be designed and implemented to curtail the spread of HIV/AIDS (*Ministry of Health, Chambers of Commerce and Media*).
- Strengthen the EPA's environmental regulatory system and its enforcement mechanisms;
- Promote and support the adoption of codes of good practices by all sectoral associations; and,
- Develop affirmative action towards rehabilitating and protecting the environment, in particular, through full and accelerated implementation of the WEREDA of Environment Management Plans (under the PASDEP).

**Objective 3: Promoting Adoption of Codes of Good Business Ethics in Achieving the Objectives of the Corporation**

## I. Summary of CSAR

531 The CSAR describes the overall assessment of corporate integrity in Ethiopia in the context of the nascence of the corporate sector in the country. The business sector is predominantly family based. There is seldom separation of ownership and management. There is no stock exchange except for the membership based Ethiopian Commodities Exchange. As a result, corporate governance and ethical issues are localised. The CSAR expresses the nature of business in Ethiopia as an "insider" economy. Therefore, issues of corporate governance, business ethics and integrity have not forcefully appeared at the forefront as they have in other economies where separation of ownership and management is a much more common phenomenon. The CSAR indicates that Ethiopia has not yet gone corporate.

532 Several ongoing initiatives in the country, for instance, the PSD-Hub programmes hosted by the Chamber of Commerce (AACCSA) and supported by SIDA have contributed to arguments for sound corporate governance and business



ethics in the country. Other initiatives in this regard include the 7th BEN-Africa<sup>31</sup> ethics conference in August 2007 and subsequent formation of the Ethiopian Chapter, ethics awareness programmes run by government agencies and private companies including Ethiopian Airlines, Ethiopian Telecommunication Corporation, and MIDROC Ethiopia and the Federal Ethics and Anti Corruption Commission (FEACC). Although civil society is regarded as weak, the advent of private media is seen as a significant milestone in the anti-corruption drive. Currently, there is regular reporting on corruption cases, though this is also perceived as contributing to the apparent increase in corruption in the country. The 2008 Transparency International rating for Ethiopia was 126th out of 180 countries.

533 The CSAR described the nature of corruption in Ethiopian as private-to-private corruption where, unlike the more common norm where private sector bribes the public sector, in Ethiopia private companies award contracts to other private sector companies in return for bribes. Strangely, this type of corruption carries less condemnation than the public-private based corruption. The CSAR states further that corruption is accepted as a necessary cost of business. It makes a very interesting observation that greed is not the main cause of corruption in Ethiopia: people are sometimes forced to pay bribes to protect what is rightfully theirs as officials make undue claims.

534 The CSAR also alludes to the fact that the fight against corruption in Ethiopia is far from over and that the evils of corruption are unlikely to be stamped out any time soon. In the same breath, it also reports that the idea that corruption is winning the fight over Ethiopia, is a mentality that may serve as a self-fulfilling prophecy. One of FEACC's primary efforts has therefore been to change the attitudes of the public. According to the CSAR, Ethiopia's strategy to combat corruption is rooted in the belief that corruption is multifaceted and that the battle should be won first in the hearts and minds of the citizenry. For example, the CSAR cites that, in collaboration with the Ministry of Education, FEACC works with ethics and civic education clubs to nurture a new generation that is aware of its rights and ready to defend them as a way of stamping out corruption.

535 According to the CSAR, whistleblowers are continuously providing the FEACC with information on graft and corruption, and civil servants are fairly well-protected from recrimination and other negative consequences when reporting corruption. Whistleblowers can present their complaints about alleged corruption offences in person, by telephone, fax, and e-mail or by letter, and the FEACC does not disclose their identity without their permission.



## II. Findings of the CRM

536 Some stakeholders in Ethiopia felt that ethical behaviour in business is generally good. It was mentioned that due to the strong religious background, “doing good” is a way of life of many business players. The penalties levied by the law against corruption were also cited as deterrents from corrupt practices. Religious leaders highlighted that there were initiatives at the grassroots to educate and, hopefully, mitigate corruption. A contradictory remark was made in one of the meetings, that there was rampant corruption within the religious leadership.

537 There were mixed perceptions, however, on the nature of corruption in Ethiopia’s business sector. Stakeholders in the public enterprises believe that there is more corruption in the private sector stating that FEACC only targets the public sector and not the private sector. Examples cited were bribes given to private banking officials to provide loans. Stakeholders in the private sector enterprises cited corruption in the construction sector, particularly with regard to cement, which is supplied by a monopoly public enterprise. However, there was also an indication that perhaps with corruption being so deep rooted as noted in the CSAR, it had come to be accepted as part of the day to day practice<sup>32</sup>.

538 With regard to conflict of interest, stakeholders were confident that the legal and regulatory framework, such as the Commercial Code and Anti-corruption laws and Codes of Conduct, were enough to provide enough prevention and redress mechanisms.

## III. Recommendations

539 The APR Panel recommends :

- For continued discourse and surveillance on the subject, to build capacity of the FEEAC to be able to raise awareness and to drive Ethiopia towards a common appreciation of the ills of corruption so as to avoid complacency or denial. (*FEACC*); *and*,
- Develop special training to media on analysis of corruption issues (*FEACC*) *and protect them (Ministry of Justice)*.



**Objective 4: Ensuring that Corporations Treat all their Stakeholders including Shareholders, Employees, Communities and Suppliers Fairly.**

**Summary of CSAR**

540 The CSAR sets out, in broad detail, how the law protects shareholders in companies and SOEs, partners in partnerships and members of cooperative societies. It is stated that under Ethiopian law, partnerships and private limited companies could be managed by their owners and appointed managers whereas the affairs of share companies are taken care of by shareholders' meetings, boards of elected directors, employed managers and appointed external auditors. Ethiopian law does not recognise more than one class of shareholder (except for the limited partnerships and the share companies). Instead, it recognises one class of owners and provides for equal treatment of the owners by virtue of their membership (in case of the partnerships) or of their contribution (in case of the private limited companies and the cooperatives).

541 Governance of share companies is under the guardianship of shareholder's meetings, boards of elected directors, employed managers and appointed external auditors. Ethiopian law recognises voting and proprietary rights based on contributions in terms of cooperatives. In relation to share companies, the law provides that, where the company has several groups of shareholders with different legal status designations, all minority groups of shareholders must be represented on its Board of Directors. Shareholders representing up to 10% of the share capital of a company can call for a general meeting. Issuance of non-voting and preferred shares with preferred voting rights are prohibited.

542 The CSAR goes on to state that protection of shareholders has never been a major issue in that the ownership and management are essentially one and the same. The same applies to minority shareholders. Thus, the governance of companies in Ethiopia is highly concentrated. Protection of creditors is provided for through courts or the ombudsman but only for infringement of rights.

**I. Findings of the CRM**

543 The Commercial Code of 1960 provides for the protection of partners and shareholders as well as liabilities. In addition, the Code provides for the protection of creditors including debenture holders. Notable provision in the Code is Article 347 (1), which states that only members (shareholders) may manage the company effectively making shareholders responsible for the day-to-day management of the company. This is a departure from the "norms" in other jurisdictions in emerging and mature economies, where shareholders, particularly of large





and listed companies, are not actively involved in the day-to-day activities of the company. The practice in Ethiopia presents a somewhat skewed principal-agency relationship. Therefore issues of accountability and responsibility to shareholders and other stakeholders (consumers, employees and creditors) are not always prominent in Ethiopian corporate governance. There were mixed sentiments expressed by stakeholders concerning shareholders' management of companies.

544 Although the same Article of the Commercial Code provides for the appointment of directors and subsequent sections of the Code provide for the appointment of the chairman, general manager and secretary, the management of the company is the primary responsibility of the shareholders. Another phenomenon defined by the Code is that corporations themselves can be directors of other companies. In discussions, stakeholders concurred that there is sometimes confusion in the interpretation of this part of the Code, for instance where there is litigation. The CRM notes this and other outdated practices, and calls for an urgent revision of the Code to streamline it with international standards and practices.

545 The treatment of shareholders by corporations, which is normally discussed under this APPRM objective, takes a different tone in the case of Ethiopia. This obviously arises from the fact that the private sector in Ethiopia is nascent and, often, the people who invest in the businesses are the major decision makers and implementers of policies and strategies.

### **Suppliers/Creditors**

546 The Commercial Code of 1960 provides for the protection of creditors. Article 268 of the Code provides for settlement of creditors during liquidation of a partnership. In the case of companies limited by shares, Articles 502, 503 and 508, provide for the calling, protection and rights of creditors. Creditors and debenture holders of a private limited company are protected under Articles 552 and 553 during dissolution. Stakeholders were confident that the law provides adequate protection, however the enforcement of these provisions could not be sufficiently supported.

### **Consumer Protection**

547 There was a general lack of awareness of any integrated consumer protection policy among the stakeholders visited. The CRM was informed that consumer protection laws are addressed under a mix of civil law, criminal law, trade law and others. For instance, the Civil Code (1960) regulates contracts and extra-contractual liability; the Commercial Code (1960) regulates the various commercial transactions. Consumer protection is also provided for within the Monetary and Banking Protection (1994), Privatisation Agency Proclamation



(1995), The Licensing and Supervision of Insurance Business Proclamation (1994), Privatisation Agency Proclamation (1995) and the Copyright Law of 2003, among others. It was not clear what became of the draft Consumer Protection Law that the AHa Ethiopian Consumer Protection Association (AHA ECOPA) was reported to have worked on and which was based on United Nations Guidelines on Consumer Protection.

548 Stakeholders cited examples of consumer abuses in the areas of price escalations including subtle manipulation, lack of quality goods and services, the problem of alternative access to goods and services, and restricted bargaining positions. For instance, the supply of cement, which was sometimes scarce, often resulted in price manipulation. Reasons advanced for such abuses included: limitations of competition in cement production and in the oil and petroleum supply as well as in imports and distribution of fertilisers.

### **Intellectual Property**

549 The setting up of the Ethiopian Intellectual Property Office (EIPO) in 2003 was seen as a significant step in the right direction for the country. EIPO is responsible for all areas concerning intellectual property.

550 The EIPO's responsibility includes Patent Law, namely, the Proclamation on Inventions, Minor Inventions and Industrial Design. The law was enacted in 1995 and implementing regulations issued in 1997. The Proclamation offers four forms of protection, namely; Patents, Patents of Introduction, Utility Model Certificates and Certificates of Registrations of Industrial Designs. The purpose of this law is to create a favourable environment for local inventive and related activities to develop as well as to encourage the transfer and adoption of foreign technology.

551 The Protection of Trademarks and Service Marks was issued in 1986. The objectives are to centralise the deposit of local and foreign trademarks, to provide information on trademark ownership and right of use when disputes arise as well as information to government and individuals. A new law was enacted in 2006 bringing Ethiopia in line with international jurisdictions.

552 Copyrights are protected under the Copyright Law, which was enacted in 2004 to replace then archaic Civil Code of 1960, which did not protect performers, producers of phonograms or broadcasting organisations. The new law protects authors, works first published in Ethiopia, audio-visual works and architects. The copyright is protected for the life of the author plus fifty years, for fifty years for the rights of performers and producers of sound recordings, and for twenty years for broadcasting organisations rights.



### III. Recommendations

553 The APR Panel recommends that Ethiopia:

- Develop and implement awareness raising programmes on the commercial code, consumer protection and intellectual property, targeting all stakeholders; and,
- Set up a consultative body composed of representatives of shareholders, employees, communities and suppliers to promote dialogue among the concerned stakeholders and issue recommendations that will assist corporations develop and adopt codes of ethics.

## **Objective Five: Providing for Accountability of Corporations, Directors and Officers**

### I. Summary of CSAR

554 The CSAR affirms the corporate governance contention of separation of ownership from management, as provided for by the Commercial Code of 1960. The Code, currently under revision, is expected to address most of the issues under this objective. The CSAR states that the Code is expected to include provisions ranging from a requirement that companies keep a register of directors' shareholding in the company as well as other companies, directors' remuneration to a requirement that financial reports by share companies be published in official newspapers. The new Code will also specify in detail the duties and responsibilities of directors. There are also provisions aimed at preventing abuse of power by auditors, CEOs and board members, although, to date, Ethiopia has no record of litigation dealing with financial reporting except for a minor case dealing with remuneration.

555 Accountability of share companies is provided for through the legal requirement that all companies must prepare an annual audit of their accounts and submit annual reports to the shareholders. According to the CSAR, shareholders are entitled to annually inspect the company's records. Similarly, private limited companies are required to have their accounts audited when they have more than twenty shareholders. Shareholders are also entitled to an annual inspection of the records of a company with more than twenty shareholders. The CSAR states that management of the public enterprises is entrusted to boards and managers appointed by the government. The enterprises are accountable to sectoral ministries and the Privatisation and Public Enterprises Supervisory Authority (PPESA) and annual company audits are carried out by certified external auditors who are certified by the OFAG.



556 The absence of national accounting and auditing standards in Ethiopia is a major challenge for sound financial accountability. The CSAR gives an example of a study conducted on the audited financial statements of thirty five organisations comprised of seven banks (two state-owned), six insurance companies (one state-owned), two microfinance institutions, one privately-owned share company, and seventeen other state-owned enterprises, and two NGOs. The results showed serious inconsistencies and non-compliances.

557 The CSAR reports that there have been signs lately that banks are moving towards business viability and cash flow based lending. There is also a will to make sure that, as much as possible, financial and audited reports adopt international accounting and auditing standards, a practice that is already being exercised by share companies including those with international links. However, the CSAR acknowledges that implementation will not only be difficult, but also “unfair” to the SMEs that dominate the commercial enterprise sector of the country.

558 The CSAR also states that professional associations such as the Ethiopian Professional Association of Accountants and Auditors (EPAAA) and the Lawyers Association should be encouraged to be involved more in self-regulation practices by promoting code of ethics, and by researching and networking with international bodies working in the field of continuing professional development. There is a shortage of professional accountants, which then means that there are positions in the private and public sectors that are filled by persons with lower qualifications. The number of professionals is too small for an economy the size of Ethiopia. This weakens the supervisory and regulatory body (e.g. OFAG, EPAAA) from acting decisively in cases of non-compliance; except in the financial sector which is reported to be well regulated by the NBE.

559 Only boards of share companies are provided for by the Commercial Code. The number of Board members can range from three to a maximum of twelve as outlined in the Memorandum of Association of any given company. Corporate bodies are allowed under the law to become a director, but the Chairman of the Board can only be a person. A General Manager is not allowed to be a member of the Board under Article 348 subsection 4. However, the practice, especially within the financial sector, has been to allow General Managers to be voting members of Boards. According to CSAR, this has been a bone of contention. In SOEs managers are ex-officio members only. Board Members may be removed for good cause.

## II. Findings of the CRM

560 Discussions with various focus groups underscored the fact that the private sector in Ethiopia is small and the majority of private sector companies in





Ethiopia are family operated companies. Decision-making therefore tends to remain concentrated in the hands of the founder and may not always warrant the administrative costs of elaborate financial or non-financial reporting. This also means that accountability lines within the companies are short and direct. However, on the other hand, accountability of these companies to outside stakeholders tends to be obscure. This fact is compounded by the outdated Commercial Code.

561 The National Bank of Ethiopia monitors compliance with Proclamations 84 and 86/194, and regulates and monitors the banks and insurance companies. The NBE may issue directives on the duties, responsibilities and good corporate governance of the Boards of Directors of banks. The law does not allow an employee of a bank to be a chairperson of the Board of Directors of that bank or a director of any other bank.

562 The CRM also observed, in agreement with the CSAR, that senior government officials, including ministers, sit on and chair boards of directors of SOEs. In this way, accountability of SOEs tends to be challenged as the regulator and ownership roles of the state are not separated. In addition, the team believes that the corporate governance systems stand a risk of cross-directorships. The enterprises are accountable to sectoral ministries and the Privatisation and Public Enterprises Supervisory Authority (PPEA), which is an SOE itself. Relations between SOEs and Ministries and top political actors would therefore be too close. The team also perceives that this practice could give rise to conflicts of interest in the formulation of a number of policies, including regulation, competition and procurement. Many SOEs enjoy monopoly powers in their sectors.

563 The other risk identified by the CRM team concerning the boards of SOEs was that government officials, as civil servants, are not always familiar with the duties and responsibilities of directors. In some extreme cases, government officials might not be at all familiar with or even interested in the corporate sector and the business environment. For this reason, appropriate induction programmes to meet the specific needs of both the SOE and the individual officials would have to be conducted. Due diligence in sourcing individuals with relevant experience and skills would also have to be part of the board appointments. The team was not satisfied that these measures were in place.

564 In addition to the weak accounting and auditing regime in the country, the Mission also perceived risks of weak internal management systems and controls of SOEs going unnoticed in the SOEs. The CRM was informed that SOEs are excluded from the Auditor General's purview and sometimes hire their own auditors. This risk tends to be exacerbated by the cross-directorships, limited board



experiences and outdated regulatory framework. SOEs being major business players in Ethiopia bear the responsibility of being torch bearers for good corporate governance.

565 Interactions with stakeholders also highlighted the need for an Institute of Directors in Ethiopia. This would assist to ground directors on common good governance and standard of conduct. The challenge that faces Ethiopia in this regard is that, although the Commercial code provides for the fiduciary duties, the common law duties of duty of care skill and diligence lack guidelines. The standard of conduct of directors remains therefore low in the country and is left entirely to the integrity and mercy of the individuals. Given the experiences coming out of the global crisis, this is extremely volatile.

566 The CRM was informed that the Ethiopian Professional Association of Accountants and Auditors (EPAAA) has two tiers of membership namely, general members (Ethiopian Certified General Accountants or ECGA) and members in public practice (Ethiopian Certified Public Accountants or ECPA). The former are authorised to prepare financial statements while the latter perform audits for purposes of forming independent opinions. The qualifications for membership are according to rules and regulations established by its statutes. At present, membership is based on qualifications of individual applicants and their membership in other recognised bodies around the world. The office of the Federal Auditor General certifies both Accountants and Auditors.

567 In future, the EPAAA envisages conducting its own membership examinations. Both Ethiopians and resident foreign nationals are accepted as members. The ECPA requires 4 years of pre-qualification experience in auditing/accounting plus two years of practical experience in approved practising firms for purposes of acquaintances with the local laws and taxes. Certification for ECGA requires Bachelor of Arts degree plus eight years of relevant working experience. EPAAA was originally founded in 1972. It remained dormant during the administration of the previous government and was reactivated in 1992 with ten members in public practice. It now has about eighty members in public practice and about forty general members.

### III. Recommendation.

568 The APR Panel recommends that:

- Ethiopia explore the possibility of establishing an Institute of Directors, which would assist in standardising codes of conduct for directors and conducting development programmes. (*Chambers of Commerce; Privatisation and Public Enterprises Supervisor Authority; MoTI*).



# CHAPTER SIX

## SOCIO-ECONOMIC DEVELOPMENT

### 6.1 Overview

- 569 To achieve sound socio-economic development within the context of the APRM requires accelerated economic growth and targeted development which can reduce poverty and improve the standard of living of the people. This would require a people-oriented development framework, with the people fully involved in both its design and implementation. The framework should also emphasise the role of women in the development process. In this respect, gender mainstreaming is important in achieving sustainable socio-economic development and pro-poor outcomes.
- 570 As already stated in the earlier chapters of this report, the assumption of power by TPLF in 1991 marked the dawn of a new era in Ethiopia. Government's overarching objective since then has been to eradicate hunger and massively reduce poverty. Another key goal is to achieve equitable distribution of income and wealth, mainly through an agricultural development led industrialisation (ADLI) and by means of a broad-based participatory planning and programming process.
- 571 The ADLI and broad-based approaches to development have been laid out in the **Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06-2009/10)**. PASDEP covers all aspects of socio-economic development. It was preceded by the **Sustainable Development and Poverty Reduction Programme (SDRP)** which spanned the three-year period from 2002/3 to 2004/05. Although SDRP was formulated in the framework of Poverty Reduction Strategy Papers (PRSP) supported by the World Bank and IMF, it laid down the basis for structural transformation while restoring economic growth.
- 572 The PASDEP is a five-year (2005/06-2009/10) strategic framework that builds on the strategic directions pursued under SDPRP, but it also embodies some bold new directions, including a major focus on growth with particular emphasis on commercialisation of agriculture, private-sector development, and the scaling up of resources so as to achieve the MDGs.
- 573 The main objective of the PASDEP is to provide the directions for accelerated, sustained, and people-economic development, establish the foundation for the attainment of the MDGs by 2015 as well as Ethiopia's vision of becoming a middle income country.
- 574 The interventions span seven sectors : (i) agriculture and rural development; (ii) education, health, water and sanitation; (iii) road, urban development, (iv) private sector and trade issues; (v) gender; (vi) HIV/AIDS; and (vii) population. The last



three, gender, HIV/AIDS and population are cross cutting areas. In effect, PASDEP is explicitly linked to the MDGs and constitutes Ethiopia's medium-term plan for achieving the MDGs. Furthermore, it has been synchronised and aligned with the longer term MDGs timeframe.

575 The eight pillar strategies of the PASDEP are:

- Building all-inclusive implementation capacity;
- Providing a massive push to accelerate growth;
- Creating the balance between economic development and population growth;
- Unleashing the potentials of Ethiopia's women;
- Strengthening the infrastructure backbone of the country;
- Strengthening human resource development;
- Managing risk and volatility; and,
- Creating employment opportunities.

576 In relation to the number of sectors covered, the PASDEP is more comprehensive than the SDPRP as it includes sectors that were not adequately articulated in the SDPRP, such as tourism, small and medium-enterprise development and job creation, urban development and construction.. It has also articulated policy and institutional innovation in agriculture and rural development, rural-urban linkages, and pastoral development, and spatial dimensions of the growth strategy.

577 With the implementation of these plans, extraordinary strides have been made in the provision of public goods and services as a strategy for empowering the people of Ethiopia and spawning socio-economic development. Ethiopia has achieved rapid growth with measurable positive human development outcomes. This has been accomplished through prudent macro-economic management and innovative policy interventions, particularly with respect to primary and secondary enrolment, infrastructure development, increased agricultural productivity and improved food security.

578 Although available statistics are dated, the proportion of poor people nationally (poverty head count index) declined substantially between 1999/2000 and 2004/5. The 2004/05 poverty head count index stood at 38.7% and was 12% lower than the index for 1999/2000. The decline in poverty at the national level was more of a reflection of the decline in rural poverty. In rural areas, the poverty head count index fell by 13% from 45.4% in 1999/2000 to 39.3% 2004/5. In urban areas, the poverty head count index actually increased over the ten years between 1995/96 and 2004/5, although it has been on the decline from 1999/2000 levels.





579 The strides made are particularly noteworthy in the areas of education, healthcare and the expansion of roads and related physical infrastructure. Due to the federal government's intense focus on education, gross enrolment of primary schools rose from 19 percent in 1990/91 to 91 percent in 2006/07, and with a major push to increase girls and women's education and participation in the workforce. Enrolment in public universities reached 172,000 students in 2008/09. Overall, public spending on education increased astronomically, by 170 percent in real terms in the decade between 1996 and 2006. Over the last seven years, 19.8 percent of public spending has been allocated to education.

580 The expansion of primary health care is also very impressive as revealed by the statistics, albeit dated, below:

- Access to health services reached 72% in 2004/05 from 52% in 2001/02;
- Under-five mortality rate dropped to 123/1,000 in 2005/06 from 167/1,000 in 2001/02 and infant mortality declined to 77/1,000 in 2004/05 from 97/1,000 in 2001/02;
- Maternal mortality rate also declined to 673/100,000 in 2005/06 from about 871/100,000 in 2001/02;
- Vaccination coverage has improved over the last five years, albeit marginally. The percentage of children 12-23 months fully vaccinated increased from 14% to 20% in 2005/06;
- Contraceptive prevalence rate reached 15% in 2004/05 as well;
- Over 10,500 new nurses, technicians, and front line health workers have been trained; and,
- Over 1,900 new health posts and centres have been built; and the proportion of the population living within less than 10 km away of a health post has increased from 51% to 64 %.

581 By 2007, health care services were accessible to 89% of those targeted by a 20 year plan. More than 17,000 of the targeted 30,000 female health extension workers had been trained and over 10,000 of the targeted 15,000 health posts have now been constructed. As a result, the proportion of the population living within 10 kilometres of a health post has increased substantially.

582 The fact that Ethiopia has committed 54% of public expenditure to social development is highly commendable. The challenge now is to demonstrate an equally aggressive pursuit of equity in the provision of these public goods and services.



583 Despite these achievements, there are still many serious challenges to overcome in this thematic area. Twenty-five years after the massive humanitarian operations that followed the devastating famine that killed about one million Ethiopians, droughts have become dangerously common as a result of climate change<sup>33</sup> ; this portends a tougher future.

584 In view of this, Ethiopia needs to look beyond the traditional 'band-aid' responses. There is already a widespread recognition, especially among government circles, that it is more sustainable and dignified to identify and tackle the *risk* of disaster rather than simply waiting for disaster to strike. However, disaster risk management at present remains small-scale. This has to change.

585 Other challenges include low income levels and the resultant low saving, high population growth, low productivity, a declining resource base and continuing food security pressures, and domestic(weather) and external(balance of payment) shocks. No less important is the issue of low levels of external finance flows for development and the unpredictability of such flows.

586 Commendable as the commitment to education has been, Ethiopia faces serious challenges in using education as an instrument of empowerment and for creating a more inclusive society. Two of the challenges already recognised by the government are the need to improve the quality of education and ensure greater access, particularly in areas that have been hitherto marginalised. Improvements in teacher training, introduction of more relevant curricula and measures designed to improve retention of students in school are being employed to address the challenge of improving education quality. The challenge of inequality of access to education is well acknowledged by the Ethiopian government. In several parts of the country, access falls well below the national average. In Afar and Somali, enrolment stands at 24% and 42% respectively. Enrolment also falls below the national average in Dire Dawa and many other places. Recognising the critical role of education in lifting people out of poverty, building bridges across social divides and strengthening an overarching identity, the Ethiopian government should accelerate efforts to create a more inclusive educational system.

587 Since the 1990s, Ethiopia has moved firmly to promote and protect the rights of women to participate in the country's political, economic and social processes - from the constitution to passing and revising various laws, proclamation of rural development, education, health, etc. Given the multidimensional problems that women face, there are still differences in historical and social roots in the number of socio-economic indicators between men and women- all of which demand

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Since 1984, Ethiopia has endured six national droughts but none has caused a famine as severe as the one 25 years ago. Climatologists have predicted that average temperatures in Ethiopia will rise by 3.9°C by 2080. Drought will soon be the norm, hitting the region in up to three in every four years in the next 25 years.



continued comprehensive actions. For Ethiopia to be successful in accelerating growth, human development and eradicating poverty, removing gender disparity and ensuring gender equality and women empowerment is critically important. Further, greater efforts are still required in implementing the various gender equity initiatives, particularly the National Action Plan for Gender Equity.

588 From the preceding discussion, it is clear that even though much has been achieved in promoting socio-development in Ethiopia, more efforts are still required. Commendably, the Government is building on its current successes to provide a springboard for economic development and poverty alleviation and has set out a revised 5-year RSDP that spans the period 2005/06-2009/10 as part of the country's overall development plan.

## 6.2 Standards and Codes

### I. Summary of the CSAR

589. The CSAR mentions ten standards and codes, as shown in the Table 7 below. However, the signing, ratification and deposit dates are not indicated for all of them.

**Table 7 Standards and Codes in Socio-Economic Development**

Standard or Code	Adoption date	Signature date	Ratification date	Deposit date
NEPAD Framework Document	2001	9 March 2003	9 March 2003	
Rights to Development in the African Charter on Human and People Rights including the Protocol on the Rights of Women in Africa	1981	1 June 2004		
African Charter of Popular Participation	1990		15 June 1998	22 June 1998
Declaration of the World Summit on Sustainable Development (WSSD), Johannesburg	4 Sept. 2002			
United Nations Millennium Declaration	UN General Assembly Resolution A/55/L2, Sept. 2000			
UN Declaration on the Right to Development	UN Resolution 41/128			
The African Charter on the Rights and Welfare of the Child	1990		2 Oct. 2002	27 Dec. 2002
Plan of Action of the World Summit on Social Development	1995			
Constitutive Act of the African Union	12 July 2000	12 July 2000	8 March 2001	9 March 2001
Convention on the Elimination of All Forms of Discrimination against Women (Beijing Platform of Action)	8 July 1980	8 July 1980	10 Sept. 1981	



590 The CSAR further indicates that “*there are problems of domesticating them as well as making them widely available in all languages*.” There is, however, no discussion in the CSAR either about these problems, or the relevance of these standards and codes to Ethiopia’s socio-economic development.

## II. Findings of the CCM

591 Although there is no detailed discussion of the ten standards and codes in the CSAR, they constitute a clear indication of Ethiopia’s commitment to people-centred socio-economic development. It is, however, worth discussing briefly whether the list is comprehensive and also, to what extent the standards and codes are relevant to Ethiopia’s development policy.

592 The CRM notes that the list should have included other important documents, such as the Programme of Action adopted at the 1994 Cairo International Conference on Population and Development (ICPD) and the Istanbul Declaration on Human Settlements agreed at the Habitat II conference in 1996. Also, while mention is made of the Constitutive Act of the African Union, the list of standards and codes does not include the seminal documents, such as the Abuja Treaty establishing the African Economic Community and the Treaties of such regional organisations as the Common Market for East, and Southern Africa (COMESA) and the Inter Governmental Authority for Development (IGAD). However, as it is well known, Ethiopia has, since the 1950s, championed the liberation and integration of the continent.

593 It was apparent, during the stakeholder consultations, that many Ethiopians are unaware of most of these conventions. Stakeholders informed the CRM that there has been no deliberate effort to disseminate the international and regional standards and codes already adopted and ratified by the Ethiopian Government. The general lack of awareness has implications for citizens’ ability to exercise their rights. For this reason, it is important that all stakeholders be well informed about existing instruments that Ethiopia has acceded to. Stakeholders would then be better to understand and appreciate their usefulness at national, regional, continental and international levels and their impacts, especially on programmes and projects that affect them directly.

## III. Recommendations

594 The APPR Panel recommends that Ethiopia:

- Undertake a compilation of relevant standards and codes and their status in terms of ratification ( Ministry of Foreign Affairs);





- Sign immediately and domesticate all outstanding standards and codes in the area of socio-economic development (Government of the FDRE and Parliament);
- Create easily-accessible databases on signed, ratified or domesticated standards and codes for proper follow-up and monitoring (Ministry of Foreign Affairs); and,
- Design a programme to disseminate information on signed, ratified or domesticated standards and codes and encourage their use in policy formulation, and in programme and project design and implementation. (Federal Ministries and relevant Bureaus in Regional States, Civil Society Organisations).

### 6.3 Assessment of the Performance of APRM Objectives

#### **Objective 1: Self-reliant Development Process and Capacity Building**

For Ethiopia to achieve this objective, it must own, develop, implement and fund its development strategies and programmes. Ethiopia regards itself as a pioneer in formulating development plans to manage its socio-economic development process in a structured manner as it strives to fulfil the needs and aspirations of its citizens. The CSAR, therefore, regards Ethiopia's development programmes, particularly SDRP and PASDEP, as home-grown, comprehensive and participatory in their formulation. The Millennium Development Goals (MDGs), according to the CSAR, have also been customised and well integrated into the country's National Development Policy Framework.

595 The CSAR provides detailed information on popular participation in the planning process by stating the various consultative fora that were organised at different levels to gather useful information for the preparation of the documents. The consultation process included a two-week parliamentary debate on the Amharic version of the PASDEP draft before finalisation.

596 The wide consultation process was also to ensure that the programme would respond effectively to community needs. As a result, the PASDEP monitoring and evaluation system has been made more result-oriented with a sharper focus on outcomes through the strengthening of weak links in sector monitoring systems, and by developing a monitoring and evaluation system for Agriculture and Rural Development.

597 The CSAR notes that financing of the PASDEP policy implementation is being guided by a three-year rolling Macroeconomic Fiscal Framework (MEFF), an



instrument for yearly resource allocation for medium-term national development plans such as the PASDEP. However, the CSAR stresses that the actual overall resource envelope is made up of domestic revenue and external grants.

## II. Findings of CRM

598 Ethiopia's attempt to domesticate its development planning is commendable. During the consultations, the CRM learnt that Ethiopia's self-reliant planning has evolved over the years. In 2001, donors set up a consortium under their Development Assistance Group in order to have better influence on the Poverty Reduction Strategy Programme (PRSP). The consortium agreed to prioritise issues and to go to the Government with a consensus and concrete remedies to problems. While respectful of national ownership, donors saw themselves as stakeholders because the aid they provided would likely be aligned with the PRSP. Ethiopia's Ministry of Finance and Economic Development came to an understanding with the consortium, considering that donors contribute more than one third of public expenditure. This move by the Ministry was to ensure both sustainability and ownership of the development process under the Group.

599 At Assosa, the capital of Benishangul-Gumuz Regional State, government stakeholders informed the CRM that the region has evolved a multi-level planning process. The process has socially empowered the people of the region, enabling bottom-up decision-making and flexible planning processes. The Region has its own 5-year strategic plan tied to the PASDEP. While the PASDEP presents the set of development policies and strategies for the entire country, the regional strategic plan focuses on the region's unique development needs. Similar planning occurs at the woreda levels where the people come together and identify their specific development requirements to be incorporated into the Regional plan.

### **Commendable Practice 5: Ethiopia's Ownership of its Development Planning Process**

Ethiopia's assertiveness in self-reliant planning was enhanced by its adherence to the Paris Declaration on Aid Effectiveness. This enabled the World Bank-sponsored PRSP framework to evolve into SDPPR, which is a domesticated poverty reduction programme that subsequently developed into PASDEP. PASDEP is, thus, considered by Development Partners as a domestically developed medium to long term national plan for both the Federal and Regional Governments. The Paris Declaration calls for a radical transformation of the delivery of aid and establishes a landmark achievement for the international community to align their systems to domestic systems, which brings together a number of key principles and commitments in a coherent manner. Ownership of the planning process has made it possible to cope with the persistent lack of harmonisation and alignment of policies, procedures and programmes among various donor countries and agencies despite the Paris Declaration on aid effectiveness. Donors still continue to use different policies and procedures, which could make aid delivery less effective.

Source: Compiled by the CRM, September 2009.



600 According to government officials, Government has taken appropriate steps to put in place a well structured, institutionalised, comprehensive and complementary monitoring and evaluation system that ensures effective feedback for immediate corrective action. In broader terms, the system involves the MoFED, the Central Statistical Agency, and Federal Line Ministries as a group with their respective sector-specific monitoring and evaluation systems. The CRM has observed that while the system has since 1996 been providing the necessary socio-economic data and information as feedback on the development plans in general and the status of the MDGs in particular, there is a lag in data dissemination.

601 With respect to funding, the CRM observes that the MEFF is a useful tool for resource allocation via the annual budget process as indicated in the CSAR. It however lacks sector specific details which need to be elaborated and translated into such tools as the medium-term expenditure frameworks (MTEF) used elsewhere in Africa and the developing world. Moreover, it is not supported by well calibrated macro-economic projection models, which tends to minimise its robustness.

602 Ethiopia's mobilisation of financial resources for development and growth has been impressive. Participating in this mobilisation have been exporters of goods and services, investors, NGOs, Ethiopians living and working abroad, and official donors. Resources flowing in from abroad have more than doubled, from US \$2.6 billion in 2001 to US \$6 billion currently. Government, including regional and local governments, has also played an important role. Its savings rose from 0.4% of GDP in 2002/3 to 5.2% in 2005/6, while its development management capacities have also been strengthened.

603 The Aid and Debt Policy and Strategy, formulated by the Ministry of Finance and Economic Development (MOFED) in December 2004, outlines the GoE's official aid policy. The bilateral and multilateral cooperation departments in MoFED are responsible for overall management and coordination of the aid, including interface with the donor community. To enhance its aid management, the Government of Ethiopia, in cooperation with its Development Partners, has adopted a new tool called the Aid Management Platform (AMP).

604 In line with the importance of aid in Ethiopia's budget and the move towards direct budget support, a new analytical instrument called the Joint Budget and Aid Review (JBAR) was launched in 2004. The JBAR seeks to evaluate spending on poverty reduction in the budget, looking holistically at government domestic resources and aid with a view to strengthening national capacities and ensure better consistency between the budget and priorities in the poverty reduction strategy. This has resulted in the country's effective control over donor aid.



605

However, some stakeholders expressed concern that the country's dependence on ODA may be a limiting factor to its ability to sustain self-reliant planning and the implementation of development plans. As Table 6.2 indicates, Ethiopia has attracted substantial ODA disbursements over the years, from about US\$ 370 in 1999/2000 to about US\$ 1.67 billion in 2007/08 or a total US\$ 8.85 during this 9-year period. The grant and loan components are 63.4 percent and 36.4 percent respectively, which is compatible with Ethiopia's Least Developed Country (LDC) status. It was noted, during consultations with stakeholders, those external financing accounts for 30 percent to 40 percent of overall capital expenditure.

**Table 8 Trends in ODA Disbursement to Ethiopia, 1999/00 -2007/08 (US\$ million)**

Source	1999/ 2000	2000/ 2001	2001/ 02/002	2003/ 2003	2003 /2004	2004/ 02/005	2005/ 2006	2006/ 02/007	2007/ 2008	9 Years Total
Multilateral	268.46	454.18	734.5	552.40	652.50	736.00	632.50	970.9	1096	6097.3
Bilateral	101.7	140.4	133.8	141.1	285.0	320.10	474.5	579.8	573.0	2749.40
<b>Total</b>	<b>370.1</b>	<b>594.5</b>	<b>868.3</b>	<b>693.5</b>	<b>937.5</b>	<b>1,056.1</b>	<b>1107</b>	<b>1550.7</b>	<b>1669</b>	<b>8846.7</b>
Grants	222.6	238.2	259.59	274.9	601.3	705.79	788.7	1256.5	1281	5608.3
Loans	147.5	356.3	608.7	418.7	336.1	350.2	338.7	292.8	388.1	3237.3
Grant to Total ODA (%)	60.14	40.07	29.90	39.63	64.15	66.84	69.42	81.10	76.70	63.40
Loan to Total ODA (%)	39.86	59.93	70.10	60.37	35.85	33.16	30.58	18.90	23.30	36.60

Source: Ministry of Finance and Economic Development, 200, PASDEP, Annual Progress Report 2007/08, March 2009, Addis Ababa.

606 In spite of the relatively substantial ODA amount, it represents only US\$ 27 on a per capita basis as compared to about US\$ 43 for Sub-Saharan African countries. ODA recorded in the table is, however, supplemented by food aid as a result of recurrent drought-related famine, particularly in the northern part of the country. Following the 1984 severe food crisis and the unprecedented mobilisation of the international community, a massive international-aid mobilisation effort for Ethiopia has been instituted by international organisations and countries. At the same time, the country is accelerating the implementation of ADLI, as highlighted during consultations with stakeholders. The CRM was informed that food aid is declining substantially.

607 Officials also pointed out that the need for ODA to supplement the country's initiatives is due to persistent current account deficits created by the need to meet the necessary level of investment to sustain the country's accelerated economic growth programme. They stressed that, though consumption and





gross capital formation grew substantially in the period 1999/00 to 2007/08, the growth was not sufficient to generate the sustainable level of investment needed. Using the 2006/07 fiscal year as an example, the officials pointed out that private consumption and government consumption grew by 9.8% and 6.1% respectively in that year, while the contribution of private consumption to real GDP growth was 8.6 percent and that of public consumption was only 0.7 percent. Following 15 percent growth in 2006/07 - after 20.5 percent growth in the previous year - gross capital formation contributed 2.8 percent to real GDP growth in that year. With a gross domestic savings ratio of only 6.0 percent of GDP, large capital inflows and corresponding current account deficits are required to fund investment.

608 The CRM notes that the more than tenfold rise in public revenue in the last 16 years is an encouraging indicator for reducing dependence on donor aid. Unfortunately, the rise is not yet in tandem with the spending requirements of the development plans. Furthermore, this revenue buoyancy has been short-lived and has declined in recent years to an extent that the tax revenue from agriculture, the main contributor to overall GDP, has remained below one percent.

609 Given this revenue trend, the CRM agrees with officials who suggested that the on-going domestic resource mobilisation effort, along with export expansion and mobilisation of Diaspora investment, should be intensified, to mitigate the impact of aid dependence in the medium and long-term. Moreover, addressing the huge domestic debt which mainly comprises short-term loans and treasury bills is obviously equally important for reducing aid dependence.

## II. Recommendations

610 The APR Panel recommends that Ethiopia:

- Mainstream the flow of administrative data that are essential for planning and policy analysis by eliminating the lag in data dissemination [Federal Ministry of Finance and Economic Development, Central Statistical Agency, and Regional Governments];
- Finalise the formulation and implementation of the National Strategy for the Development of Statistics (NSDS) under preparation [Central Statistical Agency];
- Accelerate the implementation of the Business Process Re-engineering (BPR) programmes being developed, to adequately leverage planning systems commensurate with the Federal character of the country, by linking national development plans to sub-national plans in a more coordinated and coherent manner [Government of the Federal Democratic Republic of Ethiopia];



- Consult with donors to harmonise and align their policies, procedures and programmes to enhance effective aid delivery ( Ministry of Foreign Affairs, MofED); and,
- Aim at reducing further dependency on external aid by expanding the revenue base through the promotion of non-traditional exports, and the strengthening of the production capacity of the major sectors of the economy [Ministry of Finance and Economic Development, Sector Ministries and relevant Bureaus in Regional States Governments].

## **Objective 2: Accelerated Socioeconomic Development for Poverty Reduction**

### **I. Summary of CSAR**

611 The CSAR stresses that the Government of Ethiopia is committed to poverty reduction. Accordingly, the Government's overarching objective is to achieve robust and pro-poor economic growth and wealth creation, in order to accelerate progress towards the Millennium Development Goals (MDGs) by focusing on human capital development, infrastructure expansion, capacity building, and the decentralisation of power to the Regional States.

612 The CSAR asserts that the effective implementation of the policies in the planning documents resulted in higher economic growth rates in the five years preceding 2007/08. This has translated into an increase in average real per capita consumption and significant poverty reduction, particularly in rural areas.

613 The CSAR states that despite these high economic growth rates and achievements, major structural challenges to accelerated socio-economic development still exist and need to be addressed, to ensure significant poverty reduction in Ethiopia. They include low levels of productivity in the agricultural sector, the economy's vulnerability to shocks, limited implementation capacity and inadequate human capital.

### **II. Findings of the CRM**

#### **Trends in National Poverty**

614 As indicated in Table 9, compared to 1999/2000, the poverty head count, poverty gap, and poverty severity indices have declined substantially. The 2004/05 poverty head count index is lower than the index for 1999/2000 by 12%, while the poverty gap and severity indices are lower by 30% and 39% respectively, indicating a substantial decline in poverty level during the five-year period ending in 2004/05. The decline in poverty levels is also much higher during the SDPRP period than the preceding period.



## Trends in Rural and Urban Poverty

615 Much of the decline in national poverty is attributed to the substantial decline in rural poverty. The head count, poverty gap, and poverty severity indices in 2004/05 for rural areas is lower by 13%, 31%, and 41% respectively than they were in 1999/00. The analysis indicates that there was a decline in the proportion of rural people who are below the poverty line and in the average gap of the poor from the poverty line and improvement in the distribution of income among the rural poor. In general, the significant decline in rural poverty is clearly attributed to the wide-ranging and multi-faceted pro-poor programmes that have been implemented in rural areas such as menu based extension programme to support commercialisation of smallholder agriculture, the Food Security Programme, and the recent Productive Safety Net Programme among others. The decline in urban poverty between 2004/05 and 1999/00 was only limited to the depth and severity of poverty.

### Trends in Absolute Number of Poor Population:

616 The decline in relative aggregate measures such as the poverty head count indices may not give a complete picture of the poverty situation over time, unless it is complemented by the trends in the absolute number of poor people and household income distribution. Overall, at national level, the absolute number of poor people declined from 28,063,909 in 1999/00 to 27,523,414 in 2004/05. In other words, from 1999/00 to 2004/05, the number of poor people declined by about 2%.

**Table 9: Trends in Total Poverty Indices at National Level and by Rural and Urban Areas**

Level	Indices			Changes in the Indices (%)		
	1995/96	1999/00	2004/05	1999/00 over 1995/96	2004/05 over 1995/96	2004/05 over 1999/00
<b>National</b>						
Head count index (P <sub>0</sub> )	0.455	0.442	0.387	-2.7	-14.8	-12.4
Poverty gap index (P <sub>1</sub> )	0.129	0.119	0.083	-7.7	-35.4	-30.0
Poverty severity index (P <sub>2</sub> )	0.051	0.045	0.027	-12.2	-47.1	-39.8
<b>Rural</b>						
Head count index (P <sub>0</sub> )	0.475	0.454	0.393	-4.4	-17.1	-13.4
Poverty gap index (P <sub>1</sub> )	0.134	0.122	0.085	-8.9	-37.0	-30.8
Poverty severity index (P <sub>2</sub> )	0.053	0.046	0.027	-12.9	-48.3	-40.6
<b>Urban</b>						
Head count index (P <sub>0</sub> )	0.332	0.369	0.351	11.1	5.9	-4.7
Poverty gap index (P <sub>1</sub> )	0.099	0.101	0.077	2.0	-22.1	-23.6
Poverty severity index (P <sub>2</sub> )	0.041	0.039	0.026	-7.1	-38.2	-33.5

Source: The 2007 Annual Ministerial Level Substantive Review of the Economic and Social Council (ECOSOC), Voluntary National Report, June 2007.

617 Without any doubt, Ethiopia has made considerable progress in reducing poverty but its socio-economic track record is not commensurate with its status as the oldest country in Africa. The UN Human Development Index (HDI) has consistently ranked Ethiopia as one of the poorest countries in the world. Ethiopia's position



of 169 out of 177 countries in 2007/2008 was better than the rankings of only eight other countries in that year. Furthermore, the Human Poverty Index for developing countries, which focuses on the most deprived in multiple dimensions of poverty, ranks Ethiopia 105 out of 108 developing countries, better than those of only three other countries.

618 The CRM observed that there is strong political will within the current administration to bring down poverty. The Government has taken commendable steps to tackle the poverty challenge by designing and implementing good policies. In this regard, PASDEP has the potential for enhancing poverty-reduction and accelerating wealth creation. The Plan's well articulated policies for the Federal, Regional and Woreda Governments can improve and broaden efforts to achieve the Millennium Development Goals (MDGs). The CRM is of the view that the Plan's tackling of non-income aspects of poverty and emerging challenges such as human resource development; the growth agenda; tourism; National Plan of Action for Women; and employment through the promotion of small and medium enterprises, is an effective mechanism towards the realisation of the MDGs.

619 Assiduous implementation of the Government's bold policies and strategies on rural development, food security, and capacity-building can enhance socio-economic development that will lead to poverty reduction and its ultimate eradication. PASDEP's identification of agriculture as the primary source of welfare, generator of surplus for development of other sectors and source of rapid export growth through production of high value agricultural products and greater commercialisation of agriculture is a step in the right direction, because agriculture is the greatest contributor to Ethiopia's GDP.

620 However, discussions with stakeholders indicate that, despite the effective marketing process of agricultural products engineered by the Government, there is limited capacity to deliver agricultural inputs to farmers. Also, the linkage between agriculture and industry has remained weak as reflected by the limited structural shift between agriculture and industry - a sector which still occupies a narrow base, contributing only 13.4 percent of GDP and about 8 percent of total employment in 2006/07. The CRM was informed that the National Policy Framework for Regional Development (NPF RD) – a central piece in the development process of the country – is yet to be implemented to minimise inter-regional and intra-regional disparities, enhance urban-rural linkages, and to place special emphasis on the spatial dimensions of regional development.

621 The CRM notes that, in the area of employment generation, the Government's investment and privatisation policies have the potential to enhance the achievement of the MDGs, by changing the role of government from running





business to creating a more enabling and conducive environment, strengthening the private sector and generating revenue. During interactions with stakeholders, they suggested that these policies and measures are already showing a positive impact on poverty reduction.

### **Commendable Practice 6: Ethiopia's Pro-poor Expenditure Pattern**

Ethiopia's pro-poor spending is noteworthy. Official data show that on average, over 90 percent of the Government's capital budget is allocated to enhancing pro-poor growth and developing social sectors such as Agriculture, Rural Development and Food Security, Roads, Irrigation, Water Supply and Sanitation, Education, Health and HIV/AIDS. The data also indicate an increasing trend in pro-poor spending, which rose from 43.3 percent of total public spending in 2002/03 to over 64 percent by the end of 2007/08, indicating an annual average of 56.3 percent during the six-year period as a share of GDP. Pro-poor expenditure also grew from about 6 percent to around 12 percent within the same period. Additionally, the Federal Government uses special grants to minimise revenue gaps between the Regions in order to foster effective implementation of pro-poor development programmes. The predictability of these grants enhances the Region States' ability to plan and implement such projects.

*Source: Compiled by the CRM, September 2009.*

- 622 An area of concern that needs special attention is the budget-allocation practice. Discussions in the Regions revealed that there is no definitive demarcation between the normal budgetary allocation for the sectors and the amount meant to boost poverty reduction programmes/initiatives.
- 623 Also, in some sectors such as education, a very large proportion of recurrent programmes expenditure is absorbed by personnel costs. The general implication is that it may be impossible to objectively and correctly assess how much is spent on these programmes and whether they have any impact on poverty alleviation. For instance, an observed improvement in the poverty level due to other factors may be attributed to any particular poverty reduction programme. The high personnel costs also suggest that very little of the budget is left for real services that will mitigate poverty.
- 624 Unlike in most African countries, there is very marginal youth rural-urban migration in Ethiopia. The CRM was informed that the majority of the youth live in rural areas. Stakeholders in Gambella attributed this phenomenon in their region to the dominant role of their cultural practices and way of life, which make their young people yearn to return to their roots even when they move to other parts of the country for education and training. Most of the youth are engaged in agriculture and in the informal sector where they make a living from small scale enterprises.
- 625 During the consultation, the CRM was informed that the Fiscal Decentralisation process and Devolution of Power are making inroads in poverty reduction.



Ethiopian Federalism involves the devolution of power from the Federal level to the lowest levels of governance. Since none of the Regional States are financially self-sufficient, the process is not only for sharing power, but also for solving socio-economic challenges through the sharing of resources.

626 The fiscal transfer from the Federal Government to the Regional Governments is done through a credible and transparent budget subsidy formula, which takes into account criteria for equity and efficiency. The predictability of the transfers, which is ensured by providing medium-term estimate and incorporating reliable budget figures of donor support, enables the Regional Governments and Woredas, echelons of the Regional Governments, undertake expenditure and revenue assignments within their competence to meet local needs and priorities. This practice narrows imbalances in the fiscal relations in the Federation, enabling even the emerging Regional States to meet some of their poverty reduction commitments.

627 However, the CRM observed that while the fiscal decentralisation is making these inroads there is a general lack of capacity to meet the requirements of fiscal decentralisation, devolution of power and a fast expanding economy, and this despite the existence of Regional Capacity Building Bureaus, a Federal Ministry of Capacity Building, and an emphasis on extending tertiary institutions which has seen the number of universities increase to about 22. One of the four emerging Regional States cited lack of capacity as a limiting factor in its ability to contribute effectively to Ethiopia's GDP. The CRM was also informed that given their large sizes, regional educational and health sectors are being constrained by lack of capacity.

628 Available data<sup>34</sup> confirmed to CRM the CSAR's assertions on high economic growth. The economy's annual average growth of over 11 percent in the last five years is well over the average GDP growth rate of 7 percent required to meet the MDGs. The growth is broad-based with significant contribution from agriculture.

629 While these trends in the performance of the economy are laudable, and even the envy of many countries, Ethiopia faces some critical economic challenges which can severely dampen its poverty reduction efforts. Official documents indicate a persistent inflationary spiral in recent years. End-of-period average general inflation from October 2004 to October 2008 increased from about 4 percent to 40 percent, and food inflation for the period rose from about 4 percent to 55.7 percent while non-food inflation jumped from about 3 percent to 19 percent. The worrying aspects of this spiralling inflation is the fact that it has taken place despite

<sup>34</sup> Ministry of Finance and Economic Development March 200. Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), Annual Progress Report 2007/08, Addis Ababa.



the government's fitting past policy measures to address the phenomenon, and the surge in food inflation has occurred despite four years of successive bumper harvests and unprecedented economic growth.

630 Discussions with stakeholders in one of the Regional States suggest that, except in the construction sector, the inflationary pressures are more an urban than a rural phenomenon because food is available in the rural areas. However, the UN Office for Coordination of Humanitarian Affairs (OCHA) indicates that rising food prices and localised crop failures have exacerbated Ethiopia's food security. In its weekly humanitarian situation report, the OCHA disclosed that an estimated 6.2 million Ethiopians would require emergency food assistance from September 2009 to February 2010; this would create a shortfall of 497,000 metric tonnes, or USD 401 million, in its reserves. The report further pointed out that this shortage compelled the Government and the World Food Programme to commence the fifth round allocation of cereals with reduced rations.

631 The high level of inflation has also attracted the attention of the IMF<sup>35</sup>, which has suggested that forceful policy tightening will be needed to reduce inflation and ensure that inflationary expectations do not become ingrained. According to the IMF, the measures introduced to mop up excess reserves in the banking system need to be complemented by strict limits on central bank advances to the government. This implies that determined fiscal restraint, anchored in a significant reduction in public sector domestic borrowing, will be crucial to these adjustment efforts.

632 Besides being a euphemism for reduction in pro-poor spending, these measures have the potential to exacerbate the critical problem of financing, which the 2007/2008 PASDEP Annual Progress Report identified as an issue that must be addressed for Ethiopia to realise its full potential as regards meeting and sustaining its poverty reduction programmes. As stated in Objective One, the country has been experiencing persistent declining current account and fiscal balances since 2004. Though the current financially conservative administration has taken measures to solve this problem, including stringent import controls and sharply reduced subsidies on retail gasoline prices, the largely subsistence economy is incapable of meeting the budget requirements for drought relief, an ambitious development plan, and indispensable imports such as oil.

633 The growth rates of 4.1 percent in Gambella, 3.0 percent in Benishangul-Gumuz, and 2.9 percent in Oromia and SNNP raise concern in meeting the MDGs. Stakeholders suggested that these high growth rates are the result of religious



practices and early marriages of girls despite the passing of a law that raises the marriage age of girls to that of boys. Overall, traditional behaviours seem to be the main causes of high fertility rates, which are in the range of 6 to 8 children per woman nationwide, according to data from the United Nations Population Division.

634 Undoubtedly, Ethiopia's rapid population growth creates a large supply of labour, because for every mouth there is to feed, there is, potentially, a pair of hands to work. However, it is an obstacle to developing an effective employment strategy for Ethiopia. It diverts resources from job-creating investment into providing basic services required merely to maintain existing standards for the rapidly increasing young population.

635 Stakeholders have also identified other negative effects of the high population growth on their communities, including falling average land holdings from 0.5 hectares per person in the 1960s to 0.11 hectares in recent times and increasing environmental fragility, making traditional farming practices unsustainable in some parts of the country.

636 The Government of Ethiopia is aware of these impediments and should be commended for taking positive steps to reduce the high population growth rates. It is expanding schools to the rural areas and encouraging girl-child education to prevent early marriage of girls, and to enable them make effective decisions on family planning. It is also promoting family planning through health extension programmes and by encouraging religious leaders and community elders to dissuade girls from early marriage.

637 Table 10 relating to MDGs reflects the government's commitment to reducing poverty. The table, derived from the PASDEP 2008 report, clearly shows that Ethiopia has been making noticeable steps towards achieving its MDGs targets. The proportion of people earning less than one dollar a day declined from 42.2 percent in 2000/01 to 36.5 percent in 2005/06 and the goal was to achieve a further decline of 7.3 percent by 2009/10 over the 2005/06 level. Furthermore, the proportion of children completing a full course of primary schooling rose from 61.6 percent in 2000/01 to 79.8 percent in 2004/05 and 91.3 percent in 2005/06, making the country's target of 109 percent increase over 2004/05 in 2009/10 a realistic goal. More details on the MDGs are presented in Objectives 3 and 4 of this chapter.





**Table 10 : Status of MDG Targets for Ethiopia**

MGD Goal	Indicators	2000/01	2004/05	2005/06	PASDEP Target End of 2009/10
<b>Goal 1:</b> Eradicate Extreme Poverty and Hunger	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	42.2%	38.7%	36.5%	29.2%
	Halve, between 1990 and 2015, the proportion of people who suffer from hunger		37.7%	35.6%	27.6%
<b>Goal 2:</b> Achieve Universal Primary Education	Ensure that, by 2015, Children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	61.6%	79.8%	91.3%	109.0% (% increase from 2004/05 base year)
<b>Goal 3:</b> Promote Gender Equality	Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015 (Girls/boys ratio)		0.87	0.90	0.97
<b>Goal 4:</b> Reduce Child Mortality	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	167/1000	140/1000	123/1000	85/1000
<b>Goal 5:</b> Improve Maternal Health	Reduce by two-thirds, between 1990 and 2015, the maternal mortality rate		871/100000	673/100000	600/100000
<b>Goal 6:</b> Combat HIV/AIDS, Malaria and Other Disease	Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	7.3% (Prevalence)		3.5% (Prevalence)	
	Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases (proportion of households in malaria exposed areas with 2 bed nets, properly utilised (%))		43	91	100
<b>Goal 7:</b> Ensure Environmental Sustainability	Have halted by 2015, the proportion of people without sustainable access to safe drinking water		42.0%	47.2%	87.0%
<b>Goal 8:</b> Develop a Global Partnership for Development					



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The above figures suggest, and this is confirmed in a recent Africa-wide joint review of progress on the MDGs by the UN Economic Commission for Africa (UNECA) and the African Union (AU), that Ethiopia could be identified as one of the few countries to have made significant progress in reducing child mortality in recent years. Therefore, the CSAR asserts that Ethiopia is well on target to meet MDGs for education and child mortality rates by 2015 and that with the infusion of adequate resources into on-going innovative programmes in health, Water and Sanitation sectors make their MDGs achievable.

### III. Recommendations

639 The APPR Panel recommends that Ethiopia:

- Accelerate the implementation of the National Policy Framework for Regional Development (NPF RD) to minimise inter-regional and intra-regional disparities and enhance urban-rural linkages; the government should also place special emphasis on the spatial dimensions of regional development (The Government of the Federal Democratic Republic of Ethiopia);
- Earmark a special budgetary allocation aimed at boosting poverty reduction programmes/initiatives separately from normal budgetary allocation for the sectors (Federal Ministry of Finance and Economic Development, Relevant Bureaus of Regional State Governments);
- Take additional steps to further involve Ethiopians in the Diaspora in the country's development process [The Federal Ministry of Capacity Building and Regional Capacity Building Bureaus].
- Take additional measures/steps to address high population growth rates. [Particularly Government of Federal Democratic Republic of Ethiopia, Regional State Governments].

**Objective 3: Strengthen Delivery Mechanisms and Outputs in Key Social Development Areas (Education and Health).**

### Summary of the CSAR

640 The CSAR states that the Ethiopian Government's overriding agenda is poverty reduction; emphasis is put on human development with Education and Health, including HIV/AIDS, as key vehicles in bringing about socio-economic transformation. For example, as shown in table 11 below, the share of education and health, including HIV/AIDS, in total public spending increased from 21.2 percent in 2001/2002 to 30.3 percent at the end of 2006/2007. Moreover, during the same period, the expenditure on capital projects as a percentage of total expenditure in these sectors also increased from 32.9 to 52.7 percent, thus underlining the sustainability of the Programme.



**Table 11 Spending on Social Sectors as Percentage of Total Public Spending (Percent)**

Item	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Pre Actual	2005/06 Pre Actual	2006/07 Pre Actual	2007/08 Budget
<b>Education and Training</b>							
Recurrent	11.6	13.8	12.4	12.1	13.3	13.8	12.9
Capital	4.8	8.0	8.2	7.7	8.5	9.9	7.0
Total	16.4	21.7	20.6	19.8	21.8	23.6	20.0
<b>Public Health</b>							
Recurrent	3.3	3.5	2.6	2.8	2.8	2.8	3.1
Capital	1.5	1.5	1.7	2.1	1.7	3.8	4.3
Total	4.8	5.0	4.3	4.9	4.5	6.6	7.5
<b>Grand Total Social Sectors</b>	<b>21.2</b>	<b>26.7</b>	<b>25.0</b>	<b>24.7</b>	<b>26.4</b>	<b>30.3</b>	<b>27.4</b>
Total Recurrent	67.1	65.3	59.1	53.8	52.0	48.3	47.3
Total Capital	32.9	34.7	40.9	46.2	48.0	51.7	52.7

Table 12 further shows that social expenditures as a ratio of Gross Domestic Product (GDP) increased from 5.3 percent in 2001/02 to 6.9 percent in 2007/08.

**Table 12: Memorandum Item: Spending as a Ratio to GDP at Current Market Prices (percent)**

Item	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Education and Training	4.1	5.1	4.8	4.6	4.8	4.9	5.1
Public Health including HIV/AIDS	1.2	1.2	1.0	1.1	1.0	1.4	1.9
Social Sectors	5.3	6.3	5.8	5.7	5.9	6.3	6.9
Total Public Expenditure	24.9	23.7	23.3	23.1	22.2	20.8	25.3
O/W: Total Capital Expenditure	8.2	8.2	9.5	10.7	10.7	10.8	13.3

641 The above tables underline the relative importance given to essential key social sectors. The implied pattern of resource allocation is based on policy frameworks that are briefly outlined below, in each of these key social sectors.

642 In 1994, Ethiopia adopted a comprehensive Education and Training Policy (ETP) that broadly aims at enhancing the equity, quality and relevance of education.



Specifically, as outlined in the CSAR, the overwhelming objective of ETP is to “improve the quality of education in general, expand access with special focus on primary education in rural areas, and promote child-girl education” The Policy also provides for free primary education for grades 1-10, while students from grades 11 to 12 and above are required to share in the cost of their education.

643 The ETP was implemented through the development of a 20-year (1997 to 2016) education development plan, which is a series of medium term education sector development programmes (ESDPs). ESDP III (2006/07 to 2009/2010) is currently being implemented. The ESDP has been broadened to encompass higher education, including Technical Vocational Education and Training (TVET) and tertiary education.

644 The ESDP covers all levels and areas of education, and it involves all levels of government (federal, regional, and local). The Federal Ministry of Education is responsible for setting and maintaining national educational standards and policies. Regional education bureaus mainly administer and manage primary and secondary education, junior colleges, technical and vocational schools, and teacher training institutions. They also provide technical and material support to the zones and Woreda education offices.

645 Specifically, the objectives of ETP are:

- Transforming and Enhancing the Relevance and Quality of General Education Subsystem (Grades 1-12);
- Transforming and Enhancing the Relevance and Quality of the Skill Formation Subsystem (all middle level of professions, below degree programmes);
- Enhancing the Relevance and Quality of University Education, Research, and Community Service;
- Female Participation;
- Education in Pastoral and Semi-Pastoral Communities and States; and,
- Expanding participation in Secondary Education.

646 Ethiopia has, undoubtedly, recorded notable successes in the implementation of the successive ESDPs. As indicated earlier in Table 10, primary school enrolment increased from 61 percent in 2000/01 to 71 percent in 2004/05 and 91.3 percent in 2005/06. The country was expected to achieve MDG 2 by 2009/10.

647 The CSAR also reports that enrolment in Public University Education reached 172 000 students in the academic year 2008/09, with an annual intake of 79500





students. The objective is to achieve a total enrolment in public universities of over 400000 over the next 5 to 6 years and increase the number of public universities to 31.

648 With respect to female education, affirmative action has enabled an increase in number by 21 percent per annum in general secondary education (9-10), 26.9 percent in preparatory schools (11-12) and 24.6 percent in TVET. In 2004/05, the proportion of female University student's enrolment reached 41 percent of the total.

649 The CSAR states further that, during the period 2002 –2008, primary education participation increased annually by 22.5 percent and 27.7 percent in Afar and Somali States respectively. This was the result of the originally-intended affirmative action in favour of these pastoral areas.

650 With regard to health, Ethiopia adopted and developed a 20-year Health Sector Development Programme (HSDP) for the period 1997/98 to 2016/2017. HSDP focuses on:

- Primary health care particularly in rural areas;
- Preventive care;
- Health Extension Programmes which concentrate on construction, equipping, and staffing of new health posts and centres, and improving training and skill development of health workers.

651 Special programmes were also developed and implemented. They include:

- A special Malaria Programme;
- A TB and Leprosy Control Programme;
- A focus on national child survival, concentrating on the illnesses that account for 90 percent of child deaths;
- A Blindness Prevention Programme; and,
- A Maternal Mortality Programme.

652 With respect to HIV/AIDS, the Government has formulated and implemented a Multi-sectoral HIV/AIDS Plan. The main components of the Plan include:

- Expansion of service delivery facilities and introduction of prevention programmes,
- Social Mobilisation Strategy against HIV/AIDS focused on sensitisation campaigns against HIV/AIDS, and,



653 • Supply of Anti Retroviral Treatment (ART) to AIDS cases.

653 Some account of the positive results in the health sector has already been provided in Table 10 relating to MDGs. The CSAR sums up the salient features of the outcomes of HSPD as follows:

- Access to health services reached 89 percent in 2006/07 from 33 percent in 1996/97;
- Under-five mortality rate fell to 123/1,000 in 2005/06 from 167/1,000 in 2001/02 and infant mortality rate declined from 97/1,000 to 62/1,000 during the same period;
- Maternal mortality rate also declined from about 673/100,000 in 2001/02 to 71/100,000 in 2005/06;
- In the framework of the special malaria programme mentioned above, more than 5.8 million insecticide treated bed nets were distributed in 2005/06 and the proportion of households with treated bed nets in malaria-prone areas increased from 1 percent in 2004/05 to 91 percent in 2006/07;
- The national TB treatment success rate reached 85 percent, in line with international standards;
- In terms of human and infrastructural capacity building in the framework of Health Extension Programmes, over 10,500 new nurses were trained and other health facilities have been built, thus increasing, substantially, the proportion of population in rural areas living not more than 10km away from a health centre; and,
- HIV/AIDS adult prevalence rate stabilised at 2.2 percent in 2003/04 and 2.1 percent in 2006/07. There is a more encouraging result among the young population (ages 15-24) with a substantial decline in the prevalence rate from 12 percent in 1997/98 to 8.4 percent in 2005/06.

## 1. Findings of the CRM

654 Generally, it can be stated that the relative good performance of the Ethiopian economy has, to a large extent, been translated into substantial progress in the key social sectors of education and health. The CSAR reveals that the major indicators in these two sectors have improved markedly in the past years, particularly since the launching of PASDEP. This was generally confirmed during consultations held with stakeholders throughout the country.



## Education

655 The Government of Ethiopia launched ESDP in 1997/98; the programme spans the years 2005/06 to 2009/10 and is now in its third phase. The anchor policy is to improve the quality of education, increasing access to educational opportunities with enhanced equity, equality and relevance. Some of the achievements recorded so far in this sector include:

- Government launched a major campaign to increase primary school enrolments, including the promotion of universal free primary education. The number of children in primary school increased from 8.1 million in 2001/02 to 12.6 million in 2005/06; this raised the gross enrolment ratio (GER5) from 61.6% in 2001/02 to 91.3% in 2005/06. GER for females increased from 52.2% in 2001/02 to 83.9% in 2005/06. For primary education, GER for children aged 7-14 increased from 51.2% in 2001/02 to 74% in 2005/06;
- Government is increasing spending on education, construction of schools, and textbooks. In particular, government spending on education more than doubled from 35 Birr per person in 2001/02 to 72 Birr per person in 2004/05;
- A greater shift has been made to community control over schools and resources, so villages and parents have more say in education and school management;
- Programmes have been initiated to improve the quality of education, including upgrading teacher training, revising the curriculum and textbooks, and improving English language teaching;
- Introducing special programmes to use information technology, computers, and television in teaching across the country; and,
- Ensuring that six regions have met the basic target of 1 textbook for each student.

656 Among the factors that contributed to the accelerated progress achieved in this period is the significant increase in the number of primary schools from 11,780 in 2000/01 to 16,513 in 2004/05. Other key factors are the fact that 80% of the constructed schools are located in rural areas and there is now increased awareness of the community towards girls' education. With the considerable success in raising enrolment rates, however, it is becoming apparent that enrolling in school is not the end of the story. The dropout rate has increased



significantly and has become a major challenge to policy makers, as they try to secure success in the sector. By the end of 2004/05, primary school dropout rate for females stood at 13.6%.

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With more children completing primary school, there is also increased pressure for more secondary schools so Government has simultaneously launched a programme to expand the number of secondary education places. As a result,, secondary school 1st cycle and 2nd cycle acceptance/enrolment capacity has increased from 860,645 and 45,671 to 1.01 million and 73,133 respectively. The GER for secondary school reached 27% in 2004/05 as well. However, with these successes also come new challenges. It has been difficult to keep up with the very rapid increases in the number of students and quality may, therefore, have been compromised in some instances. For example:

- The increase in the average number of students per classroom exceeds the carrying capacity of available classrooms;
- The number of teachers has not increased as fast as the number of students, so the number of students to each primary school level teacher has increased from 61 in 1993 to 67 in 2004/05, and the number of students in an average secondary school section has gone up to 77;
- High construction costs limit the number of new schools that can be built and the speed at which additional classes can be constructed, which is much slower than the rate of increase in number of enrolled students;
- Dropout rates are very high; absenteeism is also high and many children leave school before the end of year 5 (or even of year 1), so get very little education;
- Whereas enrolment ratios show an overall increasing trend, it is necessary to note that there is disparity among regions. In particular, the enrolment ratio of Afar and Somali regions are found to be low; and,
- Resource shortage and access to qualified teachers as well as problems related to management and implementation capacity.

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Government is working on these drawbacks, and is trying to find ways to hire more teachers and reduce construction costs. Special programmes were initiated to respond to the needs of rural and pastoral areas where it is more difficult for children to go to school. Accordingly, Alternative Basic Education Centres (ABECs) are being built to reach out-of-school children and children from pastoral areas. There are now 1.3 million children in ABECs. Moreover, efforts will be made to strengthen community and NGOs participation in the provision of





primary education and to increase the participation of women. Emphasis will also be placed on providing support to children with special needs.

659 With regard to higher education, enrolment capacity reached 40,440 in 2005/06 while the annual intake at the beginning of SDPRP was 16,600. This increased the number of students in the University from about 87,000 at the beginning of SDPRP to over 172,000 currently. The Government has given accreditation to 10 new private institutions and established 13 new higher education institutions, as well as upgraded existing ones. Cost-sharing arrangements under which students repay some of the costs of their education once they are employed has been introduced.

660 The number of Technical Vocational Education and Training (TVET) institutions increased from 17 in 1996/97 to 158 in 2003/04, and acceptance/enrolment capacity reached 94,592 in 2004/05.

661 Despite the above achievements, there are challenges, many of them already identified in the CSAR, that need to be addressed, so as to preserve and consolidate the positive results already achieved.

662 In the case of university education, the Government has greatly increased the number of Universities from only one (the Addis Ababa University) to 22 presently, with the objective that 70 percent of their programmes will be devoted to Science and Technology within five years. Two main issues featured prominently during the consultations with stakeholders.

663 While the CRM commends the political will to ensure that the education system is not elitist, it was observed that the rapid expansion of universities, both in number and types, (science and technology, social sciences) could be at the expense of quality. Although there is provision for inter-university cooperation, the teaching capacity of the universities may be inadequate to maintain quality education in all of them.

664 Overall, there is the possibility of seeing the gap widen between the teaching requirements of schools and universities and the availability of teachers in the fast-growing Ethiopian education system. For example, during consultations in the Harar Region, stakeholders observed that teachers have a tendency to shun serving in rural areas.

665 Another challenge within the education system is the rising number of university graduates. As the stated objective is to have a total number of 467,000 university graduates by 2025, there is need to ensure that they would be absorbed by the economy. In this regard, it was explained, during consultations with stakeholders that the ADL strategy would greatly help to expand the absorptive capacity of



the economy by ensuring that many university graduates would be self-employed in rural areas. In the Tigray Region, for example, the CRM was informed that 67 percent of trained students were employed.

- 666 In urban areas, emphasis will be put on self-employment through the promotion of micro enterprises supported by microfinancing institutions. In PASDEP, emphasis is also placed on the promotion of small and medium enterprises, particularly in urban areas.

## Health

- 667 Despite considerable progress witnessed in recent years, Ethiopia still has poor health outcomes even by sub-Saharan Africa's standards, characterised by many decades without a national health policy, weak healthcare system infrastructure and low government spending<sup>36</sup>. Crucially, Ethiopia has taken critical steps through policy and programmes to improve the country's health status.

- 668 In 1993, the Government published the country's first health policy in 50 years, setting the vision for healthcare sector development for the next two decades. The policy tried to reorganise the health services delivery system to ensure that it would contribute positively to the country's overall socio-economic development effort. Major aspects of this policy focus on fiscal and political decentralisation, expanding the primary health care system, and encouraging partnerships and the participation of nongovernmental actors.

- 669 To implement the policy, the Health Sector Development Program (HSDP) was developed in 1997/98, and a healthcare and financing strategy introduced in 1998. The program under HSDP-I covered the first five years (1997/98–2001/02) and prioritised disease prevention and decentralising health services delivery. The targets set in HSDP-I were not met and a new strategy, HSDP-II (2002/03–2004/05), was developed with an added aim of including NGOs in the implementation of a basic health package<sup>12</sup>. Pursuant of the health policy goals of improving the health status of Ethiopians using the cycle of the five-year term health strategy framework, HSDP-III was developed in 2005 to run through 2005/06–2009/10. This latest strategy stresses the need to increase national health spending, the strategic role of NGOs as partners in achieving universal primary healthcare coverage not only in planning but also in implementing healthcare delivery, particularly at the *woreda* level, and also emphasises the need to strengthen government-NGOs collaboration.



670 The health service system in Ethiopia is federally decentralised along the nine regions. The infrastructure comprises a total of about 14,000 health facilities which include 143 hospitals, 690 health centres, and 1,662 health stations of which 62%, 97% and 77%, respectively, were owned by the Ministry of Health. Five of the hospitals are central teaching institutions. The health posts are virtually entirely owned by the government. The differentiation of the various service levels is made typically by population size. According to calculations provided by the Federal Ministry of Health (FMOH), a health centre serves an estimated 25,000 persons, a health station 10,000, and a health post and private clinic 5,000.

671 In recent years, the national health delivery infrastructure has grown significantly. As shown in Table 3, the overall number of all facilities increased by 55% during 1996/97 to 2001/02. This rate of increase outpaced population growth and this is reflected in the improvement of the population-facility ratio. On the other hand, it can also be noted that the government-owned health facilities have decreased, while ownership by NGOs has risen during the same period. The trend results from a deliberate policy by the government to decrease its involvement at this level while focusing on health posts and health centres allowing NGOs to play a greater role, particularly here as represented by their exponential growth. NGOs provide financing and general (curative, preventive and rehabilitative) healthcare services, HIV/AIDS and reproductive health services in clinics and through health education. According to one source citing a household welfare survey on health utilisation, 3.3% of respondents reported using NGO services. The growth of the health infrastructure has raised the average national health coverage to 64%. Nevertheless, annual utilisation per capita remains very low at only 0.36 (36%) for the national average as at 2004.8 And while antenatal coverage grew from 34% in 2002 to 52% in 2007, supervised deliveries remained low at 7% and 19% in the same period.

672 Ethiopia has recorded improvements in many health indicators since the democratic government process began in the early 1990s. The health service system has expanded, overall and per capita health spending has increased significantly, and there is a policy and program for health improvements in the country focusing on expanding primary health coverage universally.

673 In addition to these improvements, there has been a significant increase in the number of human resources for health. For example, during 1997–2007 the number of nurses increased from just about 2,800 to over 18,000 and the country has moved from having the worst doctor-patient ratio in the world of 1:48,000 in 1999 to 1:42,000. Child immunisation coverage also increased from 30% in 2002 to 53% in 2007, while antenatal coverage rose from 34% to 52% during the same period. Overall, maternal and child health utilisation has increased marginally while child malnutrition has decreased steadily leading to notable improvements in IMR, U5MR and MMR.



- 674 Despite these advances and, given its rapidly increasing population, Ethiopia faces major health concerns. Constraints in the delivery of services include: the low number of health care facilities which are ill-equipped, unevenly distributed and dilapidated; an ineffective health care delivery system which is inefficient and biased towards the curative service; an undermocratic health care delivery system and management, which although decentralised at the regional level still relies on centralised policy making and budgets; an acute shortage of human and material resources; and inefficient utilisation of the available, while little involvement and participation of the private and NGO sectors as well as the beneficiary communities. In addition to these, some of the critical challenges in the healthcare system include: strengthening primary preventive healthcare through greater investments. this is extremely critical where more than 80% of common diseases, and the disease burden, are communicable and infectious..

## HIV/AIDS

- 675 HIV was first detected in Ethiopia in stored sera collected in 1984 and the first two AIDS cases were reported in 1986. Since then, HIV - AIDS has become a major public health and development problem and the Ethiopian government declared an emergency in 2002.

- 676 Ethiopia has a generalised HIV epidemic with some concentration in specific regions among population groups that engage in high-risk behaviour. Although the epidemic stabilised in urban areas in the mid 1990s and started to decline from 2000, HIV and AIDS still pose a threat.

- 677 The epidemic has stabilised with adult HIV prevalence estimated at 2.1% in 2007. The rural epidemic appears to be relatively widespread but heterogeneous with most regions having a relatively low prevalence of HIV but a few demonstrating adult prevalence greater than 5%. In general, HIV incidence is levelling off after declining over the last few years.

- 678 The National HIV/AIDS Policy was formulated by MOH and adopted by the Council of Ministers in 1998 with a subsequent update in 2007. The HIV/AIDS Prevention & Control Office (HAPCO) was established in 2002 after two years as the National HIV/AIDS Council Secretariat (NACS). It developed and implemented a 5-year national strategic framework (2000-2004), which focused on reducing HIV transmission, associated morbidity and mortality and impact on individuals, families and society.

- 679 The strategy was built on four issues: multi-sectoralism; participation; leadership; and efficient management, including adequate monitoring and evaluation (M&E). The Strategic Plan for Intensifying Multi-sector HIV/AIDS Response (SPM) (2004-2008) identified six strategic issues: capacity building; community





mobilisation and empowerment; integration of HIV and AIDS activities with health programmes; leadership and mainstreaming; coordination and networking; focus on special target groups; and creating one M&E system.

680 Several programmatic achievements indicated below are noteworthy:

- Between June 2004 and June 2007, HIV counselling and testing sites increased from 525 to 1005, PMTCT sites from 72 to 428, and ART sites from 32 to 272;
- The number of people tested annually for HIV has increased threefold, from 564 000 in 2004/05 to 1.92 million in 2006/07; which amounts to 60.6% of the annual national target;
- The number of PLHIV started on antiretroviral treatment increased sharply from 8 276 in June 2005 to 24 236 in June 2006, 97 299 in June 2007 and to 117 970 at the end of December 2007;
- Behavioural surveys suggest that awareness of HIV and AIDS among Ethiopians is high and that behavioural change is increasing. According to the 2005 DHS, 90% of women and 97% of men aged 15-49 have heard of AIDS. Condom use has increased from 30.3% to 51.9% among males and from 13.4% to 23.6% among females;
- About 160 000 OVCs and 35 000 PLHIVs are accessing psychosocial, educational, and nutritional services, as well as training and funding for income generation activities.

## II. Recommendations

681 The APR Panel recommends that Ethiopia:

- Step up inter-university cooperation within and outside the country, with a view to improving the quality of higher level education (Federal Ministry of Education and Bureaus for Education of Regional States Governments);
- Encourage cooperation between Universities and other higher learning centres and between potential employers in the public and private sectors, with a view to providing employment opportunities to the increasing number of university graduates (Federal Ministries of Education and Labour, Bureaus for Education and Labour of Regional States Governments, Private Sector Associations);



- Devise ways of supporting financial institutions, especially microfinancing schemes, to provide adequate and affordable resources to microenterprises as well as SMEs, especially those owned by University and other technical institutes graduates (MoFED and relevant Bureaus of Regional States Governments );
- Provide appropriate incentives to teachers serving in rural areas (Federal Ministry of Education and Bureaus for Education of Regional States Governments);
- Continue and intensify the free distribution of ART to HIV/AIDS patients (Federal Ministry of Health, Bureaus for Health of Regional States Governments, Weredas and Kebeles); and,
- Establish minimum equipment and staffing standards for health centres and ensure that they are adhered to (Federal Ministry of Health).

**Objective 4: Access to Basic Goods and Services (Water, Energy, Finance including Microfinance, Markets, ICT, Shelter and Land ) to all Citizens, especially the Rural Poor**

#### I. Summary of the CSAR

- 682 Within the key social sectors of education and health, the Ethiopian Government has identified water and sanitation, electricity, ICT and shelter as essential services which should be made accessible to the populace, particularly the poor. To that end, special water and electricity components have been included in the PASDEP, namely the Water Sector Development Programme (WSDP) and the Universal Electrification Access Programme. Telecommunications and ICT have been entrusted to the Ethiopian Telecommunications Corporation which operates as a commercial company.
- 683 The objectives of WSDP are to:
- Provide access to clean potable water over the coming years for the whole population;
  - Promote enhanced irrigation development in an integrated manner to contribute to economic growth and alleviation of poverty and food insecurity;
  - Emphasise and promote multipurpose development of water resources wherever applicable;



- Build capacity at different levels, particularly at sub-national level, where actual implementation is taking place;
- Focus on low-cost, affordable, and labour-intensive technologies;
- Improve sanitation outcomes;
- Focus on gender consideration while designing projects and programmes; and
- Provide high participation opportunities for females to benefit from construction works.

684 According to the CSAR, a medium-term approach to the WSDP aimed at improving access to clean water and developing small scale irrigation and hydropower was put in place in 2002/03. As a result, resources allocated to water resources development as a percentage of total public spending increased from 4 percent in 2001/02 to 6.1 percent in 2007/08. As a percentage of GDP, the corresponding figures are 1.1 and 1.2, respectively. These figures may seem relatively small but this should be seen in the context of a substantive increase in both total public expenditure and GDP because of good economic performance in recent years.

685 The progress achieved can be measured by the result of a survey conducted in recent years which showed a total of 52 percent of households having access to drinking water from either piped water (30 percent), protected well (11 percent), and protected stream (11 percent). The survey further revealed that 64 percent of households claimed to be near potable water sources, while 25 percent lived far away and 11 percent lived very far away from such sources.

686 Overall, the percentage of the population with access to water supply sources increased from about 47.3 percent in 2005/06 to 52.5 percent in 2007/08. However, there was only a marginal increase in the pastoral region of Somali (from 28 percent in 2005/06 to only 29.1 percent in 2007/08), while the performance of Afar, the other disadvantaged region (44 percent in 2005/06 to 53 percent in 2007/08) was above the national average.

687 The above picture was largely confirmed during consultations of the CRM with stakeholders in Addis Ababa and in the regions. For example, in the Oromiya Region, the CRM was informed that the population with access to drinking water increased to about 55 percent in 2007/08 from about 51 percent in 2006/07. However, this figure conceals a large disparity between rural and urban areas. In 2007/08, the proportion in rural areas was about 49 percent compared to 92.7 percent in the cities.



688 In the case of access to electricity, a major element of the electrification programme under the PASDEP was the launch of the Universal Electrification Access Programme (UEAP), under which over 6,000 rural towns and villages, or 24 million people, were identified for electrification in all regions of the country during a period of 5 years ending in 2009/10. Power generation technologies include large hydropower projects as well as environmentally sound small-localised off-grid power sources, such as photovoltaic solar and mini-hydroelectric power plants. The implementation of this major component of PASDEP was entrusted to the Ethiopian Electric and Power Corporation (EPPCO) which operates on a commercial basis.

689 Substantial progress has been achieved in the implementation of UEPA. The CSAR reports that, in the first three years of implementation (i.e. 2004/05 – 2007/08), the population with access to electricity increased (from 16 percent in 2004/05 to 33 percent in 2007/08), a commendable feat with the electrification of 1993 towns and villages in 2007/08, as compared to only 787 prior to 2004/05. Moreover, the implementation of the Programme has, to a large extent, taken into account regional disparities. The number of electrified villages and towns increased substantially for the disadvantaged regions of Somali (from 19 to 63), Benshagul Gumuz (from 7 to 58), and Gambella (from 6 to 28).

690 The above increase was made possible by substantial investment in hydropower generation. However, there are still 7512 town and villages not yet electrified and the UEPA's target is to serve 6 000 or more of them in the remaining period of the programme. In other words, about 1542 town and villages will remain non-electrified at the end of the Plan. This remains a major challenge.

691 Given the low level of household incomes, there is little domestic resource mobilisation to support the economy, particularly at *woreda* and *kebele* levels. Government has therefore placed emphasis on microfinancing. MFIs are required to play a prominent role in expanding financial services to low-income groups, small and micro entrepreneurs, small traders, and informal sector operators, especially in less developed regions. The supervision of MFIs is entrusted to the National Bank of Ethiopia.

692 The CSAR further reports that "PASDEP strategy also addresses the task of developing MFIs by encouraging the banking sector to lend to these institutions (and) to foster (their) role in intermediating financial assets in the rural areas". To that effect, a Rural Financial Intermediation Programme (RUFIP) managed by the Development Bank of Ethiopia was set up.

693 According to the CSAR, the government established a regulatory framework for microfinance institutions in 1996. Since then, more than 28 federal microfinance





institutions have been established in the country. One of these federal institutions has its headquarters in the Harar Region. Also, there are more than 100 branches of microfinance institutions in the Tigray Region.

694 Although the topic of markets is not specifically dealt with as such in the CSAR, the report states that availability of credit through microfinancing schemes is not the only binding constraint to market access. It is further stated that “linking markets with demand through roads and information flows, and increasing skills and education levels are equally important in many areas”.

695 One of the key policies underlying the Long-term Road Sector Development Programme (RSDP) aims at “providing community-based integrated village transport and travel services to reduce travel time and burden on villagers, especially women, to meet the expected increase in the movement of agricultural input and surplus of production”. Also, expansion of telecommunication systems which is briefly reviewed hereafter, should be seen as a contributing factor to expanding markets.

696 To underscore the above approach to markets, recent trends in road conditions, as reported in the CSAR, show that the stock in state road network increased from about 37000 Km in 2004/05 to over 44000 Km in 2007/08. The CSAR also reports that, according to the “Wereda and City Benchmarking Survey “conducted in August 2008, 40 percent of households have access to markets within a distance of less than five kilometres while about 25 percent have to travel five to ten kilometres.

697 The CSAR emphasises the expansion of the telecommunications network and services especially in support to rural areas as a major element of ADL strategy. In this regard, priority was given to providing basic telephone access in villages so as to enable farmers to get information on prices for their crops and livestock products. The objective was also to substantially improve the operations of local administrations and businesses. Considerable progress has also been achieved in the area of telecommunications and ITC

698 The CSAR makes no specific reference to the issues of shelter and land. With respect to housing and given its shortage, the Government established a Ministry of Housing and Urban Development and, subsequently, the Housing and Savings Bank with the joint responsibility for housing development and finance. The Government has also developed the Ethiopian Housing Cooperative to encourage Ethiopia emigrants to return and build homes.

699 The CSAR reports that the walls of most houses are constructed from wood and mud (65.2 percent) followed by stone (11.8 percent), mud and animal dung (7.5)



percent, and cement (5 percent). Other materials, such as building blocks, bricks, corrugated iron sheet and *Tukul* wall constituted only the smallest proportion less than 5 percent).”

700 On access to land, while addressing the issue of “Rural Women Access to Agricultural Land”, the CSAR stated that, as part of measures taken to ensure gender equality, Article 35/7 of the Constitution of the Federal Democratic Republic of Ethiopia indicates that women and men “have equal rights with respect to use, transfer, administration and control of land”. Land is therefore an integral component of the PASDEP.

701 However, it does appear to the CRM that the control of land is essentially the prerogative of regions. For example, during consultations in the Oromiya Region, the CRM learnt that:

- Land ownership is exclusively vested in the state and in the people of the region and shall not be subject to sale or other means of exchange;
- Private investors and any organisation, however, have the right to use land on lease or rental bases through legal process;
- Investors have the right to transfer land to third party and are entitled to compensation when the land is requested for public interest; and,
- The lease and rental price of investment land in Oromiya is different for urban and rural lands. There are therefore specific provisions for rural and urban lands.

## II. Findings of the CRM

702 As relates to other key social sectors of education and health, the CRM is of the view that the economic gains made by Ethiopia over the past several years have also resulted in a significant improvement in access by the population, especially the poor and those in the rural areas, to essential services as water and sanitation, electricity, microfinance, larger markets, telecommunications and ITC, and shelter and land. Moreover, as already discussed in the thematic area of Economic Governance and Management (EGM), as well as in Objectives 1 and 2 of this chapter, public investments, especially in infrastructure, were largely pro-poor, giving the poor easier access to these essential services, and contributing substantially to poverty reduction.



## Roads

703 The predominance of smallholder agriculture in Ethiopia underscores the importance of good access to markets and transhipment centres for the produce and for input supply. As Ethiopia faces food security problems, it is essential to have access to markets; road infrastructure and transport services in order to reduce isolation of communities, as well as create a link to regional and national markets.

704 Recognising the importance of road transport for national economic and social development, the Government of Ethiopia is placing high priority on improving road infrastructure. It has developed and is implementing a 10-year Road Sector Development Programme (RSDP) launched in 1997, the aim of which is to tackle the constraints of economic and social development arising from the inadequacy of infrastructure. It is doing this by creating adequate capacity in the road sector by constructing and rehabilitating the essential road network.

705 Some major achievements in the sector are listed below:

- Total country road network covers 39,477 km (excluding community roads) as of June 2006;
- During 2005/06, 429.5 km of rehabilitation and upgrading of primary roads, construction of 1945.7 km of primary and rural roads, and 33,302 km of community roads construction were completed;
- The road network density increased from 32.3 km/1,000 km<sup>2</sup> in 2001/02 to 35.9 km/1,000 km<sup>2</sup> by the end of 2005/06; and,
- The proportion of roads in good condition increased from 30% to 64% during the period 2001/02 to 2004/05. The target for the PASDEP period is to increase this to 84%.

706 From the above, it is clear that much has been achieved in developing road infrastructure in Ethiopia. The Government is building on its current successes to provide a springboard for economic development and poverty alleviation. Accordingly, it has set out a revised 5-year RSDP that spans the period 2005/06-2009/10 as part of the Government's overall plan. However, much still remains to be done. The main challenges to government effort are lack of adequate financing for the major investments required, ensuring continued maintenance, and the limited capacity of the domestic construction industry.



## Water and Sanitation

707 Visible achievements have been recorded in the sector. Access to clean water supply increased from 23% to 41.2% in rural areas and from 74% to 80.3% in urban areas during the period 2001/02 to 2005/06. At national level, access to potable water had reached 47.3% by the end of 2005/06. There has been an expansion of rural drinking water supply schemes with a total of 758 deep wells and 2,405 shallow wells constructed. Similarly, during the period under review, 50,267 new hand-dug wells, and 4,424 spring developments were completed. By the end of 2004/05, the total land developed through irrigation reached 62,057 hectares. Pre-design studies were initiated for small-scale irrigation of 8,293 hectares and medium/large scale irrigation of an additional 9,220 hectares. Finally, water supply systems were built or rehabilitated in 83 towns, benefiting an estimated 1.6 million people and studies or design work are underway for another 47 towns during PASDEP.

708 The challenges in the water sector include keeping rural systems operational and maintained, and financing the large up-front investment costs of city and town schemes. To address this, the Government is moving towards a system of organising communities to take responsibility for village water supplies and for commercialisation of urban water supply systems.

## Telecommunications

709 The major organ of government action in this area is the Ethiopian Telecommunication Corporation (ETC). The ETC has developed a strategic plan to tackle the challenges of bringing telephone connectivity to the wider public, particularly in rural areas and towns.

710 The CRM was impressed by the progress achieved in the area of telecommunications and ICT where there has been a substantial increase in fixed telephone lines, mobile phones and internet lines. According to the CSAR, phone and internet coverage had reached over 800000, 1.2 million, and 30000, respectively, at the end of 2006/07. Given the size and growth rate of the Ethiopian population, these efforts should be expanded to cover a larger number of people, especially by providing mobile phones in rural areas, particularly because of their impact on expanding agriculture production and marketing as an essential component of ADLI.

711 The telecommunication policy/strategy framework stipulates that the backbone infrastructure will remain in the public domain, under the auspices of ETC, while the private sector is encouraged to become increasingly involved in downstream activities and services. At the same time, the Government and the regulatory





authority will keep up sustained pressure to ensure that the ETC meets the highest service standards, attain roll-out targets and delivers world class network and service quality standards.

712 Several challenges exist in the infrastructure sector that would need to be borne in mind, although many of them have been brought out in the CSAR:

- As indicated earlier, resources allocated to infrastructure, though substantial in absolute terms, represent only a relatively small proportion of public expenditure. At the same time, there is a compelling need for a dramatic increase given the multi-purpose objective assigned to this area, in particular, agriculture production. It might be important to involve non-state actors to supplement the efforts of the Federal Government and the authorities in the region; and,
- There is a substantial gap to cover in terms of a relatively large number of villages still not electrified under UEPA. Fortunately, it is reported in the CSAR that the construction of five hydro electric power generation stations with a total capacity of “3,000 MW is underway. In addition, it may be necessary to explore other alternative sources of energy, particularly new and renewable sources of energy.

### **Commendable Practice 7: Ethiopia’s Approach to Microfinance and Access to Markets**

In response to the objectives of ADLI and the need to provide access to finance to small businesses and boost self employment, Ethiopia has laid great emphasis on microfinance by ensuring that microfinance institutions are established with responsibilities covering all regions. Thus, as reported in the CSAR, not only were a sizeable number of microfinance institutions established but they were given several ramifications in the regions to enable easy access by rural economic actors. Also, Ethiopia’s approach in linking market access to development to other areas (rural roads, agriculture production, rural electrification, telecommunications) is central in achieving the objectives set in ADLI, particularly for small farmers in regional states.

*Source:* Compiled by the CRM, September 2009

713 The CRM saw in Harar and other regions that significant results were also achieved, particularly in the provision of affordable housing.. There is, nevertheless, need for increased efforts with the participation of the private sector, whenever possible.

### **III. Recommendations**

714 The APR Panel recommends that Ethiopia:



- Substantially increase the share of water and sanitation in total public expenditures; (MoFED and relevant Bureaus of Regional States Governments);
- Give consideration to further involving non-state actors, especially Non Governmental Organisations (NGOs) in the area of water and sanitation; (Government of the Federal Democratic Republic of Ethiopia, relevant Bureaus of Regional States Governments);
- Explore further the contribution of new and renewable sources of energy to UEPA (Ethiopian Electric Power Corporation, Relevant Bureaus of Regional States Governments);
- Expand the reach of microfinance institutions among regions and encourage support from the banking sector (MoFED, relevant Bureaus of Regional States Governments);
- Expand telecommunications and ITC coverage, especially mobile phone coverage and, eventually, explore the possibility of involving private sector providers of such services (Government of the Federal Democratic Government of Ethiopia); and,
- Give consideration to further involving the private sector in the provision of affordable housing, especially in the regions; (Ministry of Housing and Urban Development, and relevant Bureaus of Regional States Governments).

**Objective 5: Progress Towards Gender Equality in All Critical Areas of Concern, including Equal Access to Education for Girls at all Levels**

**I. Summary of CSAR**

715 Since 1993, the Ethiopian Government has embarked on a policy that seeks to achieve gender equality through legislative reform, based on the international conventions it has signed and ratified. Subsequently, the 1995 Constitution has integrated women's rights in various areas of private and public life (e.g. personal relations, property rights, and labour relations).

716 According to the CSAR, subsidiary laws, such as those relating to family, criminal acts, pension and land, have been amended to reflect the provisions contained in the Ethiopian Constitution, and major government policies on education, health, HIV/AIDS have been mainstreamed.



717 As a strategy, the Government in 2006 adopted a National Action Plan Gender Equality (NAP-GE) over the 5-year period 2006-2010. NAP-GE, which is in line with the objectives contained in the PASDEP, has 7 seven priority areas including, education and training of women and girls, women health and reproductive rights, HIV/AIDS, and women in decision making.

718 Following the formulation of NAP-GE, the Ministry of Health and Women Affairs (MoWA), in turn, adopted, in 2006, the “Ethiopian Women Development Package (EWDp) which is intended to “generate reinforcing outcomes” of the strategy. The implementation of EWDp has positively impacted on the key areas of women’s education, health, employment, and participation in decision making.

719 With respect to education, the CSAR reported that national gender gap with respect to GER was 20.2 in 1999/2000, 12.9 in 2006/07 and 10 in 2007/08. The gaps for Net Enrolment Rate (NER) were 13.4 in 2002/03 and only 5.3 in 2007/07, reflecting lower dropout rates for girls than for boys. However, the gap widened to 13.4 for secondary enrolment rate because girls are often married between the ages of 14 to 16, especially in rural areas.

720 In the case of reproductive health, the CSAR reported that access to available facilities by women is constrained by such factors as poverty, illiteracy and delay in the construction of the required infrastructure. This situation is compounded by such traditional practices as early marriages and pregnancy, and violence against women.

721 The CSAR makes the same observation for maternal health. Fertility rate remains high since family planning is socially condemnable, particularly in rural areas. Maternal mortality is also relatively high due to difficult access to health centres in spite of the efforts referred to earlier to increase their number and make them as close as possible to users.

722 The HIV/AIDS prevalence rate for women was reported to be relatively high, in spite of free testing and preventive treatment of mother-to-child transmission, and free access to ARV treatment for all HIV/AIDS patients. However, the CSAR reports that efforts are under way, including increasing budgetary allocations at all levels (federal, regional, and local), mobilisation of resources, advocacy, as well as capacity building and dissemination of information.

## II. Findings of the CRM

723 The CRM commends the efforts by the Federal Government of Ethiopia to focus its gender policy on the multidimensional nature of the issues that confront women, who represent 51 percent of the population. Besides being among the



- first African countries to ratify the United Nations Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) referred to in the section on standards and codes, the Ethiopian government has ensured that the convention is fully integrated in the Constitution and that necessary pieces of legislations are enacted.
- 724 The Government has formulated several laws and policies to promote gender equality. Article 35 of the Constitution of the Federal Democratic Republic of Ethiopia clearly stipulates the rights of women. The government has also been promoting the mainstreaming of gender in all its development policies and strategies to address gender inequality.
- 725 The National Policy on Ethiopian Women was formulated and adopted in 1993 in order to address the challenge of gender inequality. National institutional mechanisms were established at federal, regional and Woreda (district) levels to implement the policy. The Women's Affairs Office was re-established as a full-fledged Ministry in October 2005 with the duties and responsibilities of ensuring participation and empowerment of women in political, economic, social and cultural matters.
- 726 The Labour Proclamation No 42/93 as well as the newly amended Labour Law 377/2004 stipulates that women shall not be discriminated against in employment and equal payment on the basis of their sex. It also prohibits employment of women in any type of work that may be harmful to their health. The Criminal Code/Penal Code was recently revised and amended to address the issue of discrimination against women and protect them from criminal acts such as rape, abduction, female genital mutilation (FGM), sexual exploitation and harassment, etc. The Criminal Procedural Code has also been revised and the first draft has been submitted to the Council of Ministers. The document has since been forwarded to Parliament for further comments and approval.
- 727 In terms of institutional framework, the Ministry of Women Affairs has ensured that all the other Federal Ministries have a Focal Point for gender. This has resulted in the achievement of key goals that are briefly outlined below.
- 728 The launching of the literacy campaign has provided women who could not have access to formal education with the necessary knowledge that impacted positively on their family life. Additionally, through such access, they were made to understand the importance of education for girls.
- 729 The CRM noted that the following concrete measures have yielded positive results that were highlighted in the summary of the CSAR with respect to girl education:





- Lowering cost for school enrolment for girls;
- Granting scholarships to the poor;
- Equality with respect to curriculum, books and teaching materials;
- Training of 30,000 teachers; and,
- Building of new schools.

730 The high dropout rates for girls at secondary level are essentially due to poor economic conditions, lack of school infrastructure, long distances that separate girls from the nearest schools, in addition to cultural practices such as early marriage referred to earlier. The situation is even more difficult in the disadvantaged pastoral regions.

731 Girls who reached higher education tended to choose curricula likely to qualify them for professions generally held by men and so represented 41 percent of students in technical and vocational education and training (TVET) schools. They are however confronted with various challenges such as sexual harassment and rape.

732 Nonetheless, there is low representation of women among the teaching staff of education institutions. Women represent 37.1 percent of primary school teachers, 11.4 percent, 16 percent, and 8.1 percent at secondary, technical and university levels respectively. The Ministry of Education has set up a programme to address these imbalances.

733 The government has also devoted the required attention to the issue of reproductive health by adopting a strategy aimed at addressing health conditions in mothers and adolescents that are poverty-related. The strategy focuses on decentralisation and seeks to reach disadvantaged regions. To that effect, 24534 women health workers were recruited and trained in rural kebeles.

734 The strategy has yielded encouraging results, some of which are highlighted below:

- Pre-natal and neo-natal coverage has reached 59 percent and 25 percent respectively;
- The proportion of women giving birth in a secure environment has reached 20.3 percent; and,



- The proportion of women using contraceptive methods reached 51 percent.
- 735 The PASDEP has specifically targeted women as major beneficiaries, especially in terms of capacity building, covering not only girls' school enrolment, health, access to essential goods and services referred to in a previous section of this chapter but also their full participation in the productive sectors, particularly agriculture and small businesses. In this regard, microfinance institutions are identified as essential instruments to support women.
- 736 The participation of women in the development process is also based on the Women Development and Change Package (WDCP), which is anchored around three objectives, which are to:
- Ensure that women benefit from the development process,
  - Promote participation of women in the fight against sexist practices and,
  - Ensure participation of women in the decision making process at all levels.
- 737 WDCP was translated into local languages and widely disseminated. Its implementation is being monitored by the Ministry of Women Affairs through field visits and public debates.
- 738 Preliminary assessment of the implementation of WDCP in rural areas, where women represent the majority of informal workforce, points to tangible results that were achieved, including:
- ensuring joint ownership of land by the husband and the wife,
  - giving priority to families headed by women in the provision of extension packages in rural areas,
  - facilitating access to credit by rural women in setting up and operating small business in rural areas,
  - introducing the eco-gas system for domestic purposes, and
  - introducing the concept of gender equality in the curricula of rural schools
- 739 In urban areas, the implementation of WDCP enabled women to establish microenterprises, as well as small and medium scale businesses but women remain victims of sexual harassment in both the public service and the private sector.



- 740 However, challenges still lie ahead. Ethiopia remains one of Africa's most tradition-bound societies. Despite recently introduced policy instruments and legislative commitments serving women's interests, a vast majority of Ethiopian women - particularly in rural areas - are far from being well-off, independent and direct beneficiaries of development initiatives. Following traditional socio-cultural installations and practices, women are considered inferior to men, both in family life and in society at large.
- 741 Female genital mutilation is prevalent in Ethiopia where around 80% of the female population are affected. The new Penal Code criminalises FGM by imprisonment of no less than three months or a fine of at least USD 58 (500 birr). Likewise, infibulations of the genitals is punishable with imprisonment of five to ten years. However, no criminal prosecutions have ever been sought regarding FGM.
- 742 Violence against women is a general problem in Ethiopia where culturally-based abuses, including wife beating and marital rape, are pervasive social problems. A July 2005 World Bank study concluded that 88 percent of rural women and 69 percent of urban women believed their husbands had the right to beat them. While women had recourse via the police and courts, societal norms and limited infrastructure prevented many of them from seeking legal redress, particularly in rural areas. The government prosecutes offenders only on a limited scale.
- 743 According to Ethiopia's Federal HIV/AIDS Prevention and Control Office, women in 2005 accounted for 55% of the 1.32 million people in the country living with HIV/AIDS. In addition, 54.5% of deaths from AIDS-related illnesses and 53.2% of new HIV infections occurred among women during the same year. *"Women are more vulnerable to HIV/AIDS in Ethiopia, mainly due to a lack of know-how and control over how, when and where the sex takes place, particularly in rural areas, where culture and religion dominate the rights of women."*
- 744 As in other African countries, Ethiopian women have little information on the AIDS pandemic and on the corresponding preventive methods. However, as narrated earlier, measures taken by the Ethiopian government to provide free testing and preventive treatment of transmission from mother to child have yielded positive results.
- 745 Interventions for women consist largely of ad hoc and unconnected stand-alone projects, which, if continued, will remain gender-neutral and ineffective in delivering benefits to women. The biggest challenge the regional governments face is that top-down activities do not reach women effectively due to lack of institutional capacity at the sub-regional level and because of lack of participation in delivery assistance services. Moreover, the development plans for women



were not demand-driven and, therefore, failed to recognise substantial variations across regions. This resulted in women being disconnected from all development interventions.

746 Children and women trafficking is also a major concern. The Federal Ministry of Justice has consequently set up a National Committee to deal with the issue of illegal movement of population. Poverty and ignorance are often constraining factors in the fight against human trafficking. The fertility rate remains relatively high, with contraceptive methods accepted by only 14.7 percent of women nationwide (47 percent and 11 percent in urban and rural areas, respectively).

747 Substantial resources were committed to financing contraceptive methods for reproductive health by both the Federal Government and the Regional States. Resources from the Ministry of Health amounted to US\$20.7 millions in 2007/08. A door-to-door approach was adopted at regional level for promoting family planning.

748 Maternal mortality rate is among the highest in Africa and the government has embarked on a number of corrective measures, including substantially increasing the number of emergency obstetrical centres to reach 962 in 2009 and training a large number of primary health care workers.

749 As a result, maternal mortality rate decreased from 871/100,000 in 2005 to 600/100,000 in 2008. The decline could have been greater had it not been for the relative remoteness of health centres from users, and the general reluctance of the latter to seek assisted birth.

750 The biggest challenge, however, remains the insufficiency of nurses. There are only 3000 in the whole country while the national requirement is ten times higher. In view of the little interest for this profession, the Ministry of Health has launched a training programme in collaboration with the Ethiopian Midwives Association along with a sensitisation campaign entitled "For A Risk Free Birth".

751 As in several African countries, Ethiopian women are poorly represented in political and public managerial positions. There are two women out of twenty-eight Ministers and only six out of thirty-nine Ministers of State are women. Also, women account for only 21 percent of parliamentarians as can be seen in the tables on the next page.



**Table 13a: Representation of Women in Federal Parliament**

	2000		2005	
	Male	Female	Male	Female
House of People's Representative	502	42	413	117
House of the Federation	110	7	91	21

Source: House of People's Representatives.

752 The number of elected women has however increased at regional level. In Oromiya women hold 199 of the 537 seats, in Tigray 76 out of 157 seats, in Afar 8 out of 82 seats, in Somali 5 out of 160 seats, in Harari 7 out of 36 seats ,and in Amhara 84 out of 250 seats. In Southern Nations, Nationalities and Peoples Region (SNNPR) women occupy 95 of the 347 seats.

**Table 13b: Representation of Women in the Executive Branch**

Positions	2000		2005	
	Male	Female	Male	Female
<b>Ministers</b>	16	1	20	2
Deputy Minister/State Ministers	12	4	30	5
State Ministers			30	5
Ambassadors	16	4	35	3

Source: Federal Civil Service Agency.

### III. Recommendations

753 The APR Panel recommends that Ethiopia:

- Popularise further, at federal, regional and local levels, the concept of gender equality at all levels (MoWA, relevant Bureaus of Regional States Governments);
- Improve the budgetary process to ensure increased resources are allocated to programmes for women at federal and regional levels (MoFED);
- Develop an all-inclusive approach to gender equality, involving the Federal Government and Regional States, civil society, as well as the traditional and religious communities (Government of the Federal Democratic Republic of Ethiopia, Civil Society Organisations);



- Promulgate the law on sexual harassment (Government of the Federal Democratic Republic of Ethiopia); and,
- Disseminate federal, regional, and local (wereda and Kebele) laws more widely, and ensure that they prevail over traditional and religious practice with respect to women (Government of the Federal Democratic Republic of Ethiopia, Regional States Governments, Civil Society Organisations).

## **Objective 6: Broad-based Participation in Development**

### **I. Summary of CSAR**

754 The Ethiopian Federal system, as detailed in previous chapters, is geared towards ensuring full participation of stakeholders in the development process at all levels (at the federal level, in the nine regions, and in the two Administrative cities of Addis Ababa and Dire Dawa). Depending on the responsibilities entrusted to each level therefore, , stakeholders participate in both the decision making and in the implementation of programmes and projects.

755 The CSAR indicates that the planning process, as reflected in the PASDEP, has been designed to be all inclusive in order to ensure that policies, programmes and projects reflect the priorities of the people, particularly at the local levels of rural weredas and kebeles. Specifically, the CSAR reports that 40 to 60 percent of public expenditures have been decentralised to weredas with the corresponding responsibilities for implementation of the local components of PASDEP.

756 It was however stressed that capacity, particularly human resources, remains a major constraint in making popular participation more effective. To that effect, 13 weredas were selected for a pilot project on capacity building for planning and implementation of programmes and projects.

### **II. Findings of the CRM**

757 The Ethiopian experience of decentralisation was instrumental in ensuring popular participation in the development process. As already discussed in the Chapter 3, the process of decentralisation implies that all nationalities and categories are represented at federal, regional, and local levels.

758 During an exchange of views with Ministers, the CRM specifically raised the issue of the role of NGOs in the development process. It was explained that NGOs involved in various areas of economic and social development are free to



operate at all levels. However, there are restrictions for NGOs involved in political advocacy. For example, the use of external resources mobilised by these NGOs is strictly controlled.

759 There are several NGOs that participate in the activities of the federal and regional authorities. They include the Teachers Association, the Association of Lawyers, the Association of Economists, the Association of Medical Doctors, and the Association of Women.

760 There is also a framework for public and private sector dialogue as discussed in Chapter Five. However, the CRM takes the view that not all private sector operators are participating in such dialogue and efforts should be made to make it more inclusive.

### III. Recommendations

761 The APR Panel recommends that Ethiopia:

- Strengthen decentralisation further at regional and local levels (Ministry of Capacity Building and relevant Bureaus of Regional States Governments);
- Provide a framework for increasing the contribution of the informal sector to overall socio-economic development and for expanding the role of NGOs operating in the economic and social sectors, They should be encouraged to participate in the implementation of programmes and projects in the regions and in the weredas and kebeles (Government of the Federal Democratic Republic of Ethiopia, Regional States Governments);
- Provide a framework for expanding the number of professional associations involved as resource bodies in the formulation of programmes and projects in their respective areas of competence (Government of the Federal Democratic Republic of Ethiopia).



## CHAPTER SEVEN

### OVERARCHING AND CROSS-CUTTING ISSUES

#### 7.1 Overview

762 This Chapter highlights some challenges emerging from this Country Review Report on Ethiopia. In line with the APRM rules, the first four chapters of the report reviewed the state of governance in Ethiopia within the framework of the APRM's four thematic areas: Democracy and Political Governance; Economic Governance and Management; Corporate Governance; and, Socio-economic Development.

763 This review is, therefore, in line with the APRM's four dimensional agendas on governance reiterated above. Accordingly, the APRM based its assessment of governance in Ethiopia on key principles which include national ownership and leadership of the process by the participating countries; inclusiveness and broad-based participation; accountability; technical competence; credibility; and, freedom from manipulation.

764 As has become the norm in the APRM assessments, the appraisal of governance in Ethiopia was informed by the CSAR, the Background Paper, and the Issues Paper prepared by the APR Secretariat. In addition, the appraisal made use of information made available to the CRM during the wide-ranging country consultations. The key outcome of the assessment is an increased understanding of Ethiopia's performance in governance, its strengths and weaknesses, and commendable practices from other African countries can learn.

765 The thematic review of governance in Chapters Three, Four, Five, and Six in this report shows that Ethiopia has made significant progress since the dawn of the political era in 1991 when the country embarked on major social and structural reforms to transform itself from a brutal military dictatorship into a modern society with a stable political system, supremacy of the rule of law, equal treatment of all people, and a thriving economy. The reforms have resulted in a major turnaround in Ethiopia in all the four APRM key of governance focus areas. The report shows that Ethiopia has, over the last two decades, established a relatively stable and viable political system, and attained macroeconomic stability, high growth and considerable social gains in health and education. This represents a major turnaround for a post-conflict country and offers valuable lessons to other countries. There is no doubt that if these trends continue, the Ethiopian economy will be transformed and will emerge from a monocultural economy into a highly and richly diversified one.





766 However, a number of challenges remain as the report has also revealed some obstacles to be surmounted in the four APRM thematic areas of governance in Ethiopia. These challenges continue to manifest themselves in form of overarching and cross-cutting issues.

## 7.2 Overarching and Cross-cutting Issues

767 The recurring overarching and cross-cutting issues, with wider ramifications for the various dimensions of governance, which emerge from this Country Review Report on Ethiopia are highlighted below:

- I. Resolving the Ethiopian-Eritrean Conflict;
- II. Promoting Inclusion and Managing Diversity;
- III. Capacity Building
- IV. Climate Change, Vulnerability and Food Insecurity;
- V. Aid Dependence, Growth and the vigorous pursuit of self-reliance;
- VI. Land Policy in Ethiopia
- VII. Corruption;
- VIII. HIV/AIDS;
- IX. Rapid Population Growth and Socio-economic Implications; and,
- X. Gender Mainstreaming.

768 By highlighting these overarching and cross-cutting issues and making suggestions on how to address them, the Ethiopia Country Review Report seeks to suggest ways to overcome these challenges.

### 7.2.1 Resolving the Ethiopian-Eritrean Conflict: Transcending the Fragility of “No War, No Peace”.

769 Armed conflicts have had a destructive impact on human civilisation. Apart from the immediate pain, horror, destruction, and tragic human losses, they impose substantial costs on governance. In the political sphere, they undermine the legitimacy of the state, threatening its institutions, the security of property rights, and the rule of law. Conflict and human rights violations are also closely intertwined. During an armed conflict, torture and political killings are particularly common. Wars also generate autonomous territories outside of any states control and this further fractures the country and creates a lack of sovereignty.

770 In the economic realm, wars devastate the economy and inhibit development, which is why violent conflict is often described as ‘development in reverse’. In



corporate governance, it introduces tremendous uncertainty into the economic environment, making both public and private investment riskier. Wars have far-reaching consequences which affect children (the future generation), capital flight and growth in nearby countries. This latter effect often contributes to the war escalating and expanding into other territories. The legacy of war is often another war and the list of ravages is interminable.

771 Although the bloody border war between Ethiopia and Eritrea (1998-2000) formally ended with the signing of the Algiers agreement, the two Horn of Africa nations remain locked in an apparently intractable stalemate. The current state of “no war, no peace” in a fragile cross-border environment can only be of limited value and tentative duration. Its major value lies in the fact that it offers a respite. But this respite from war provides “breathing space” which could be occupied by positive transformative endeavours or misused in ways that could degenerate to violence. It is imperative that this space be utilised to regroup for lasting peace and the normalisation of relations between Ethiopia and Eritrea. It must provide an opportunity to organise substantive dialogues and problem-solving negotiations. If these do not materialise, there are inherent fears that the possibility of a return to violence may not be sufficiently diminished.

772 What is needed is a “win-win” solution constitutive of the normalisation of relations between the two countries with concrete multiplier and spill over effects for the entire sub-region. That Ethiopia, Eritrea and the entire sub-region stand to reap the dividends of peace resulting from the normalisation of relations between the two countries is unquestionable.

773 For Ethiopia, the dividends of normalisation will extend beyond the potential for the strengthening of bilateral relations with Eritrea. It will allow Ethiopia to divert critical resources to a range of domestic socio-economic development undertakings, especially in areas that are on the verge of take-off as well as areas with the potential of triggering further development undertakings. The peace dividends could also have direct as well as a spillover impact on social development in Ethiopia. The regional state of Tigrai, with its burden to care for refugees and to maintain extraordinary security vigilance, will not only be relieved of the vestiges of war but will also be able to invest in development undertakings. Current corridors of a fragile peace could be transformed into zones of economic production beneficial to the larger cross-border area.

774 Navigating through the complexities associated with the conflict in order to attain a “win-win” solution requires extraordinary diplomatic and political entrepreneurship. However, the level and nature of entrepreneurship required does not surpass that which is already available among the Ethiopian government



and people and within the region and beyond. This high quality of Ethiopian political entrepreneurship is evident in the unique system of federalism designed and craft entirely by Ethiopians themselves.

775 As indicated in Chapter 2, Ethiopia is the crucible of regional cooperation and development and a leader in the promotion of good governance in African regional affairs. On the world stage, Ethiopia plays a significant role in the search for solution to the challenges of environmental degradation. It is among the most accomplished in world sports. With knowledge and deep appreciation of these and other successes, the CRM is confident that the resourcefulness and resolve of the Ethiopian people and the entrepreneurship of their leaders can once again be employed to inspire and lead a sustained initiative that will take the Ethiopian-Eritrean conflict beyond the fragility of “no war, no peace,” to the normalisation of relations between Ethiopia and Eritrea.

776 To achieve this goal requires, first, that the Ethiopian government mobilise all of its peoples for peace with Eritrea just as it was successful in mobilizing them to support the war efforts. This mobilisation for peace will have to begin with a new discourse among Ethiopians, including civil society, opposition parties, religious organisations, nationality-based groups, for peace with Eritrea. Extending this discourse to others in the sub-region and the wider international community will create a sub-regional and external environment supportive of peace. By taking such initiative the Ethiopian government, supported by the Ethiopian people, must act not simply as a party to the conflict but, more appropriately, as a major sub-regional actor, better resourced and strategically situated to forge cross-border peace in this sub-region of East Africa and to catalyze developmental cooperation beneficial to all of the countries of the sub-region, including Eritrea. Ethiopia's geopolitical position in the Horn of Africa bestows upon it a responsibility to lead such a bold and creative initiative for normalisation of the relations with Eritrea and to strengthen a framework for peace building and development in the Horn.

777 Needless to say, an Ethiopian-led initiative here advocated will require using all of the tools and networks of diplomacy, peacemaking and developmental peace-building available domestically and externally and the strength of conviction and commitment that will not tire or perceive negative or mixed responses from the other side as rejection or fatal setbacks.

778 Finally, in taking up this challenge, the Ethiopian leadership is called upon to be inspired not only by the prospects of ending a war with Eritrea but, more importantly, by the opportunities to begin the political, economic and social transformation of the Horn. This is Ethiopia's challenge.



## 7.2.2 Promoting Inclusion and Managing Diversity

779 As this Report has pointed out repeatedly, Ethiopia's federalism, based on a principle of autonomy and self-determination of nations, nationalities and peoples, is designed to rely for its strength, cohesion and sustainability on its ability to effectively ensure meaningful and inclusive participation of all of its constituent nations, nationalities and peoples in the critical institutions of governance. This is especially true of those institutions that are charged with the responsibility to address the challenge of managing the country's diversity, coordinating its multiple levels of governance and ensuring the equitable provision and distribution of public goods and services. By blending innovative policies and institutions for all-inclusive participation with those established for managing diversity, Ethiopia's federalism has established sound fundamentals for federal democratic governance and development.

780 This home-grown set of governance institutional innovations draws from the long history of the struggles of various nationalities and peoples for self-determination and equality in the political, economic and social governance of Ethiopia. These struggles culminated, first, in the fall of the imperial administration and, later, in the disintegration of the Derg. The failure of both the imperial administration and the Derg illustrated that the institutional arrangements established and the policies they promoted were inappropriate for protecting and promoting the interests and aspirations of all of the nations, nationalities and peoples of Ethiopia. The genius of the current federal democratic governance arrangement is that instead of attempting to stamp out diversity, it seeks to draw upon the strengths of the various nations, nationalities and peoples to forge unity, and instead of attempting to establish governance processes of control and command, it strives to establish processes of broad and inclusive participation that have the potential of deepening the legitimacy and entrenching participatory democracy among the people of its constituent regional states and cities.

781 The challenge which faces Ethiopian federalism is deepening inclusive participatory processes and strengthening institutions of political, social and economic governance that manage diversity and build national cohesion by ensuring social justice for all, democratic governance and the provision of public goods and services in ways that are considered to be fair and equitable by the people of its diverse constituent regional states and administrative units.

### ***Managing Diversity by Strengthening all-inclusive Institutions and Processes of Political Governance***

782 In the realm of political governance, the Ethiopian Federal Constitution provides clear legal-constitutional basis within which is constructed a firm consensus-





783 anchored political framework for promoting all-inclusive participation of representatives of diverse nations, nationalities and peoples for managing historically-derived imbalances among themselves. The House of Federation, the Council of Constitutional Inquiry and the Ministry of Federal Affairs are among the key institutions created for the management of diversity among the various nations, nationalities and peoples of the federation. These institutions are charged with the critical tasks of addressing conflicts among Ethiopia's nations, nationalities and peoples and determining the allocation of resources among regional states, among others, and in so doing, to ensure equitable development, social justice for all and preserve the integrity of the diverse nations, nationalities and peoples as well as the cohesion and integrity of the Ethiopian federation.

784 In undertaking these critical tasks, these institutions are constitutionally obliged to employ processes of broad consultations at national and sub-national levels of governance and among a range of public sector, private sector and civil society stakeholders with a view to ensuring full understandings of the relevant issues in the public realm, build consensus as far as possible, and deepen the legitimacy of the decisions to be taken.

785 The House of Federation's authority of constitutional review and resource allocation to ensure the wellbeing of regional states and the strengthening of an overall Ethiopian nationality makes it potentially at once an important guardian of Ethiopian federalism and a guarantor of the autonomy of regional states. Because of the indispensable role the House of Federation plays as a guarantor of the autonomy of regional states and the guardian of Ethiopian federalism, its integrity must always be preserved and its legitimacy deepened among the various nations, nationalities and peoples of Ethiopia. The Ethiopian government and people must allow it to rise above narrow partisan politics.

786 Similarly, the Council of Constitutional Review, which provides professional and technical support to the House of Federation, must always be allowed to exemplify the highest levels of professionalism and transparency in its work. The selection of its members as prescribed in the Constitution involves processes designed to ensure that they are of the highest levels of professional training, experience and competence and of impeccable integrity. The Constitution wisely requires such high standards because of the vital professional role this body is mandated to perform in protecting the interests of the diverse nations, nationalities and peoples of Ethiopia.

787 To buttress the proper management of diversity and ensure social peace, the Constitution also demands integrity, transparency and equal treatment of equals in the implementation of laws enacted by the legislative branch of government



and in the formulation and implementation of economic, social and development policies and strategies by the executive branch. Within this framework, the Ministry of Federal Affairs has a special responsibility under the oversight of the Prime Minister to ensure professionalism, impartiality, fairness and balance in the formulation and implementation of decisions on inter- and intra-regional state disputes. A critical responsibility of this ministry is to assist the regional states to build their capacity for conflict transformation. To do this, requires deep and extensive local knowledge as well as a significant understanding of the range of conflict transformation strategies and practices extant elsewhere and of the possibility for adaptation to domestic circumstances and environments. In view of its vital role in managing diversity and building national cohesion, the Ministry of Federal Affairs needs to be vested with sufficient and appropriate human and material resources to perform its duties.

787 The role of the National Electoral Board of Ethiopia (NEBE) for ensuring participatory democratic governance, preventing and managing electoral disputes and thereby promoting national stability and cohesion among multiple nationalities and levels of governance cannot be overestimated or overlooked. As Ethiopia prepares for future elections; managing Ethiopia's diversity through the electoral process requires transcending the bitterness of the 2005 elections and the violence, death and destruction that followed in its wake. Intensifying genuine inter-party dialogue, reviewing the membership of the Electoral Board and of its operational rules, and forging understanding that will build confidence and trust in the electoral system of Ethiopia on the part of political parties are of utmost importance. Equally important, all elections-related disputes emanating from the 2005 elections must be definitively resolved, including those that involve the imprisonment of opposition politicians, journalists and others who are still being held in detention. Ethiopia's electoral democracy will not be considered strengthened until elections become, by and large, conflict free and the majority of stakeholders in the electoral process are satisfied that whatever problems that may have arisen are generally perceived to have been fairly dealt with and resolved.

788 Further strengthening of the judicial system at the federal, regional and local levels is also vital to deepening the capacity for conflict management and resolution at the multiple levels of governance. Significant progress has been reported in the level of efficiency of Ethiopia's courts in effectively managing diversity and strengthening national cohesion. It is imperative to continue to ensure that the quality of justice dispensed by the courts is also high so that access enjoyed by Ethiopians to the bar of justice can be matched by the quality of the results received therefrom.

789 Another set of institutions that are playing a critical role in conflict resolution and, by so doing, in the management of diversity includes the range of joint



commissions and boards established by regional states among themselves to address cross-border conflicts and development challenges. Many of these joint commissions are not only instruments for managing and resolving conflicts, they have also become instruments of conflict transformation and development cooperation among regional states. For example, the regional state of Oromia has organised joint commissions with some of the emerging states with which it shares common borders for joint production of public goods and services in multiethnic cross-border areas. Infrastructure development, health care and educational services are among the challenges being jointly addressed by these inter-regional state commissions, thereby building strong ties of cooperation among peoples of diverse national groups. These arrangements of inter-regional state cooperation need to be encouraged and supported by the federal government.

790 The Ethiopian Constitution also establishes a number of important commissions for the protection and promotion of fundamental rights, and as such, for ensuring that diverse peoples are treated equally before the law and have equal access to justice. The Ethiopian Human Rights Commission and the Ombudsman are very important institutions designed to protect and promote such rights. Their persistent weakness as a result of failure to properly support them and to allow them independence of operation could detract from the perception of incremental progress in strengthening of institutional mechanisms for the protection of fundamental rights. Similarly, reports of continuing weakness of civil society organisations and of the media conveys the perception of institutional deficiencies in curtailing inclusive participation and detracting from the proper management of diversity.

### ***Managing Diversity by Establishing and Strengthening Symmetrical Relationships among Multiple Levels of Government***

791 Managing diversity and ensuring all-inclusive governance has to also be achieved through establishing and strengthening symmetrical relationships between the federal government and the regional states and between regional states themselves so that regional inequalities and historical imbalances among national groups can be effectively addressed. Effective symmetrical relationships are particularly critical in the area of fiscal governance. This calls into question the process of budgetary allocation, block grant-making and other forms of resource transfers and revenue sharing.

792 Proclamation 33/92 established ownership of sources of revenue and shared fiscal responsibility between the federal government and the regional states. This relationship was further elaborated in the Constitution which empowers





regional governments to levy dues and taxes, prepare and administer their own budgets, collect and define revenues, draw budget and subsidies from the federal government and borrow from domestic sources, among other fiscal prerogatives.

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The CRM learnt both from the CSAR and from interactive sessions held around the country that the process of deriving a formula for the allocation of subsidies and block grants from the federal government to the regional states has typically been broadly participatory, involving relevant officials of the federal and regional state governments, civil society and non-governmental actors of both national and regional state levels, and a range of technicians from relevant professional organisations. But as is to be expected, the process has also been contentious. While clashes of interests are to be expected when scarce resources are being allocated, authorities of both the federal government and the regional states will need to be constantly mindful and sensitive to the potential for such process of resource allocation to sow seeds of dissatisfaction and resentment which can become fodder for potential conflict. Already, it is evident that emerging regional states (Benishangul-Gumuz, Gambella, Somali and SNNPR) are expecting a reconsideration of the weighted elements of the revenue sharing formula being used so as to accelerate the process of addressing the vast gap between themselves and the more developed regional states. In addition to address such gaps, other states that carry significant burdens to care for refugees, particularly Tigray and Oromia, are also of the view that the federal government needs to be a more forthcoming partner with respect to the provision of resources for the care of refugees.

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Beside the challenges of managing diversity through resource allocation from the federal government, there is a related challenge of developing regional and local (wereda) capacities for resource generation, wealth creation and expenditure management. CSAR reports a mixed picture: The capacity of sub-national jurisdictions for internal revenue generation is weak and declining. In 2005, only 12 percent of sub-national jurisdictions demonstrated strong capacity to generate revenues. In 2008, only 5 percent demonstrated such capacity. Conversely, however, 62 percent of such sub-national jurisdictions demonstrated strong capacity to effectively consume allocated resources in 2005. In 2008, 79 percent showed such improved capacity. Thus, while public expenditure management capacity of regional states and sub-regional units are improving, similar capacity for the generation of internal revenue is not. This situation portends greater dependency on federal block grants and subsidies. That can potentially heighten contestations among regional states and worsen disparities among them in a way that could have negative impact on the successful management of diversity and the forging and maintaining of harmonious and cooperative relationships





between the federal government and some of them. The delicate nature of this challenge and its potential to negatively impact the management of diversity require constant vigilance on the part of federal bodies, particularly the House of Federation, the House of People's Representatives, the Ministry of Federal Affairs and Prime Minister and Council of Ministers, as well as regional state government organs that include state councils and relevant boards and commissions.

795 Managing diversity in the complex architecture of Ethiopia's federal system does require a high level of transparency, consensus-building, balance and a constant quest for equity in the allocation of resources and in the building and maintaining of effective symmetrical inter-governmental relationships.

### 7.2.3 Capacity Building

796 Human resources development and continuous capacity building of public and private institutions are key to ensure the effective implementation of developmental programs and related reform policies. They are also essential in promoting inclusive culture at all levels, political, economic, financial and social. In an attempt to address this challenge, Ethiopia has taken several steps. In particular, Government put in place a fully dedicated Ministry and established a new agency (the Federal Civil Service Agency) to build the institutional capacity of Ethiopian administration at both central and regional levels through human resources training and review of business processes and procedures. However, given the challenging political and economic policy reforms, and its ambitious developmental program, Ethiopia needs to go beyond the current human and institutional capacity building programmes.. The diversity of needs requires tailored responses; at the same time the country's limited resources imposes a global approach to capacity building, ensuring that there are no overlaps and duplications among the various specific capacity building programmes. This is a key challenge that needs to be addressed in a holistic manner because the stakes are high given that the current weak institutional framework has become a real bottleneck and could in the near future, draw the country back and negate recent past successes.

797 There are some recent evolutions that could be perceived as early signals of this process. They could be directly linked to the shortage of adequate institutional capacity (lack of adequate human resources and tailored business processes). The authoritarianism mentioned above (see Chapter 2, 4 and 5) may be rooted not only in the historical legacy but also in the weak institutional and human resource framework for implementing reform programmes at national and local levels In the political domain, the prevalence of the principle of democratic centralism could also be interpreted as the result of the institutions' weaknesses.



The apparent reversal to authoritarian rule in managing state affairs may therefore be analysed as the response to observed weaknesses in various domains and at different levels. It may also translate the fear of, and lack of confidence in, the delegation of power from top to down.

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The new Ethiopian political culture based on democratic values and on “unity in diversity” that the government is trying to instill may remain limited because of the inadequate institutional support. In the area of civil service reform, the Federal Civil Service Agency’s activity and capacity to deliver is hampered by its own institutional capacity constraints; the same applies to the work of the Federal Ethics and Anti-Corruption Agency which is also affected by that institution’s limited internal institutional capacity. Similarly, in the economic area, sector reforms such as those concerning the financial sector and tax and Customs administration are also suffer from the inadequate institutional capacity. The “authoritarianism” and the limited dialogue between the NBE and financial intermediaries in the implementation of directives as well as the same attitude in tax evaluation could well be because of capacity constraints within these institutions. The need for institutional capacity building is not limited only to the government and its related organs and agencies. It concerns the whole society. In the private sector, promoting MSMEs development, corporations’ compliance with good corporate governance practices and principles (including corporate social responsibility), and entrepreneurship culture are also hampered because Chambers of Commerce and professional associations lack adequate capacity. The insufficient dialogue between public and private sector and the delay in issuing critical codes such as the Code of Commerce are also largely due to the limitation in the capacity of the institutions responsible. There is another critical area that suffers from the lack of adequate capacity, and that is data collection and dissemination, which is critical in monitoring the programs implementation and assessing their impact. Capacity shortfalls also affect the implementation of the ambitious approach of making a close linkage between agricultural development-led industrialisation and broad-based participatory planning and programming , key to addressing poverty and laying the foundation for sustainable growth.

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Institutional and human resources capacity building should therefore be at the core of the country’s whole developmental plan and reform programmes.. Given the complexity and the diversity of the needs and the country’s limited resources, prioritisation is critical.

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In addressing this critical challenge, there is a need to obey these principles :

- Priority to be given to developing a sectoral approach that will help identify the specific needs of each sector ;



- Involvement of all concerned stakeholders to agree on the priority areas that need to be considered and on the modalities that should be promoted to address these shortcomings ;
- Coordination of all proposed capacity building needs and related programs to identify common domains and activities that would gain from being centralised ;
- Priority to African cooperation to cover the domains that could not be properly handled by the country alone. There are many examples of successful cooperation among African countries that show the advantage of such approach; and,
- Monitoring and evaluation of the programmes' implementation.

801 Given the country's limited resources, the capacity building challenge dictates a holistic approach. Such an approach will help in identifying overlaps and duplication, and better coordination among the various as well as their overall evaluation. To ensure optimum use of existing resources and proper coordination in the execution of the capacity building programs the Ministry of Capacity Building should be endowed with the coordination function and its institutional capacity built accordingly. Ethiopian authorities might consider broadening the Ministry's mandate and strengthening its monitoring and evaluation capacity.

#### 7.2.4 Climate Change, Vulnerability and Food Insecurity

802 Global climate change is one of the most serious threats to the environment, health and general wellbeing of humans. There is a complex relationship between climate change, vulnerability and food security. There is no doubt, however, that climate change will act as a multiplier of existing threats to food security. It will make natural disasters more frequent and intense, land and water more scarce and difficult to access, and increases in productivity even harder to achieve. The implications for people who are poor and already food insecure and malnourished are immense. Particularly in the least developed countries and small island developing states, it is the livelihoods and lives of the poorest and most vulnerable, including women, children and marginal communities, which are also at greatest risk to suffer from exposure to the potential impacts of climate change. This is due to their high exposure to natural hazards, their direct dependence on climate-sensitive resources such as plants, trees, animals, water and land, and their limited capacity to adapt to and cope with climate change impacts. This ability depends, to a large extent, on the level of economic development and the means required for adaptation, such as economic entitlements, land, capital, credit and/ or tenure rights. It also depends on institutional support and the possibility to influence decision-making.



803 Climate change will affect all four dimensions of food security: availability, accessibility, stability, and utilisation. It will reduce food availability because it negatively affects the basic elements of food production – soil, water and biodiversity. Rural communities face increased risks, including recurrent crop failure, loss of livestock and reduced availability of fisheries and forest products. Furthermore, changing temperatures and weather patterns create conditions for the emergence of new pests and diseases that affect animals, trees and crops. This has direct effects on the quality and quantity of yields as well as the availability and price of food, feed and fibre. At the same time, more extreme weather events will have serious impacts on livelihood assets in both rural and urban areas and threaten the stability of food supply. Many countries are already dealing with climate change impacts resulting from irregular, unpredictable rainfall patterns, increased incidence of storms and prolonged droughts. Decreasing availability of water and food will also increase sanitation and health problems and raise the risk of diseases and malnutrition. Competition over increasingly scarce resources will also increase the risk of conflicts, displacement and migration which, in turn, will again increase the risk of food insecurity. Some areas in Sub-Saharan Africa and South Asia, such as coastal plains, may become flooded or unsuitable for agriculture due to increased salinity from sea-level rise (IPCC, 2007).

804 The number of people affected by disasters has more than tripled since the 1990s. In 2007, over 74 million people were victims of humanitarian crisis. As climate change leads progressively towards increased extremes – storms, droughts, and high temperatures – the challenge to the humanitarian community is not only to respond to the crises but also to be better prepared and to be able to manage the risks more effectively. Recent approaches that integrate relief and response in long-term risk management have begun to influence the way disaster management programs are planned and financed. In order to enhance community safety and resilience, the complex interactions between long-term risk reduction and short-term response need to be better understood. At the same time, the most vulnerable to food insecurity must be protected from the immediate impacts of climate change now.

805 Ethiopia is already facing a number of environmental challenges, exacerbated by changes in climate. Average annual temperatures are projected to rise to 3.1° C by 2060 and 5.1° C by 2090, with severe implications for productivity of the land. The starkest manifestation of the country's environmental challenges is its vulnerability to recurrent food insecurity and famine.

806 Ethiopia suffers from fundamental and pervasive food insecurity mainly as a result of periodic rain shortages. Droughts, the most important climate-related hazard affecting Ethiopia, are occurring more frequently, giving the country less





time to recover before the next event, reducing agricultural yields, and sentencing millions to food insecurity. In February 2009, the UN Food and Agriculture Organisation (FAO) noted that Ethiopia's crop prospects are decreasing due to inadequate rainfall, and the country is experiencing severe localised food insecurity as a result of crop failures and severe poverty.

807 Importantly, more than eight in ten people in Ethiopia earn their living from farming, most of it rain-fed and highly vulnerable to drought. Research by the International Food Policy Research Institute in several regions in Ethiopia found that farmers are vulnerable to climate change and that fewer than half (42 percent) had done anything to adapt their agricultural practices.

808 Despite some advances in reducing poverty indicators, including a rising gross enrolment rate in primary schools (for both girls and boys) and access to health care, water and sanitation, no gain was made in reducing the severity of food poverty in Ethiopia in the five years between 1999/00 to 2004/05. The country has 8.3 million people who are chronically food insecure and another 6.7 million who face transitory problems with food insecurity – a continuously growing population is only exacerbating this situation.

809 Ethiopia has received approximately 800,000 metric tons of food assistance per annum from the international community during the past 15 years with little or no effect on persistent food insecurity or malnutrition. During the country's 2002–2003 drought, 21 percent of Ethiopians required food and other forms of emergency assistance. The problem of drought or periodic rain shortages is compounded by dependence on subsistence farming, and outdated cultivation techniques, land degradation, deforestation and low levels of agricultural productivity are immediate catalysts of food insecurity. However, it is the depth and magnitude of Ethiopia's poverty and lack of infrastructure that allow even small disturbances in food production or distribution to translate into widespread food crises.

810 There is now growing consensus among both Ethiopians and the donor community that emergency assistance alone will do little to address the sources of food insecurity and that a longer-term, more sustainable response is required. The challenge for the country is to correct the imbalance between humanitarian assistance and development assistance and build resiliency to withstand and manage through [sic] shocks, while laying the foundation for sound economic growth. In particular, there is growing recognition that climate-related changes are affecting farm work.

811 There are four main entry points for adaptation and risk reduction strategies aiming at increased food security in view of climate change which are worthy



of emulation by Ethiopia. Part of the solution is to increase food availability. Another lies in strategies that ensure that those who are at greatest risk of hunger can actually access and benefit from increased amounts of food and that the most vulnerable are protected from the immediate impacts of climate change. This involves improving disaster risk management, enhancing social protection schemes (including the delivery of direct nutrition interventions) and strengthening resilient community-based development.

- 812 The four main entry points for adaptation and risk reduction strategies aiming at increased food security in view of climate change relate to the following:

### ***Increasing productivity, resilience and sustainability in local communities***

- 813 Traditional coping mechanisms will not be sufficient to ensure food security and prevent effects on nutritional status. They must be complemented by the introduction of technical innovations and enabling frameworks. More research is needed on the breeding of new and adapted varieties as well as the preservation of traditional, locally adapted varieties that can tolerate climate variability and are suitable for changed climatic conditions. Innovative but practical technologies must be developed, such as alternative cropping systems, conservation and precision agriculture, and sustainable forest management; and the application and improvement of technologies for more efficient use of inputs such as energy, fertilizer, water, seeds. Adaptation strategies must also be supported by strong institutions and enabling policy and legal frameworks. Incentives and services for rural producers that can stimulate and guide adaptation processes and link producers to markets are also important supporting mechanisms. Adaptation to climate change can incorporate a range of successfully tested methods and technologies derived from sustainable agriculture and natural resource management and equitable and inclusive rural development approaches, building on the “no-regrets” principle.<sup>37</sup> However, adaptation often involves substantial investments and changes in practices that may take a long time to implement or show benefits. It must, therefore, be complemented by other responses that address the immediate effects of climate change and protect those who cannot adapt.

### ***Improving risk management of disasters***

- 814 Adapting food production systems has the potential to significantly increase the resilience of poor farmers to changing climate conditions. This requires

<sup>37</sup> “No regrets” means supporting preventive practices and actions for dealing with expected problems, even if they are not yet certain to occur. Such actions are subject to the twin criteria of being necessary in the case of climate change impact and being beneficial even in the absence of the impacts. Thus, there would be no regrets for having taken the action.



appropriate risk reduction planning and response based on a good understanding of risks and vulnerabilities in terms of who are the vulnerable, where they are and why they are vulnerable. There is a need for improved monitoring, information systems and forward looking risk analysis. Particular efforts are needed to target the poorest and food-insecure people without assets and entitlements in risk reduction or response interventions. In addition to a rural focus, attention has to be given to urban and peri-urban areas. Vulnerable people and communities should themselves always be the primary owners and drivers of any actions aimed at increasing their resilience to disasters. It is crucial to directly involve them in the planning and implementation of the management of disaster risk reduction. At the same time, in order to achieve greater effectiveness, disaster risk management and climate change adaptation management should also be linked and better integrated into national development plans and strategies, starting from poverty reduction strategies, food security strategies and sustainable development. Moreover, the gaps between sectoral organisations must be bridged in order to share timely and relevant information concerning risks and their management. Climate information must be made accessible to affected communities and decision-makers. Sufficient financial resources are a prerequisite for effective disaster risk reduction. Current practice indicates that less financial resources are being made available for disaster risk reduction than for adaptation.

### ***Enhancing social protection schemes***

- 815 Life-saving interventions to protect the people who suffer from food insecurity are an imperative protection. It is equally important to create enabling conditions to ensure that communities affected by disasters are able to build back systems which are better adapted to changing climate conditions. Supporting a transition towards “climate-smart” relief, rehabilitation and development that improves the livelihoods of low-income farmers and rural people and thereby increases their overall resilience must be considered the basis of adaptation.

### ***Strengthening resilient community-based development***

- 816 Social protection relevant to food insecurity, climate change and resource scarcity includes cash and in-kind transfers, such as Ethiopia’s productive safety net programme, which transfers cash (and food) during seasonal food insecurity through employment on public works; employment guarantee schemes, which can be used to invest further in climate resilience, for example, strengthening embankments or planting trees; mother and child health and nutrition and school feeding programs; weather-indexed crop insurance; microfinance services; as well as emergency food assistance interventions. It also encompasses essential nutrition interventions, such as the distribution of micronutrient supplements for



mothers and young children as well as fortification of foods as appropriate, and the treatment of severe acute malnutrition. Access to formal social protection systems remains very limited in developing countries. Ethiopia should be commended for introducing a programme of this nature. The challenge for the country is to ensure that there is effective targeting of the poorest and most vulnerable people, which fundamentally depends on policymakers understanding the vulnerabilities of these people. The same applies to the need for adequate financing and strengthened institutional capacity.

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Only by succeeding in making significant advances on all fronts – increasing food availability; enhancing access to food, and strengthening resilience and development – will Ethiopia reduce the risk of dramatic increases in the number of hungry people. But there is also the challenge of population and food.

### **7.2.5. Socio-economic Implications of Rapid Population Growth.**

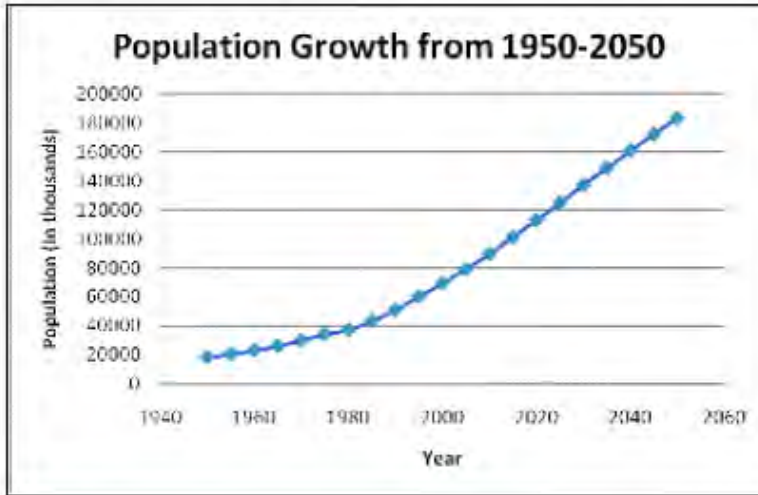
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There is growing concern among observers regarding Ethiopia's capacity to cope with the implications of a growing population for economic growth, job creation, food security and service provision. According to projections based on the 2007 census, Ethiopia has a population of close to 80 million. It is gearing to overtake Egypt as Africa's second most populated nation after Nigeria. The data from the 2008 report of the Population Census Commission of the Federal Democratic Republic of Ethiopia show that the population of Ethiopia was, in 2007, growing at a rate of 2.6 percent per annum, on average, as against 2.5 percent in 2005. While such a rate is not the highest among African countries and it does seem to have stabilised, it should be considered relatively high when viewed in the broader context of socio-economic development efforts being made at both federal and regional levels. Moreover, there are disparities among regions with average population growth rates of 4.1 percent, 3.0 percent and 2.9 percent in Gambella, Benishangul-Gumuz and Oromia respectively. With a growth rate of 2.6 percent per year, the country's population is on track to double within another 27 years. As shown in Table 7.1, by 2050, there will be more than 170 million people in Ethiopia.





**Table 14: Ethiopia Population Projections**



Source: UN Population Division. 2007. World Population Prospects: The 2006 Revision. New York: UNPD

- 819 Without any doubt, the above figures could represent major constraints to the commendable efforts being made implemented by the Government. Such efforts include, providing quality education for all (particularly primary education) establishing adequate numbers of health centres, particularly in rural areas, facilitating access to such essential facilities as water and sanitation, electricity, housing and land, and substantially reducing poverty.
- 820 In the 1950s, when the United Nations began its population projections, population density in Ethiopia was 19 persons per sq. km; in 2010 it was estimated to be around 80 and projected to be more than 150 persons per sq. km. These projections show a population density that is eight times greater than it was 50 years ago while, simultaneously, the pressure to increase agricultural production is getting stronger. However, as families grow over time, plots are divided into smaller pieces that are less able to support the families that tend them. In 2000, 87 percent of farms in Ethiopia were small (under 2 hectares).
- 821 Consultations with stakeholders across Ethiopia confirmed this. The stakeholders cited the negative effect of rapid population growth on land holding which is presently about 0.11 hectares per person as against 0.5 in the 1960s. It is further argued, that such a decline in land availability has, to a certain, contributed to over-farming, and, consequently, to environmental degradation, which the Government of the Federal Democratic Republic of Ethiopia considers as a major challenge.



822 Rapid demographic changes feature in Ethiopia's development plans, including the country's climate change adaptation strategy. But the picture is mixed. Creating a balance between economic development and population growth is one of the eight pillars of Ethiopia's Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Access to contraception is included in the plan but receives less attention than HIV/AIDS. This is a huge mismatch of needs and resources, given that the unmet need for family planning affects 33 percent of married women, while HIV prevalence is estimated at 1.4 percent.

### **Neglected factor**

823 Annual progress reports for the Poverty Plan hardly mention family planning or reproductive health. This despite findings from a 2004/5 survey on people's views of poverty and services, conducted by the Poverty Action Network of Ethiopia (PANE), which found that few people "reported getting contraception advice from government facilities," and that "delivery of contraceptive services needs to be greatly intensified."

824 PASDEP aims to increase contraceptive prevalence to 60 percent by the end of the plan period in 2009/10, a tall order since contraceptive prevalence was measured at only 15 percent nationally by the 2005 Demographic and Health Survey (DHS). Unmet need for family planning of 33 percent means that only one-third of women in the country want to stop childbearing or space their next birth every two years but they are not currently using contraception. Simply put, as a result of lack of access to family planning, Ethiopian women are having more children than they want.

825 Ethiopia follows the 1993 Population Policy. While many of the objectives outlined in the policy have been vigorously pursued, the fertility rate remains high with an estimate of 6.48 children per woman in 2000 and slightly down to 5.82 children per woman in 2005. But in the "Ethiopia Atlas of Key Demographic and Health Indicators of 2005" the fertility rate is estimated at about 9 children per woman.

826 To address this challenge, Ethiopia adopted a Reproductive Health (RH) Strategy in 2006, which builds on the momentum occasioned by the Millennium Development Goals that garner the multi-sectoral support need to meet the reproductive and sexual health needs of our culturally diverse population. However, this RH skirts the issue of population control and seems even to obscure the fact that women and men need access to the means to have the number of children they want to have. .

827 Ethiopia's National Adaptation Programme of Action, submitted to the UN Framework Convention on Climate Change (UNFCCC) by the Ministry of Water



Resources and the National Meteorological Agency in 2007, acknowledges that population pressure is one of the key causes of climate change vulnerability in Ethiopia, but does not include any projects that address the country's ability to accommodate rapid population growth.

- 828 Projects that are included relate mainly to physical adaptation measures – to early warning systems for drought and flood, agricultural improvement, irrigation and water systems, capacity building, research and development, and carbon sequestration. One project relates to health – strengthening malaria containment.

- 829 While these projects will undoubtedly help Ethiopia to adapt to climate change, they fail to take into account social adaptation strategies, of which family planning and reproductive health should be a part.

### **The need for an integrated approach**

- 830 However, some projects do exist that combine population, health and environment issues. The Ethiopian Wetlands and Natural Resources Association, for example, is working on an integrated wetland-watershed project in South Western Ethiopia, which helps the local community protect the environment against climate change damage through improved resource management, and also has a strong reproductive health and family planning component.

- 831 Preliminary results suggest that the family planning segment of this project has been well received and that contraceptive use, initially very low, may now have reached over 30 percent of married couples. Given Ethiopia's low contraceptive prevalence rate, these results are noteworthy and show that Ethiopian men and women want contraception and will use it to plan their families when information and contraceptive supplies are available.

- 832 Another multi-purpose project is being implemented by the Environment and Development Society of Ethiopia (LEM) in both the Oromiya and Amhara regions of the country. It seeks to change attitudes towards big families and increase the use of family planning among women of reproductive age by 10 percent, while improving environmental health, sanitation and conservation measures. It is a relatively new, and not yet evaluated, example of making family planning an integral part of efforts to preserve the environment.

- 833 In Ethiopia's situation of rapid population growth, environmental degradation and encroaching climate changes, the country's capacity to adapt may well depend on such integrated programmes. The newly established National Climate Change Forum might also look towards such integrated programmes as it seeks to lead Ethiopia forward in the fight against climate change.



## 7.2.6. Land Policy in Ethiopia

834 Land is an emotional and complex issue in the whole of Africa. It is not simply an economic affair but is very much intertwined with the people's culture and identity. Accordingly, land policy in developing countries is a crucial, albeit sensitive, part of the overall development policy that governments need to consider if rapid economic growth and poverty alleviation are to be achieved.

835 Land constitutes the real source of power in imperial and contemporary Ethiopia. It is public property administered by the government since the 1975 radical land reform. The reform brought to an end the exploitative type of relationship that existed between tenants and landlords. Tenants became own operators with use rights but with no rights to sell, mortgage or exchange of land.

836 The land issue, perhaps more than any other policy issue, is hotly contested. A fierce political debate about the appropriate land tenure policy is raging. The debate has largely been carried out along two diametrically opposite arguments concerning property rights to land. The Ethiopian Government continues to advocate state ownership of land whereby only usufruct rights are bestowed upon landholders. The usufruct rights exclude the right to sell or mortgage the land. This, the government asserted, was to protect the rural peasants from selling off their land to wealthy individuals leaving them landless and without source of livelihoods. The government builds its argument on the premises of social and historical justice that is based on two principles: (1) justice understood as *egalitarianism* – guaranteeing every farmer in need of agricultural land equal rights of access to such land, and (2) *historical justice* – granting tenure security to the Ethiopian farmer's who had experienced land deprivation and land expropriation through different mechanisms during the imperial era. The government's position that emphasises the social function of land is challenged by advocates of a privatisation of property rights – most prominently, the Ethiopian Economic Association (EEA), some political parties in opposition to the current regime, and a number of donor agencies. These tend to argue that state ownership of land prevents the development of a land market, discourages farmers to invest on land, and thereby holds down land productivity as well as encourages unsustainable land use practices.

837 An assessment of the land policy debate in Ethiopia by the Mission reveals that there is an unfortunate focus on ownership issues and a dichotomy of views on state versus private ownership. Everyone agrees on the overall aim – to boost pro-poor agriculture-led growth – and this is echoed in policy documents and discussions from all sides of the debate, but what to do about land and land tenure remains a sticking point which urgently needs to be tackled.





838 Apart from a few attempts,<sup>38</sup> there has not been a thorough, large-scale and systematic study of the patterns, diversity and rationale of alternative views on land tenure in Ethiopia.

839 Ethiopia has to make some hard choices in the near future regarding its land policy. What is needed is a careful and deliberate initiative, backed by research, to identify an appropriate and pragmatic policy mix that could address the looming crisis of land tenure and its consequences.

840 The government needs to revisit its land policy in order to devise an appropriate policy framework that addresses the problem of the agricultural sector. There should be free and informed dialogue to prepare the ground for constructive input from all sectors of the population, particularly those in the farming population. It is thus recommended that the government establish an independent commission composed of all stakeholders to study the problems of the current tenure system and suggest appropriate policy measures.

841 The following policy issues and processes are tentatively suggested for consideration:

- The land tenure policy and strategy must be governed by a socio-economic rationale that includes efficiency and equity considerations;
- The land tenure policy, programmes and measures must give due attention to the farmers' point of view; and,
- A more flexible landholding system centred around providing security of tenure that takes into account local sensibilities, including a mixture of private, state and communal holdings, might generate significant support among the farming population and resolve the structural problems facing the sector.

## 7.2.7. Corruption

842 Corruption is one of the key threats to achieving sustainable development. Even where it is considered as limited to certain economic or political segments, it tends to develop rapidly and become a cultural norm that governs political, economic and social behaviours.

843 In the political realm, corruption undermines the quest for democracy and people participation in decision making. It contributes to the reduction of accountability



of policy makers and elected persons, resulting in poor political governance, cronyism, nepotism and authoritarian rule. It spawns societal violence and loss of a citizenship culture by large segments of the society and young people in particular. In the judiciary system, corruption goes against the rule of law and is the source of rapid growth of discrimination and clientelism that in turn nurtures social implosions and affects both political and economic spheres.

844 In the economic sphere, corruption results in higher transaction costs and discourages long-term productive investments, - domestic and foreign - making the environment less predictable and less favourable to risk-taking. It also affects public investments and reduces their efficiency, as part of the resources takes the form of bribery while the rest will not always obey in their spending and uses to the requested quality control. Corruption also has a negative impact on market functioning and control with results that include increasing the weight of the large informal sector, tax evasion and the reduction of public resources. Corruption also contributes and nurtures money-laundering practices.

845 At corporate level, corruption not only undermines the economic and developmental role of corporations, it also increases their fragility since their growth will rather depend on bribery than on their economic performance and on fair competition. It also has a direct impact on corporate compliance with basic principles of transparency, fairness and accountability, in particular in the area of environment and corporate social responsibility. Therefore, fighting corruption is essential for all stakeholders, the State as well as the non-state stakeholders.

846 While there is no consensus among Ethiopian stakeholders on the importance and the spread of corruption, there is recognition on the role played by institutions such as the FEEAC in combating it. However, even if the Ethiopian Government did take significant steps to combat corruption with the creation of the FEEAC, there is a need to improve such structure and complete the whole institutional infrastructure in charge of fighting and preventing corruption. There is a need for increased independence of FEEAC if only to avoid the perception that it is increasingly being used in harassing political opponents, and deepening of the independence of the judiciary system and its endowment with well-trained and competent judges. The role of the media is also essential and measures should be undertaken to protect its independence and strengthen its capacity through specific training programs. In parallel, the Government should take the lead in developing and implementing awareness programs targeting civil society organisations and professional associations, particularly in the regions.



## 7.2.8. Aid Dependency, MDGs and Growth

- 847 Development aid or official development assistance (ODA) has become a major source of capital in many developing countries. In Ethiopia, external resources are financing around a third of the national budget and, although the goal is to reduce aid dependency over time, the authorities in the country see further scaling-up of development cooperation as necessary to meet the MDGs. A characteristic feature of the external assistance that Ethiopia receives is the large share of humanitarian and food aid, which tends to constitute between 30-50 percent of total aid.
- 848 However, as noted in Chapter Six, Ethiopia's ODA per capita is still significantly lower than the Sub-Saharan African average. Nonetheless, the ODA that the country receives is relatively high in absolute terms. Development assistance for Ethiopia increased significantly in the recent past, reaching US \$1.9 billion in 2005. This has made Ethiopia the largest aid recipient in Africa and the second-largest in the world, after Indonesia.
- 849 The foreign aid dependency constraint emanates from the country's general low taxable income, itself a result of low per capita income and a low level of economic activity.

### Turning Point in Ethiopia's Relations with its Donor Coalition

- 850 Despite Ethiopia's high aid dependence, the evaluation has noted the absence of a serious reflection and discourse on an aid exit strategy. This has implications for the sustainability of capital project financing and service provision, as recent events suggest.
- 851 Since mid-2005, ODA disbursements have levelled off and new aid commitments have fallen as a result of the wobbling relationship with donors. The fall in new assistance commitments came at a time when PASDEP had been designed, as noted in Chapter Six, to facilitate Ethiopia's progress towards the MDGs and was counting on rising support from donors, and when donor and Government capacities had grown to deliver and utilise higher levels of aid.

### MDGs and the Need to Reverse the Decline in New Aid Commitments

- 852 Given the urgent need to reduce poverty in Ethiopia, the view among government officials is that the fall in aid commitments that started in 2005/06 must be reversed. More than that, it is argued that donors and Government should move boldly to ensure that aid levels resume their rise, so that MDGs can be reached.



- 853 The need to reach MDGs in Ethiopia is seen as constituting a strong case for further increases in foreign aid. External financing needs have been identified in two PASDEP's scenarios. A baseline scenario aims at reaching modest objectives for growth and poverty-reduction, and would require aid of US \$1.4 billion annually, an amount close to current aid receipts. PASDEP's High-Case MDG scenario is much more ambitious and includes programmes for rapid progression towards MDGs. This scenario involves aid of over US \$3 billion per year.
- 854 A more recent scenario derives from recent framework discussions between Government and the IMF, as part of the Article IV Consultations. It concludes that Ethiopia's external financial viability is assured if the value of its main external financial inflows doubles between 2005/6 and 2010/11 and also involves an 80 percent increase in the flow of private resources.

- 855 Admittedly, Ethiopia needs aid to address the challenges of poverty and also to reach the MDGs. The concern of the APR, however, is that if donors continue to shackle assistance with conditions emphasizing the Millennium Development Goals without addressing physical infrastructure and other economic issues, the country will tumble into more aid dependency instead of using aid to move itself out of poverty.

- 856 The danger is that aid would be funnelled to social expenditures and non-credit goods sectors such as health and education at a time when investment is needed to boost the productive sector. Countries investing aid solely in social expenditures to achieve the Millennium Goals are likely to hobble themselves economically by becoming aid-dependent in the long run. To correct that, there must be a balance in fiscal infrastructure, which would trigger trade and its benefits.

- 857 Reforms are, therefore, needed to wean Ethiopia off aid, so that the country can use external assistance to, among other things, balance low domestic savings, narrow savings-investment gaps and develop infrastructure. The APR stressed that aid should be used to lower the costs of doing business, increase productivity and insert goods from Ethiopia competitively into international markets.

## **7.2.9. HIV/AIDS**

- 858 HIV/AIDS is one of the most devastating diseases that the world has ever known. Estimates indicate that 37 million people worldwide are already infected with the deadly virus which weakens the human immunity system and leaves the body unprotected for the onslaught of a host of other diseases. So far, there is no vaccine to shield people against HIV, and there is no effective cure for the





disease. This means that people inevitably die once they have caught the virus although some ten years or more may pass before the actual outbreak of AIDS in its final stages.

861 UN figures stipulate that 23 million HIV/AIDS infected people live in Sub – Saharan Africa alone. As a result of the epidemic, life expectancy on the continent, which had been climbing steadily during the first three decades of post-independence development, will drop by ten years and more in many countries, especially in Southern Africa.

862 Like many SSA countries, Ethiopia has a large and very vulnerable population, with an estimated 50 percent of the population living below the poverty line. HIV/AIDS is one of the key challenges for the overall development of Ethiopia, as it has led to a seven-year decrease in life expectancy and a greatly reduced workforce.

863 Based on reports taken from VCT centres, blood banks, and ART programmes, the cumulative number of people living with HIV/AIDS (PLWHA) is about 1.32 million (45% male and 55% female). This results in a prevalence rate of 3.5% (3% among males and 4% among females; 10.5% urban and 1.9% rural areas) for the total estimated population of 73 million. The estimated number of new adult AIDS cases was 137,499. The number of new HIV infections was 128,922 (353 per day) including 30,338 HIV-positive births. Females accounted for 53.2% of new infections. There were 134,450 (368 per day) AIDS-related deaths including 20,929 children 0-14 years (83.6% under age five). Females accounted for 54.5% of AIDS-related deaths. The number of AIDS orphans aged 0-17 years reached 744,100. The number of PLWHAs in need of antiretroviral treatment (ART) was 277,757 including 43,055 (15.5%) children aged 0-14 years.

864 Ethiopia faces an epidemic among sub-populations and geographic areas, with an estimated overall HIV prevalence rate of 1.4 percent, based on testing a sample of 5,700 men and 5,300 women aged 15 to 49 who gave informed consent. Within the individual regions, this testing found that the prevailing rate varied from 0.2 in the SNNPR to a high of 6.0 percent in the Gambela Region. <sup>[1]</sup> While previous estimations were higher, expansion of surveillance data and improved analyses resulted in significantly lower estimations for 2005. Based on antenatal clinic surveillance data, HIV prevalence has declined to about 10.1 percent in urban areas and has stabilised at an estimated 1.8 percent in rural areas.

865 The primary mode of HIV transmission in Ethiopia is heterosexual contact. Young women are more vulnerable to infection than young men; urban women are three times as likely to be infected as urban men, although in rural areas the difference between genders is negligible. Populations at higher risk for HIV infection include people in prostitution, police officers and members of the military.



864 HIV/AIDS occurs within Ethiopia's exceptionally challenging environment of multiple threats and constraints, among them abject poverty, poor farming conditions, recurrent droughts, low investments in public health, high unemployment, recurrent food crises, a heavy disease burden, and exceptionally weak state social service capacities poor farming conditions. Recurrent droughts leave six to 13 million people at risk of starvation each year. Although many of these constraints are present in most other Sub-Saharan African countries, by and large, they are more acute in Ethiopia, and conspicuously so. As noted in Chapters Two and Three, political stability has also been a problem.

865 In the health sector, there is a shortage of health workers and counsellors, in addition to poor access to sparse health services, inadequate sanitation, inefficient procurement systems, and weak monitoring and evaluation systems. Conflict, famine and drought have led to widespread population movements, adding to displacements caused by cross-border tensions. As of January 2007, there were an estimated 97,300 refugees in Ethiopia.

866 HIV/AIDS has multiple effects. Given that it is the young, economically active people - who are also the sexually most active ones - that are prominent among the victims, it has a negative impact on labour productivity. Therefore, AIDS is not only a humanitarian disaster, it is also threatening to become another source of economic retardation and backwardness.

867 Commendably, Ethiopia takes the threat posed by HIV/AIDS seriously. In 2007, the country's Ministry of Health developed two national HIV plans: The Accelerated Access to HIV/AIDS Prevention, Care, and Treatment: Road Map 2007-2008/10, delineated the steps necessary for Ethiopia to reach universal access goals for HIV services by 2010. The Multi-sectoral Plan of Action for Universal Access to HIV and AIDS Prevention, Treatment, Care, and Support (2007-2010), builds on the health-sector-focused Road Map, adding linkages that support overall Ethiopian HIV/AIDS efforts.

## **7.2.10. Gender Mainstreaming**

868 While gender equality is a common challenge throughout Africa, the Government of the Federal Democratic Republic of Ethiopia has made it central to its overall policy. Since 1993, Ethiopia has endeavoured to integrate every aspect of gender equality in political economic and social development endeavours. The establishment of a Ministry for Women Affairs is a clear testimony of such political will. But challenges remain in all areas.

869 In the field of Democracy and Political Governance, the Ethiopian Constitution ensures that all rights of women are fully taken into account. Consequently, laws



have been enacted to ensure equality of men and women in all spheres of public and private life.

870 In the economic field, several measures are directly or indirectly targeted to women. The Women Development and Change Package (WDCP) is specifically designed to promote women entrepreneurs. Also, the increase in the number of microfinance institutions is mainly geared towards promoting women entrepreneurship. However, access to credit is still a challenge for many Ethiopians.

871 In the field of socio-economic development, women's concerns are also fully taken into account in the Plan of Action for Sustainable Development to Eradicate Poverty (PASDEP) and were specifically embodied in the National Action Plan for Gender Equality (NAPGE). As for legislation enacted in the democracy and political field, the inherited limited capacity of women has made it difficult to operationalise NAPGE...

872 The Government of the Federal Democratic Republic of Ethiopia as well as Regional States Governments are therefore giving due attention to girl-child education at all levels (primary, secondary and university) as well as to skills development for women. There are, however, gaps between urban areas and among regional states. Moreover, the school dropout rate is much higher for women than for men. With respect to health, in spite of efforts made in the framework of HSDP, women still face high rates of maternal mortality. The relatively high fertility rate is also a major a threat to the improvement of reproductive health.

873 In addition, there are other cultural and social obstacles inhibiting progress. Low status characterises virtually every aspect of girls' and women's lives. Traditionally, women in Ethiopia have been consigned to strict societal roles, based on cooking, raising children, and a muted voice in decisions affecting them. Heavy workload imposed on girls at an early age, early and forced marriage, a subservient role to both husband and mother-in-law, harmful traditional practices (HTPs), including female genital mutilation (FGM) and milk tooth extraction are all conning to slow progress in gender mainstreaming. According to Ethiopia's 2005 Demographic and Health Survey (EDHS), about 73.3 percent of Ethiopian women of all ages have been subjected to FGM, though the practice is declining as only 62.1 percent of women age 15-19 had been cut, compared to 73 percent of those aged 20-24. There are regional variations. The eastern Somali region, however, has the highest prevalence at 97.3 percent and Afar 91 percent. Moreover, in Afar, the cut involves infibulation (or Type III FGM), the removal of the external genitalia. Aside from the immediate risks of severe blood



loss, shock and infection, longer-term problems associated with FGM include: infections of the urinary and reproductive tracts, infertility and a range of obstetric complications, such as postpartum haemorrhage and death of the baby.

- 874 While women and men are equally eligible for public functions and have the same voting rights, only a relatively small proportion of women are actually elected or occupy senior governmental positions.

### 7.3. **The National Programme of Action**

- 875 The NPOA emanating from this exercise is appended to this document. Ethiopia, through a national consultative process, has determined, and set out in the NPOA, the key priorities and course of action the country will take to address the challenges identified in both its CSAR and the Country Review Report. The total cost is estimated at 27.581 billion over a five-year period from 2010 to 2015. The cost breakdown shows that USD 5.2 billion (19 percent) has been allocated to Democracy and Political Governance, USD 10.12 Million (0.37 percent) to Economic Governance and Management; USD 14.32 Billion (52 percent) to Corporate Governance and USD 7.99 Billion (29 percent) to Socio-Economic Development.

- 876 Ethiopia, with the support of development partners, should make a concerted effort to operationalise and implement its NPOA. This programme is a demonstration of the collective resolve of Ethiopians to work towards a better future. Implementation of the NPOA would assist the country to strengthen the democratic process and promote rapid and sustainable development. The challenges which the country faces are real and huge. Any complacency in implementing the NPOA is likely to compromise the ability of the country to promote rapid development for its people.





# APPENDIX 1

## NATIONAL PROGRAMME OF ACTION OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

### INTRODUCTION

This National Programme of Action is based on the conclusions and recommendations made at the level of the different components of governance with a view to identifying the challenges highlighted by the national Review Report of Ethiopia. It is in line with the approach adopted by the Ethiopian Government, outlined in the Country's Five Year Development Plan of 2005/06 to 2009/10 known as "Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Nevertheless, the views articulated by stakeholders in the national APRM process are paramount and stayed as grounds for the objectives and activities laid out in this Programme of Action.

Basically, the general objective of the Programme of Action is to adopt and implement policies, standards and practices with a view to promoting political stability, high economic growth, sustainable development, and accelerated economic integration at sub-regional and continental levels. All the comments provided by the Continental APRM team have also been reflected in the Programme, except the ones which are not stipulated in the Country Self Assessment Report as problems. For instance, Continental APRM team commented that there is public scepticism as to whether the Federal Ethics & Anti Corruption Commission has the integrity and independence to do a credible and effective job having been established as a commission reporting to the Prime Minister and not to Parliament. Actually, the FEACC submits written quarterly reports to the Federal Parliament, tables its report yearly and appears before Parliament for a question and answer session. Furthermore, as we observe from other countries that have such institutions, most of them are established as institutions reporting to the Prime Minister, not to the Parliament. And most of them are effective institutions. In our case, the reporting system, if anything, would make us more effective in fighting corruption. The scepticism, as it is clearly indicated in the Country Self- Assessment Report itself, is a simple opinion not supported by evidence.

The Programme of Action presumes that the Ethiopian Government shall endeavour, in close consultation with other actors like the private sector and civil society, to define operational, sectoral and thematic priorities, in order to concentrate on the activities and sectors that are more likely to produce tangible results in terms of development and poverty reduction.

The NPOA covers the period from 2010 to 2015 and is organised around the following main points:

- A- Methodological Approach
- B- Guiding Principles and Objectives of the Programme of Action



- C- Strategic Orientations of the Programme of Action
- D- Funding of the Programme of Action
- E- Monitoring-Evaluation Mechanism
- F- Major Risks
- G- Conclusion
- H- Tables of the Strategic Orientations of the Programme of Action.

## **1. METHODOLOGICAL APPROACH**

This Programme of Action was developed, consolidated and finalised through a participatory process involving the Government and institutions of the Republic, the private sector and civil society and seeks to promote accelerated growth and sustainable development through cohesion and national consensus.

The method of cost assessment that will be undertaken henceforth shall take into account notably the beneficiary communities, the nature of services to be provided to them and the different reference prices of each type of intervention.

This Programme of Action for Ethiopia has also been developed after a strategic diagnosis of the different objectives proposed by the African Peer Review Mechanism (APRM). It identifies standards and codes of the APRM by thematic area, the activities to be carried out by objective along with the actions required and the objectively verifiable indicators. Similarly, the agencies and institutions in charge of implementation as well as those responsible for monitoring and evaluation of the development programmes and project are listed therein.

Implementation of the programme (2010-2015) corresponds to the “Plan for Accelerated and Sustained Development to End Poverty (PASDEP)”, but it could also be adjusted to the programming cycle of the APRM.

Finally, it should be noted that the programme is likely to undergo periodic amendments to take into account the implementation deadlines and current socio-economic and political trends and will also reflect any eventual recommendations that could result from the periodic review of Ethiopia in the framework of the APRM.

## **3. GUIDING PRINCIPLES AND OBJECTIVES OF THE PROGRAMME OF ACTION**

### **3.1 Guiding Principles**

This Programme of Action incorporated the following factual considerations that would guide, among other things, the activities of the Government over the next three years and beyond:



- A- The Programme of Action takes into account the different areas mentioned in the “Plan for Accelerated and Sustained Development to End Poverty (PASDEP);
- B- The difficult challenges posed by poverty reduction are assumed to constitute the contextual framework in which the Government defined its strategic orientation and its sectoral and thematic priorities for the coming three years and beyond;
- C- Promotion of good governance: there is an inherent relationship between democracy, good governance and socio-economic development. Indeed, democracy can only be consolidated if it is accompanied by an improvement in living conditions for at least the majority of the people. Good governance has a political dimension and an economic dimension;
- D- The fact that it is essential for the country to assume ownership and leadership to ensure efficient implementation of the Programme of Action;
- E- The Programme of Action is designed in such a manner as to be open and promote the participation of all the actors in its implementation.

### 3.2 Objectives of the National Programme of Action

The general objective of the Programme of Action is to adopt and implement policies, standards and practices that will promote political stability, high economic growth, sustainable development, and accelerated sub-regional and continental integration.

The general objective will be achieved through the following specific objectives:

- A- Promoting democratic and political governance,
- B- Promoting economic governance and management,
- C- Promoting corporate governance,
- D- Accelerating socio-economic development.

### 4. STRATEGIC ORIENTATIONS OF THE PROGRAMME OF ACTION

Development, in its virtual sense, is increasingly imposed as a global phenomenon based on various factors such as economy, social, political, environment, culture and technology; the combination of changes in all these areas should help to promote individual and collective well-being. The necessary convergence of the activities tied to these areas cannot occur without good governance because it is good governance that ensures that the balances and the regulations of production relationships are maintained among the main actors within a certain population.



This Programme of Action distinguishes two types of actions : (i) specific actions associated with particular aspects of governance, and (ii) actions in relation to overarching issues as identified by the review report. Some of these cross-cutting issues are poverty reduction, gender balance, decentralisation, participation in governance, access to information, sustainability in financial, social and environmental issues, and corruption.

The Programme of Action is presented in the form of a logical framework set out by thematic area: Democratic and Political Governance, Economic Governance and Management Corporate Governance and the component on Socio-economic Development.

## **5. FUNDING OF THE NATIONAL PROGRAMME OF ACTION**

To attain the objectives of the National Programme of Action, considerable investments will have to be made over the period 2010 - 2015. It calls for an intensification of resource mobilisation actions. The measures to be implemented should also enable the Government to increase its domestic resources (tax and non-tax revenues). To complement this national effort, development partners will be invited to intervene in sectors identified in the Programme of Action and that are expected to have positive effects on the achievement of the Millennium Development Goals. [MDGs]

The total cost of the National Programme of Action is estimated at USD 27,581,656, 096, representing an average cost of USD 4,596,942,683 per annum. The distribution according to areas of concentration over the period 2010 - 2015 is as follows:

- A- Political and Democratic Governance: USD 5,249,556,373 representing 19% of the total cost;
- B- Economic Governance and Management: USD 10,117,392 representing 0.037% of the total cost;
- C- Corporate Governance: USD 14,324,173,379 representing 52% of the total cost;
- D- Socio-economic Development: USD 7,997,808,952 representing 29% of the total cost.

The National Programme of Action does not single out, and places no particular emphasis on any of the thematic areas; instead all the objectives dealt in the four thematic areas are taken as a necessary condition for poverty reduction.

## **6. MONITORING AND EVALUATION MECHANISM**

To ensure efficient implementation, it is important that the Programme of Action, which was designed on the basis of a dialogue and which defines the responsibility of each actors intervening in the area of governance, should be subjected to regular consultations among all stakeholders. To this end, the Ethiopian House of Peoples Representatives,





the Ethiopian Government Cabinet, the Ministry of Finance and Economic Development and grassroots level institutions will take up the challenge of monitoring-evaluation and coordination of the Programme of Action in its totality.

## **7. MAJOR RISKS**

### **7.1 Risks associated with inadequate capacities**

The success of the National Programme of Action will largely depend on the capacity building process for monitoring and evaluation. The novelty of this approach comprises a risk which must be minimised through the strengthening of the capacities of the administration to supervise and monitor the implementation of actions in the respective areas.

### **7.2 Risk associated with funding**

Low mobilisation of financial resources is a major risk that can impede implementation of the actions and, consequently, the attainment of the objectives of the National Programme of Action. To minimise this risk, it is important to sensitise all the stakeholders with a view to mobilizing the necessary resources.

## **8. CONCLUSION**

Succeeding in meeting the challenge of development and poverty reduction is no easy task. There are constraints to be addressed, notably those of democratic and political governance, economic governance, corporate governance, regional integration and international competition. There is also the low level of development of the overall economy.

To succeed, there is a need for a vision and a strategy that will involve all the actors and will be accepted by all. This national action programme offers the possibility of providing the basis for such a strategy. Shortcomings in the quality of dialogue among actors involved in the implementation of the Programme of Action could constitute an obstacle to their full involvement and ownership. This makes it imperative to conceive and implement a communication strategy around the National Programme of Action Programme in order to consolidate and enhance the consensus that prevailed during its development. It is, nevertheless, rare to build such consensus without the support and management of the government. There is the political will, at the highest level, for everybody to understand the importance of this action programme. At the technical level, a mechanism and a method of collaboration and implementation of the measures and actions planned under the National Programme of Action is in place. Overall, the role of the Government to intensify its commitment and make sure that the private sector and civil society associations are adequately consulted and involved in the implementation of the Programme of Action cannot be underestimated.



<b>DEMOCRACY AND POLITICAL GOVERNANCE</b>	<b>Cost In USD</b>
STANDARD AND CODES	647,000
OBJECTIVE 1	11,636,650
OBJECTIVE 2	30,824,000
OBJECTIVE 3	4,832,513,387
OBJECTIVE 4	327,888,182
OBJECTIVE 5	9,200,954
OBJECTIVE 6	1,350,000
OBJECTIVE 7	35,428,000
OBJECTIVE 8	68,000
OBJECTIVE 9	200
<b>TOTAL</b>	<b>5,249,556,373</b>
<b>II: ECONOMIC GOVERNANCE AND MANAGEMENT</b>	
STANDARD AND CODES	0
OBJECTIVE 1	2,317,800
OBJECTIVE 2	1,241,340
OBJECTIVE 3	6,483,552
OBJECTIVE 4	9,700
OBJECTIVE 5	65,000
<b>TOTAL</b>	<b>10,117,392</b>
<b>III: CORPORATE GOVERNANCE</b>	
STANDARD AND CODES	1,560,000
OBJECTIVE 1	14,316,743,787
OBJECTIVE 2	149,592
OBJECTIVE 3	960,000
OBJECTIVE 4	165,000
OBJECTIVE 5	4,595,000
<b>TOTAL</b>	<b>14,324,173,379</b>
<b>IV: SOCIO ECONOMIC DEVELOPMENT</b>	
STANDARD AND CODES	0
OBJECTIVE 1	20,703,315
OBJECTIVE 2	3,067,438,265
OBJECTIVE 3	2,916,994,488
OBJECTIVE 4	1,990,988,688
OBJECTIVE 5	259,000
OBJECTIVE 6	1,425,196
<b>TOTAL</b>	<b>7,997,808,952</b>
<b>GRAND TOTAL FOR THE FOUR THEMATIC AREAS OF GOVERNANCE</b>	<b>27,581,656,096</b>

# I : DEMOCRACY AND POLITICAL GOVERNANCE

Objective	Required Action	Monitorable Indicators	Means of Verification	Ongoing Initiatives	Implementing Agency	Stakeholders	Timeframe (Baseline and Plans)			Expected Output	Estimated Cost (USD)	M&E
							Baseline	Plan (Targets)	Implementation Period			
							2008/09	2009/10	2014/15			
<p>Enhance adoption of International and Regional Standards and Codes</p> <p>Number of Pending standards and codes signed and ratified.</p> <p>Records at the Ministry of Foreign Affairs (MFA) and other relevant depositories of the particular instrument.</p> <p>Number of treaties that are adopted and ratified.</p> <p>Number of Ratification Proclamations passed on standards and norms acceded to.</p> <p>Protocol to the African Charter on Human and Peoples Rights on the Rights of Women in Africa</p> <p>Charter for African Cultural Renaissance</p> <p>Protocol to the African Charter on Human and Peoples Rights on the Rights of Women in Africa</p> <p>Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography.</p> <p>Optional Protocol to the Convention on the Elimination of All Forms of Discrimination Against Women</p>	<p>Widespread searchable database of treaties available to the public through the internet and on compact disc.</p> <p>Ratification process is already underway</p> <p>Ratification process is already underway</p> <p>Ratification process is underway</p>	<p>Permanent Ministries and Agencies with specific responsibilities in the instruments covered by the particular instruments.</p> <p>Ministry of Youth and Sport ; and MOFA</p> <p>Ministry of Women's Affairs</p> <p>Ministry of Culture and Tourism</p>	<p>Relevant Government Ministries and Agencies</p> <p>Ethiopian Human Rights Commission</p>	<p>2009/2010</p> <p>2009/10</p> <p>2009/10</p> <p>2009/10</p> <p>2015/16</p> <p>2015/16</p> <p>2015/16</p>	<p>All relevant Standards and Codes signed and ratified;</p> <p>Number of pending standards and codes of the HoPR</p> <p>*Ethiopia has met its reporting obligations.</p> <p>Compliance with the relevant international codes and standards</p>	<p>647,000</p> <p>MFA/HoPR</p> <p>MFA</p> <p>MFA</p> <p>MFA</p> <p>MFA</p> <p>MFA</p> <p>MFA</p>						
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					
	X	X	X	X	After the end of this period	After 2014/15	After 2014/15					















Build the capacity of the Counter Narcotics Service of the Federal Police Commission	* Train officers of CNS * Equip CNS with modern surveillance equipment and instruments	Number of trained officers and equipment supplied	Reports and records	TDE/ETH07 with UNODC	Police	UNODC, Interpol, FMOH						Trained officers deployed	Police	
Establish drug identification and analysis capacity	* Train analysts and equip the Federal Police Lab. * Establish regional Forensic Laboratories * Equip central and Regional labs * Revise regional Organizational structures, Train officers and equip drug control units	Number of Trained analysts Number of Regional labs established Equipments supplied Units established, Number of officers trained, Equipment supplied	Report, record		Police	Regional Police commission, FMOH, UNODC						Analysts trained and new laboratories established	Police	
Establish and Build the capacity of regional Police counter narcotics units			Reports and records		Police	Police, UNODC, FMOH						Units established	Police	
Conduct a national survey on Drug Control	Organize a team of experts, develop questionnaire and undertake the study	Study report	Study report		Police	Police, FMOH, ERCA, Immigration, MoI, MoARD						Study report	Police	
Build capacity of law enforcement agencies in international airports of Ethiopia	Identify need, train officers and supply equipment and instruments	number of trained staffs	Report and records		Police	Air port Administrations, ERCA, Immigration and Citizens Affairs Main Department						enhanced capacity of law enforcement agents	Police	
Evaluate illicit drug cultivation and dismantle clandestine laboratories	Assess the extent of areas covered with illicit plantation and number clandestine laboratories Conduct awareness programs	Number of assessment report conducted number of awareness programs organized	Police report		Police	Regional States, MoARD and its regional counterpart						Land used for illicit cultivation eradicated and covered with income generating crops	Police	
Promote peace, security and stability in the country	Combatting terrorist activities by the help of capacity building of the police Combatting human trafficking by the help of capacity building of the police	Number of capacity building programs organized Number of awareness creation forums organized	Police report		Police	MoFA, MoI, Immigration and Citizens Affairs Main Department, F BI, ILEA, UNODC, MFA						Peace and security ensured in the country	Police	
Combatting forgery and counterfeiting crimes by the help of capacity building of police	Combatting forgery and counterfeiting crimes by the help of capacity building of police	Number of capacity building and awareness creation seminars and media broasdcastings organized	Practical observation		Police	UNODC, EAPCCO, Sub-regional Interpol, MoLSA, Immigration and Citizens Affairs Main Department						Reduced in illegal human trafficking		
Combatting money laundering by the help of capacity building of police	Combatting money laundering by the help of capacity building of police	Number of capacity building training and awareness creation seminars conducted	Practical observation		Police	All financial institutions						Reduced in forgery and counterfeiting crimes		
Enhance Capacity to control small arms	improve the capacity of the experts on small arms controlling system Amended the existing laws on small arms	Number of specialists trained in controlling small arms Laws and regulations enacted on controlling small arms and their circulation	Reports		Police	The society Police						Trained officers deployed Revised laws put in place	Police Police	
													Sub-Total 11,636,650	

**OBJECTIVE 2: CONSTITUTIONAL DEMOCRACY, INCLUDING PERIODIC COMPETITION AND OPPORTUNITY FOR CHOICE, THE RULE OF LAW, CITIZENS' RIGHTS AND SUPREMACY OF THE CONSTITUTION**

Ensure the conduct of free & fair election periodically	Build capacity of NEBE, create awareness among citizens on election process and system	Preparation and conduct of periodic election process in accordance with the constitutional and electoral law, regulation, and procedure of NEBE	NEBE reports	* in placement of permanent employees and new professionals * USA, 2008 Presidential Election Observation. * EISA short-term training on Election Management Programme (PMP) short-term training * EC-INMDE/IEBA Joint Training Electoral Assistance.	NEBE	political parties, donors, other governmental organizations, CSOs, International observers	Local election conducted	Prepare and conduct the fourth national election	* prepare and conduct local election. * prepare and conduct 5th national election	2009/10 2014/15	Enhanced capacity of NEBE	30,000,000	NEBE, MoFED, Parliament
Intensive civic & Voter education for the public at large	Number of Civic Voter Education (CVE) delivered	NEBE reports	* CVE Licensing Regulation No. 2/2008 * In the 2008 Local Election CSOs NGOs have got license to give CVE	NEBE	political parties, donors, other governmental organizations, CSOs,	25 million population delivered	30 million civic and voter education delivered	34 million (twice) civic and voter education will be delivered.	2009/10 2014/15	Increased in awareness about election among citizens	320,000	NEBE, MoFED, Parliament	
Conduct intensive training and capacity building for all political parties	number of political parties obtained the training and capacity building support	NEBE reports	* Workshop Organized for National and Regional Political Party Leaders on democratic process Fair formula is devised and put in effect to distribute fund in cash, in kind and Ongoing	NEBE	political parties, donors, other governmental organizations, CSOs,	58	70	72	2009/10 2014/15	Enhanced capacity of political parties	185,000	NEBE, MoFED, Parliament	
Increase capacity of Election officials at all level	number of election officials trained	NEBE reports	Ongoing	NEBE	Donors, Political parties, CSOs,	210,000	220,000	250,000	2009/10 2014/15	Enhanced capacity of the election officials	300,000	NEBE, MoFED, Parliament	
Intensive training and capacity building of domestic observer	Number of trained domestic observers in all types of election	NEBE reports	In the 2008 local and by-elections domestic observers were given license and fully observed the election	NEBE	Donors, Political parties, CSOs,	200,000	50,000	60,000	2009/10 2010/15	Enhanced capacity of domestic observers		NEBE, MoFED, Parliament	
Free air and news letter column and media time distributed fairly for all political parties during election	Number of political parties given media time	NEBE and EBA report	from 2008 - 2009, 210,000 election officials trained at all level Ongoing	NEBE EBA	Media, political parties, CSOs, Donors, other government bodies	32	62	It depends on the actual number of parties.	2009/10 2010/15	The population of Ethiopia get awareness about the program of political parties	5,000	NEBE, MoFED, Parliament	
Complaints handled properly as per the election law and requirements	* number of complaints lodged by political parties and independent candidates given decisions by complaints handling committees * Established number of complaints handling committees	NEBE reports	Ongoing	NEBE	SCourt, political parties, CSOs, International (during general election) and domestic observers	150 41,000	It will be observed on the process. 43,000	It will be observed on the process. 60,000	2009/10 2010/15	Complaints from political parties solved according to the electoral law without any problem	14,000	NEBE, MoFED, Parliament	
										Any dispute related to election minimized		<b>Sub-Total</b> <b>30,824,000</b>	

NBE, in the context of Ethiopia NGOs and CSOs are Membership Based NGOs and CSOs



Promote Access to Education at all levels	Increase Universal primary education by 2015	Primary Gross Enrollment Rate (GER) - Total	EMIS	GEQP	MoE	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	94.2%	97.6%	115.0%	Ensured universal access to primary education	2,250,000,000	MoE
		Male	EMIS	GEQP	MoE	97.6%	98.8%	116.0%				
Enhance achievement of Primary health coverage	Increase Primary school GER	1st Cycle (Grade 1-4) GER	EMIS	GEQP	MoE	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	122.6%	121.8%	115.0%	Increased in primary school enrollment	2009/10-2014/15	MoE
		Male	EMIS	GEQP	MoE		126.7%	122.2%	116.0%			
		Female	EMIS	GEQP	MoE		118.4%	120.2%	114.0%			
		2nd Cycle (Grade 5-8) GER	EMIS	GEQP	MoE		63.1%	71.4%	115.0%			
		Male	EMIS	GEQP	MoE		65.6%	70.9%	116.0%			
		Female	EMIS	GEQP	MoE		60.5%	71.9%	114.0%			
		Primary Net Enrollment Rate (NER) - Total	EMIS	GEQP	MoE		83.0%	86.0%	100.0%			
		Male	EMIS	GEQP	MoE		84.6%	88.4%	100.0%			
		Female	EMIS	GEQP	MoE		81.3%	85.6%	100.0%			
		1st Cycle (Grade 1-4)	EMIS	GEQP	MoE		88.7%	90.1%	100.0%			
		Male	EMIS	GEQP	MoE		90.3%	92.0%	100.0%			
		Female	EMIS	GEQP	MoE		87.0%	88.1%	100.0%			
2nd Cycle (Grade 5-8)	EMIS	GEQP	MoE	44.0%	51.9%	100.0%						
Male	EMIS	GEQP	MoE	44.0%	52.9%	100.0%						
Female	EMIS	GEQP	MoE	44.0%	51.0%	100.0%						
Increase secondary education (Grade 9-10) enrollment and completion rate	Gross Enrollment Rate (GER) - Total	EMIS	GEQP	MoE	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	38.1%	41.8%	58.3%	Increased in students completed grade 10	2009/10-2014/15	MoE	
	Female	EMIS	GEQP	MoE		43.7%	44.8%	59.8%				
Increase Secondary 2 <sup>nd</sup> Cycle Preparatory (Grade 11-12) enrollment	No of students completed preparatory program	EMIS	Higher Education Reform	MoE	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	862,338	241,710		20% of Grade 10 completers admitted to Preparatory program	2009/10-2014/15	MoE	
	Male	EMIS	Higher Education Reform	MoE		63,496	131,271	128,398				
Increase in number of students admitted to TVET	No of students completed TVET program	EMIS	TVET Strategy	MoE	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	22,42	58,667	112,311	80% of grade 10 completers admitted to TVET	2009/10-2014/15	MoE	
	Female	EMIS	TVET Strategy	MoE		75,000	225,000	1,015,342				
Increase in number of students admitted to under graduate programs (including private institutes)	Number of preparatory program completers admitted to under graduate program	EMIS	Higher Education Reform	MoE, HEIs, Private Sector	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	39,000	115,000	527,978	Increase number of graduates from under graduate programmes	2009/10-2014/15	MoE	
	Female	EMIS	Higher Education Reform	MoE		36,000	108,000	487,364				
Increase in number of students admitted to post graduate programs (including private institutes)	Number Admission to post graduate program	EMIS	Higher education reform	MoE	International /Local NGOs, Other Government Ministries and the Private Sector, ITA	82,498	142,000	178,038	Increase number of graduates from post graduate programmes	2009/10-2014/15	MoE	
	Female	EMIS	Higher education reform	MoE		3,267	5,300	16,275				
Reduce adult illiteracy	% of literate adults		Adult and non-formal education program	MoE, REB	International and local NGO, MoE, REB	41.5	43.1	50%	Reduced adult illiteracy	2009/10-2014/15	MoE	
	Potential Health Service Coverage (%)	Annual report of FMOH, DHS report, reviews and evaluation reports	89.6% health service coverage achieved, 31,831 Health Ext. Workers trained and deployed to reach rural households.	89.6%		100%	100%					
Implement social health insurance (SHI) and pilot test mental health policy	Number of Filipinos accessing mental care		Proclamation and regulations drafted to ongoing	FMOH and its regional counter parts	FMOH and its regional counter parts				SHI implemented in the formal sector and Mental health policy implemented	2009/10-2014/15	FMOH	
	Develop, adapt and implement mental health policy	* Mainstreaming of detection and management of mental health problems in the health system										
<b>Sub-Total</b>											<b>4,832,513,387</b>	



**OBJECTIVE 4: UPHOLD THE SEPARATION OF POWERS, INCLUDING THE PROTECTION OF THE INDEPENDENCE OF THE JUDICIARY AND OF AN EFFECTIVE LEGISLATURE**

**PARLIAMENT**

Ensure effective legislative assembly (Law Making Process)	Development of revised rules and manuals	No of manuals revised	Printed Manuals	Ongoing	HoPR	Executives, citizens and CSOs	1	1	4/2013/14	Effective rule of procedure improved	55,000	HoPR
		Conduct a series of mixed party-based seminars on comparative parliamentary experiences with official	HoPR annual report	Ongoing	HoPR	Executives, citizens and CSOs	15	20	80	Better Consensus building ensured	770,000	HoPR
create effective & efficient oversight process	Short-term training to all committee members, MPs and staff on Bill Drafting and Review, Law making and oversight of Budgets, Committee of Enquiry, Budget, Law Making and oversight process for committees and MPs Staff	No of Seminars conducted	HoPR annual report	Ongoing	HoPR	Executives, citizens and CSOs	1	1	8/2013/14	enhanced performance	420,000	HoPR
		No of Training Held	HoPR annual report	Ongoing	HoPR	Executives, citizens and CSOs	1	1	8/2013/14	Better experience resulted	420,000	HoPR
Enhance representational capacity of MPs to enhance constituency Outreach	Staff to visit a parliament with non-partisan research and committee support services to understand how to be effective information brokers for standing committees.	No of study tours conducted	HoPR annual report	Ongoing	HoPR	Executives, citizens and CSOs	1	2	8/2013/14	Better experience resulted	420,000	HoPR
		No of visit conducted	HoPR annual report	Ongoing	HoPR	Executives, citizens and CSOs	89	84	110	Effective information brokers ensured	445,000	HoPR
Enhance the working system of HoPR	Facilitate a series of on-going policy forums in conjunction with the following organizations at Federal and Regional levels (examples of forums: Democracy and Incentive representational capacity of HoPR)	No of cases followed up	HoPR annual report	Ongoing	HoPR	Executives, CSOs and Citizens	10	15	60	enhanced effective performance	680,000	HoPR
		No of forums organized	HoPR annual report	Ongoing	HoPR	Executives, CSOs and Citizens	30	25	80/2013/14	Strengthened MPs outreach of HoPR	1,120,000	HoPR
	Procure necessary ICT equipment as well as additional books and journals and office equipments for the federal parliament	Number of equipment purchased	HoPR annual report	Ongoing	HoPR	Executives, CSOs and RSC				Strengthened capacity of HoPR	450,000	HoPR
	Design study for parliamentary complex	Realized level of construction										

Judiciary													
Enhance Judicial Competency	Improving the recruitment and selection process	Number of qualified candidates among women and persons from minority groups	Progress Report	CJSRP and IAT	FSC and JAC	Federal and Regional Judiciary	23.50%	25%	40%	2009/02/01/15	A competent judiciary contributes to the predictability of the law, credibility of the justice system and public trust	Federal Supreme Court	27,273
	Increasing the capacity of Judicial Training Centres	Number of trained Judges	Report of the judiciary and the MoCB	CJSRP and IAT	Federal Training Center	Federal and Regional Courts	2,300	3,000	15,000	272,727			
	Increase focus on, and strengthen, in-service training	Enhanced effectiveness of judiciary	Revised Curriculum	CJSRP and IAT	Federal Training Center	Federal and Regional Judiciary	10%	50%	100%	181,818			
	Strengthen pre-service training	Number of judges trained in pre-service training	Revised Curriculum	CJSRP and IAT	Federal Training Center	Federal and Regional Judiciary	2,500	3,000	5,000	181,818			
Ensure better understanding of judicial independence	Clarify and supporting the role of the courts in applying constitutional and human rights principles	Material developed and distributed to provide ongoing application of constitutional principles	number of training programs and reports	CJSRP and IAT	Federal Training Center	Federal and Regional Judiciary	10%	20%	90%	2009/02/01/15	The Rule of Law is strengthened by an independent judiciary, improved public confidence	Federal Supreme Court	272,727
	Provide a framework for administrative decision-making bodies/trials	Code of administrative procedures issued from all administrative bodies/trials	reports and revised legislations	CJSRP	LJRI	LJRI, parliament, the executives and the judiciary							
	Raise awareness – in the legislature, among the executive, and in the society – of the separation of powers and of judicial independence	Better understanding of, and respect for, judicial independence among executive officials	report on the number of training programs and training manuals	programs are ready to be implemented	Federal Training Center	Federal Training Center	Parliament, executive and the judiciary	5%	50%	90%	136,364		
	Strengthen proper understanding and application of judicial independence by judiciary	Judges have a proper understanding of the principle of judicial independence	report on the number of training programs and training manuals	an ongoing program	Federal Training Center	Federal and Regional Judiciary	Federal and Regional Judiciary	5%	50%	90%	90,909		
	Strengthen respect for judicial tenure – re-organized heads of courts	Tenure of court heads re-organized	Report	the study document already submitted, and implementation is being considered through the ongoing	JAC and FSC	JAC and FSC	Parliament, executive and the judiciary		-	Amended /Clarified/	45,455		
	Develop objective, merit-based criteria and transparent procedures for advancement	Advancement guidelines and transparent criteria	Report	ongoing	JAC and FSC	JAC and FSC	Parliament, executive and the judiciary		New Guidelines 100%	New Guidelines 100%	18,182		
	Develop objective criteria and a transparent process for transfers	Transfers guidelines and criteria and process – transparent process for transfers established	Report	ongoing	JAC and FSC	JAC and FSC	Parliament, executive and the judiciary		80%	100%	9,091		
	Develop limited criminal process immunity for judges for chasing judges’ association	Legislation enacted	Report	ongoing	JAC and FSC	JAC and FSC	Parliament, executive and the judiciary		80%	100%	9,091		
	Establishing an independent judges’ association	Judges association established	Report	ongoing	Judges Association	Judges Association	Judges, the judiciary, the BAR as association		Established 100%	Established 100%	18,182		
	Increasing job satisfaction of judges; providing adequate salaries, benefits and working conditions	Improvements in the remuneration and working conditions of judges	Report	ongoing	JAC and FSC	JAC and FSC	Judges, the judiciary, MoFED, parliament	High Turn Over	Decreasing Judges Turn over by 90%	Increased in motivated judges, better performance	1,363,636		
Render courts’ budget process comply with the Constitution	Budget for all courts presented by SC	Report	ongoing	Federal and Regional Supreme Course	Federal and Regional Supreme Course	Courts, parliament, and the executive		90%	100% Completed	27,273			
Strengthening the JAC	Revised members hip of JAC	Report	Report	JAC and FSC	JAC and FSC	Parliament, executive and the judiciary		90%	100%	9,091			
	Improved public support of JAC	Report	Report	JAC and FSC	JAC and FSC	Parliament, executive and the judiciary		90%	100%	9,091			

Ensure Accessibility, transparency and Accountability of Courts	Improve transparency of the court process	Adequate facilities for public hearings Increased public attendance at court hearings Evidence is properly preserved	Progress Report	CJSRP and IAT	Federal and Regional Supreme Course	Parliament, executive and the judiciary	Poor Infrastructure		Cour room increased by 80%	2009/10-20/14/15	The public is better informed of its rights and how to use the court system to have them enforced. increased public confidence in courts	9,999,909	Federal Supreme Court
	Enhance accessibility of decisions	Improved public access to decisions Reasons for decisions are clear	Progress Report	CJSRP and IAT	Federal and Regional Supreme Course	Parliament, executive and the judiciary		100%	100% of judgment will be published	2009/10-20/14/15	Increased in predictability of outcomes of the decisions and greater accountability	548,455	
	Build jurisprudence	Increase in published scholarly comments on court decisions	Progress Reports and Publications	CJSRP and IAT	Law schools and courts	Parliament, executive and the judiciary	Poor	20% of Govt.Law Schools will be covered	100% of Govt.Law Schools will be covered	2009/10-20/14/15	increased awareness and transparency	48,455	
	Improve media reporting	More frequent and better reporting on court cases	progress report	CJSRP and IAT	FSC, ETV, and Ethiopian Radio	Parliament, executive and the judiciary	Poor		Regular programme	2009/10-20/14/15	Public got informed	454,546	
	Encourage the participation of civil society in the process	Regular meetings conducted	Progress Report	CJSRP and IAT	FSC	Parliament, executive and the judiciary	Once in a Year	Twice in a year		2009/10-20/14/15	Increased in participation in the process	81,818	
	Improve the code of ethics/contact	Revised code of ethics/contact is distributed to judges and court staff and made public	Progress Report	CJSRP and IAT	FSC and JAC	Parliament, executive and the judiciary		100%	100%	2009/10-20/14/15	Increased in greater accountability	27,273	
	Improve the judicial disciplinary process	Revised code of discipline	Progress Report	CJSRP and IAT	FSC and JAC	HoPR, executive and the judiciary		100%	100%	2009/10-20/14/15	Increased in greater accountability	27,273	
	Integrate anti-corruption features	Decrease in incidents of court corruption	survey and reports	CJSRP and IAT	FSC and JAC	HoPR, executive and the judiciary		70%	90%	2009/10-20/14/15	Increased in greater accountability	27,273	
	Implement time standards for case disposal	Decreased in case disposal time	statistical reports	CJSRP and IAT	FSC	HoPR, executive and the judiciary		50%	100%	2009/10-20/14/15	reduced waiting time and a greater accountability	54,546	
	Establish judicial performance evaluation	Performance evaluation system in place	statistical reports	CJSRP and IAT	FSC	HoPR, executive and the judiciary			Completed	2009/10-20/14/15	reduced waiting time and a greater accountability	272,727	
	Facilitate public access to information on individual cases and on court operations in general	Public has better access to information in courthouses	statistical reports	CJSRP and IAT	FSC	HoPR, executive and the judiciary		100%	100%	2009/10-20/14/15	more information through access points	272,727	
	Improve public awareness of the legal and justice system, and of the role and functioning of the courts	Number of awareness creation forums organized	progress reports	CJSRP and IAT	FSC	HoPR, executive and the judiciary		5	15	2009/10-20/14/15	increased uses of the judiciary	181,818	
	Reduce case and public perceptions of the need for continuous improvement of court services	Number of assessment forums to improve public perception of the judicial system	survey and reports	CJSRP and IAT	FSC	HoPR, executive and the judiciary		1	6 Reports	2009/10-20/14/15	more accurate information about how the public perceives the court	272,727	
	Build up national judicial statistics in order to measure progress over time and to support strategic planning	Improved judicial statistics stronger data to assess progress and plan	statistical reports	CJSRP and IAT	FSC	HoPR, executive and the judiciary	Inigation is in Federal courts	50% integrated integrated	100% integrated nation Wide	2009/10-20/14/15	Integrated judicial statistics will be in place	454,546	

Enhance efficiency and effectiveness of courts	Improve the quality of decisions – clear decisions based on correct law	Improved quality of decisions – law is correctly and consistently applied	progress reports	CJSRP and IAT	FSC	Parliament, executive and the judiciary		No of Reversal will be decreased by 80%	2009/10/2014/15	Courts have the resources and took they need to deliver timely, quality and cost-effective services to the public, enhance public confidence, improve predictability, reliability and enforceability of judicial decisions	136,364	Federal Supreme Court
	Take measures to reduce decisions based on perjured testimonies	Fewer erroneous decisions based on perjured testimonies Increased public confidence in courts	progress reports	CJSRP and IAT	FSC	Executive and the judiciary		Increased by 90%	2009/10/2014/15	Increased rectitude of decisions	45,455	
	Improve the enforcement of decisions	Timelier and more reliable execution of court decisions Enhanced public confidence in the court process	statistical reports	CJSRP and IAT	FSC	Executive and the judiciary	50%	100%	2009/10/2014/15	reduced waiting time in the execution of judgments	63,656	
	Review the appellate process to ensure efficiency	More efficient appellate process	progress reports	CJSRP and IAT	FSC	Executive and the judiciary		Decreased by 80%	2009/10/2014/15	reduction in incoming cases	45,455	
	Establish specialized benches for greater efficiency and effectiveness	Appropriate, specialized benches set up and staffed with qualified judges	survey and reports	CJSRP and IAT	FSC	Executive and the judiciary	30%	100%	2009/10/2014/15	predictability and greater efficiency	9,091	
	Establish mobile benches for greater efficiency and accessibility	Increased public accessibility through effective mobile benches	progress report	CJSRP and IAT	FSC	Executive and the judiciary	60%	100%	2009/10/2014/15	circuit courts and video court sessions	136,364	
	Improve the timeliness of trials and case disposal	Improved timeliness of trials and case disposal	statistical reports	CJSRP and IAT	FSC	Executive and the judiciary	65%	100%	2009/10/2014/15	reduced waiting time in judicial processes	90,909	
	Consult on reforms and coordination	Increased coordination and effectiveness of justice processes Smooth implementation of reforms	progress report	CJSRP and IAT	FSC	Executive and the judiciary	-	100%	2009/10/2014/15	joined-up justice strengthened	181,818	
	Develop Alternative Dispute Resolution (ADR) processes	Increased number of disputes resolved through ADR and involving restorative justice	progress report	CJSRP and IAT	FSC	Executive and the judiciary	25%	90%	2009/10/2014/15	increased access, greater satisfaction	90,909	
	Pursue court administration reform processes and rolling out to all	Further efficiency gains	progress report	CJSRP and IAT	FSC	Executive and the judiciary	75%	90%	2009/10/2014/15	greater number of courts covered by the reform	272,727	
	Strengthen an adequate number of court staff positions, staffed with qualified personnel to deal with	Number of qualified candidates are recruited and trained	progress report	CJSRP and IAT	FSC	Executive and the judiciary		100%	2009/10/2014/15	more trained professionals deployed	45,455	
	Improve court facilities	Improved access to court information	progress report	CJSRP and IAT	FSC	Executive and the judiciary		80%	2009/10/2014/15	improved in court facility	4,545,455	
	Conduct study reforms with respect to the contemporary of Social Courts	Proposal for reform of Social Courts	progress report	CJSRP and IAT	FSC	Executive and the judiciary		90%	2009/10/2014/15	reorganized social courts	181,818	



Enhance institutional and operational system of public prosecution services	Enforcing the justice system reforms:	Level of Conviction and clearance rates.	Prosecutor's reports.	MoJ	All governmental & non-governmental institutions and all Ethiopian peoples and international community, MoCB,	15%	20%	80%	2009/10/20/14/15	Fair, responsible, accessible, efficient, impartial and objective prosecution service at all levels.	300,000,000	HoPR, MoCB, Council of Ministers	
	* Creating the comprehensive and integrated system that enhances the competence and accountability of the prosecutors * Implementing the legal and institutional reform programs and instruments.	Level of the accessibility, objectivity and fairness of the prosecution services. Level of public trust and confidence in the prosecution service.	MoJ Report	MoJ			13%	15%	40%	2009/10/20/14/15			
Install crime prevention mechanisms	Develop crime prevention strategies or policies and creating and maintaining institutional framework for their implementation and review.	Number of prosecution officers maintaining the new PIS (Prosecution Information System).	Finalizing the draft criminal policy	MoJ and its regional counterparts and other stakeholders	All governmental & non-governmental institutions and all Ethiopian peoples and international community	2	7	50	2009/10/20/14/15				
		Designed or formulated policy and strategy documents on crime prevention.	waiting for the adaptation of the policy by the Council of Ministers			50%	70%	100%	2009/2010/2014/2015	Reduced risk of crimes recurring and their potential and harmful effects against individuals and at community level.	500,000	HoPR, MoCB, Council of Ministers	
		Number of institutions that are being put in place and the effectiveness and efficiency of their.	expecting the the policy adapted					few justice sectors are involved	10%	100%	2009/2010/2014/2015		
		Changes in rates of victimization at all levels of given sections of society.		MoJ Report				adoption of criminal policy is underway	10%	75%	2009/2010/2014/2015		
		The public perception of safety in the community or the level of public fear	waiting for the adaptation of the policy by the Council of Ministers										

Institutionalize access to legal aid for the socially disadvantaged citizens.	Develop policy or law and Institutional frame work for providing free legal aid to the poor, marginalized and vulnerable section of society.	MoJ Report	awareness creation and circulation of ideas on the importance of free legal aid institutions	MoJ and its regional counter parts and other concerned institutions	Judicial organs and other interested governmental & non-governmental agencies.	majority of the public are not aware of free legal aid	10%	80%	2009/2010-2014/2015	Significantly increased access to justice of the poor, marginalized and vulnerable section of society.	HoPR, MoCB, Council of Ministers
	Number of institutions that are put in place and effectiveness, efficiency and accessibility of these institutions.	MoJ Report	working to increase the number of Governmental and non-governmental institutions providing free legal aid			Few governmental and non-governmental institutions involved in providing free legal aid	10%	80%	2009/2010-2014/2015		
	Percentage of poor and disadvantaged peoples served by the legal aid programs.	MoJ Report	expecting the policy or laws on free legal aid adapted			only few poor people get free legal aid from the MoJ and its regional counter parts and few NGOs	10%	75%	2009/2010-2014/2015		
	Increased dissemination of laws in electronic & hard copies.	Periodic report of the Ministry of Justice	Installation of National Integrated Justice Information Center.	MoJ	The Ethiopian Peoples at Large	limited access of essential laws in electronic and hard copies	15%	100%	2009/2010-2014/2015	Improved publicly, & accessibility of information and data in the justice system.	2,000,000 MoCB, MoJ
	Timely publication of newly enacted laws.	Periodic report of the Ministry of Justice	pilot test on the business process reengineering	MoJ	The Ethiopian Peoples at Large	2%	20%	100%			
	Data on justice made available at designated places for researchers, academics, policy makers, etc.	Periodic report of the Ministry of Justice	pilot test on the business process reengineering	MoJ	The Ethiopian Peoples at Large	5%	20%	90%			
Introduce witness protection program. Codification and Consolidation	Develop and implement the witness protection policy and institutional framework.	Periodic report of the implementing agencies	Finalizing the draft witness protection law	MoJ	Witnesses, criminal justice institutions in particular and all governmental and NGOs			40%	2009/2010-2014/2015	High level of Safety and welfare of witnesses	210,000 HoPR, MoCB, Council of Ministers
	Designed or formulated policy and strategy documents on witnesses Protection program.					25%	100%				
	Institutions that are put in place and effectiveness, efficiency and accessibility of these institutions.					2	3	6			
	Study document and the system being put in place	Report by Ministry of Justice	expecting the witness protection law adapted	MoJ	All governmental & non-governmental institutions and all Ethiopian Peoples and international community			70%		Updated, quick & reliable references for legal professionals and public at large	
	Number of copies to be printed and distributed	General survey on the availability of all active Ethiopia laws for prosecutors, judges, police and the public at large					10%	100%			
	Publi.h and distribute active codified & consolidated laws					0.05					
											Sub-Total 327,888,182



Enhance leadership Development in the Civil Service	Enhance policy development & execution capacity of government institution (MAIBs)	Capacity gap identified	Periodical reports	None	PMO	All Government Institution	Institute for Legal Studies and Research exists	Gap identifying report submitted	Central body strengthened	2009/10-2014/15	Capacity of monitoring & reporting on delivery of GfE's priorities strengthened	PMO	
		Training need identified and Central body for policy studies established			MoCB	The Law-Makers	Ethiopian Development Research Institute exists	Training need drafted	Training and Coaching started and Action for future development identified		MAB's capacity to develop effective policies and executing them properly enhanced		
		Benchmarked knowledge input in place				The Law-Makers		Consultative forums held			Employees trained on policy development & analysis		
		Strategy unit established	Periodic Reports	Discussions held with the developmental partners		The Law-Makers	Performance management framework for council of Ministers developed and approved	Reviewing report submitted & discussed	Legal framework amended and inspection teams formation completed	2009/10-2014/15	Capability to align the government and delivery of results enhanced		
		Delivery unit established and Units networked with government implementing institutions			PMO	All implementing institutions	Strategic plan developed and implemented in all government institutions	Networking established and the government offices started	Strategy unit established and inspection of performance in clustered institutions started. Delivery unit established	2009/10-2014/15	Accountability for result maintained	1,000,000/PMO	
		Legal framework amended to serve the purpose							Manuals and directives developed	2014/15		MoCB	
		Percentage increase of women in leadership positions	Periodic reports	Ongoing	FCSA	Mo WA	Ministries and Bureaus started mainstreaming	Survey on mainstreamed plans and System undertaken	Enforcement of law followed fully implemented	2009/10-2014/15	Gender equality and fairness maintained	100,000	MoWA and MoLSA
		Percentage increase in employment of people with disabilities	Surveys			Women Associations	Legal frameworks in place.				Fairness and transparency maintained in regard to marginalized groups of the society		
		Institutions applying proper gender mainstreaming increased				Associations of people with disabilities							
		Institution tasked to full scale BPR for scaling up developed	Periodic inspection reports M & E	Ongoing	All government institution Universities	Law makers Public at large	Indicative results of efficiency seen	Survey and inspection Status reported and discussed	BPR translated to the public Manuals and guidelines developed and adopted. Implementation strengthened	2009/10-2014/15	Effectiveness in all aspects enhanced Strategy implemented fully and completely	400,000	MoCB
		Minimum services delivery standard developed	Constitutive forums					Strategy designed for future action	Studies and researches undertaken and learning lessons identified		Governance structure to lead the transformation process improved		
		Training delivered on scaling up techniques						BPR implementation writes press and scaled up					
		Number of Change champion/ Agents increased						Minimum service delivery standard enhanced					



Transform public services performance and services delivery	Finalize and Implement Result Oriented Performance Management system based on BSC	Team assigned developed	Periodic reports	Ongoing	ECSC	All government institutions including regions	Implementation piloted at 10 federal institutions	Implementation Training manual developed	Legal framework refinement will take place, integrated packages completed	2009/10-2014/15	Result oriented working culture enhanced	200,000	MoCB, MoFED
		Training manual developed	Steering committee evaluation forums		EMI	PMO	Planning stage at 3 regions (Gambara, Oromiya, Tigray)	Teams assigned	Full fledged BSC implemented		Effectiveness and accountability assured		
		Leaders and experts at all level trained on BSC			MoCB		Implementation piloted at AA city Administration	Trainings delivered	Implementation scaled-up		Integrated packages adopted to fasten the ROPMS, like (PRP, competency framework, team charter, etc)		
		Legal framework developed						Integrated packages designed and piloted	Communication strategy designed and implemented		M & E software installed and networking completed		
		Center for BSC established						Pilot implementation undertaken			Communication strategy designed and implemented		
		Fully and adequately staffed coordinating body in place	Periodic reports of the coordinating body	Rearrangement of the programs is underway	MoCB	All Reform implementing institutions	Program integration worked out	Structure approved and designed	Structure approved and being functional	2009/10-2014/15	Effective and efficient reform program implementation assured	100,000	MoCB
		Effective and efficient M&E system developed and implemented						Staff gap identified	Staff recruited and assigned				
		No. of staff trained on M&E							M&E system designed				
	Strengthen capacities of ECSC, EMI, ECSSA and others	Type and range of technical advisers provided	Periodic reports	Twining with UK institution	MoCB	All implementing institutions	Twining started at small scale	Staffing and synthesizing initiatives undertaken	Twining relationship scaled up		Capacity building capacities strengthened to serve the national development agenda	200,000	
		No. of twinning relationships established with the members of the world (developed countries)	Consultative forums			Develop potential partners	Trainings delivered on change related courses						
<b>Sub-Total</b>											<b>9,200,954</b>		

<b>OBJECTIVE 6: FIGHTING CORRUPTION IN THE POLITICAL SPHERE</b>												
Enhance the legal and operational capacity of preventing and fighting corruption	Accelerate and strengthen campaign against corruption with a long term program to promote positive values.	No of organizations participated in & TOTs given ethics education;	FEACC annual report	Ongoing	FEACC & its regional counter parts (REACC)	Government, private, civic organizations and citizens.	20:30	40-60	100-150	2009/10 -2011/12	Increase ethical values & awareness about evils of corruption	Parliament & FEAC
	Continue teaching ethics and anticorruption education to the Executive, Legislature and Judiciary members leading to zero tolerance of corruption.	No of ethics forums & clubs organized & mobilized	FEACC annual report	Ongoing		Executive, Legislature & Judiciary	1	2	3 to 5	2009/10 -2011/12	Awared & Ethical Executive, Legislature & Judiciary	Parliament & FEAC
	Develop integrity check list and evaluate based on the check accordingly	Number of integrity check list developed;	FEACC annual report	New		Government, private, civic organizations & citizens.	0		1	2010/11-2011/12	Integrity check list document produced	FEAC
	Prepare and develop Codes of Conduct for higher officials and evaluate its outcome.	check list developed & practiced;	FEACC annual report	Ongoing		All Government Departments				2010/11-2011/12	Code of ethics document produced & practiced	FEAC
	Develop Anti-corruption policy and training manual.	Policy, document & training manual;	FEACC annual report	Ongoing	FEACC & REACC	Government Departments	Draft Level		2	2010/11	Policy & training manual developed	FEAC
	Conduct corruption survey	No of survey conducted;	FEACC annual report	Ongoing		All citizens	Bt document to WB		1	2011/12	Survey document produced, information	FEAC
	Conduct perception of corruption	improvement in score in corruption perception surveys;	FEACC annual report	New		Government, private, CSOs & Citizens			1	2010/11-2011/12	Level of perception document produced	FEAC
	Strengthen specialized anticorruption entities (Ethics Units)	Number of system studies conducted and being organized	FEACC annual report	Ongoing		FEACC & REACC				2009/10 -2011/12	status subject efficiency & smooth rship increased	FEAC
	Continue detecting and investigating corrupt cases and Continue Prosecuting and Draft public officials & other public employees law of assets and financial interests registration & follow up its approval	no of Corrupt cases investigated;	FEACC annual report	Ongoing	FEACC & REACC	Government, private, CSOs & Citizens				2009/10 -2011/12	Corrupt cases investigated & prosecuted	Parliament & FEAC
	Draft private sector anticorruption legislation and follow up its approval	Conviction rate;	FEACC annual report	Ongoing		Law enforcing Departments & citizens	Draft Level		1	2009/10 -2011/12	Corrupts punished & Law of asset registration for higher officials	Parliament & FEAC
Enhance public service accountability and transparency	Drafted and approved laws.	FEACC annual report	Ongoing	FEACC & REACC	MoJ and MoCAB	Draft Level	✓			Private sector anticorruption law	Parliament & FEAC	
	staff trained and enhanced institutional operations;	FEACC annual report	Ongoing		Private sector organs, NGOs and citizens			1	2011/12	Efficient & effective staff	Parliament & FEAC	
	Directives approval	FEACC annual report	Ongoing		MoCAB, Donors			1200		2009/10 -2011/12	Regulations & directives issued	MoCB and FEAC
	Number of MABs considering registration of assets	FEACC and MoCB Annual Report	ongoing		HoPR, government institutions,	Draft Level		5,000		2009/10 -2011/12	Assets & financial interests registered	MoCB and FEAC
	Legislation issued	FEACC reports	ongoing		HoPR, government institutions	Draft Level		1		2011/12	Legislation on whistle blowers issued	MoCB
<b>Sub-Total</b>										<b>1,350,000</b>		



<b>OBJECTIVE 8: PROMOTION AND PROTECTION OF THE RIGHTS OF CHILDREN AND YOUNG PERSONS</b>												
Enhance Promotion and Protection of the rights of children and young persons	Protect children from defilement, rape, forced genital mutilation and early marriage	Statistical trends of reported incidents	CSOs, Government	Reports on child welfare (child welfare surveys)	MoWA, MoLSA, MOYS	EHRC, MOI, Police, Courts, CSOs			2009/2010	Child rights protected	2,000	MoWA, MoLSA, MOYS
	Develop National Action Plan to combat violation of children's Rights and active enforcement of legislation on the rights of children	Existence of national action plan and number of reported cases of children's rights violations successfully prosecuted	Reports on child welfare by government departments and CSOs	Reports on child welfare by government departments and CSOs	MoWA, MOI, MOYS	EHRC, Courts police, CSOs		initiated	2010/11	Appropriate legislation that protects the rights of children and young persons Child Act/Child Bill	12,000	MoWA, MoLSA, MOYS
	Develop Child Protection Policy	Existence of Child Protection Policy	Reports on child welfare by government departments and CSOs	Reports on child welfare by government departments and CSOs	MoWA, MOYS	EHRC, MOI, Police, Courts, CSOs		initiated	2010/11	Effective Child Protection policy that promotes the wellbeing of children	20,000	MoWA, MOYS
	Intensify civic awareness programs on the rights of children and the young persons	Audited effectiveness of programs and behavioral change	Reports of relevant government departments and the civil society	Reports of relevant government departments and the civil society	MoWA, MoLSA, MOYS, MoI, MoE	Media			2011/12	An effective institutional establishment to protect the rights of children and young	15,000	MoWA
	Develop and Implement a National Child Labour Action Plan that addresses the worst form of Child Labour	National and Sectoral Strategy (NPSM)/ Sectoral Strategy (SSM) Protocols and Guidelines SPPG/	Survey on child labor, Assessment reports	The NPA is under preparation in the Pilot decent work Country Program	Government institutions, Social partners, Civil societies				2010/11	Protection of children from the WCFL	12,000	MoWA, MoLSA
	Develop an action plan for assisting street children and vulnerable youth	Number of street children and other vulnerable youth enrolled in skills Training programs. Reduction in the number of street children and vulnerable youth	Assessment report		MoLSA, MOYS, MoWA, MoI of Edu, NGOs, Regions	NGOs, CBOs			2011/12	Street children and vulnerable youth equipped with employable skills	5,000	MoWA, MoLSA
	Develop a multi-dimensional program to cater for youth issues	Governmental policy that responds to issues of Youth Development	Governmental policy briefs		MOYS	CSO				A multi-dimensional programs to cater youth issues put in place	2,000	MOYS
<b>Sub-Total</b>										<b>68,000</b>		



**OBJECTIVE 9: PROMOTION AND PROTECTION OF THE RIGHTS OF VULNERABLE GROUPS INCLUDING**

<p>Institutionalize mechanisms for the protection of the rights of the vulnerable groups including refugees</p>	<p>Update Policies related to social welfare and social protection and Develop an integrated National Plan of Action for vulnerable groups</p>	<p>Revised Policy document and Developed National Plan of Action for the vulnerable</p>	<p>Policy Document and Integrated NPA</p>	<p>NPAs on Elderly, disabled and Family under implementation</p>	<p>MOISA BOLSAs MOWA MOYS</p>	<p>Relevant Government ministries NGOs, the community</p>	<p>Revised Welfare Policy and NPA implemented for the provisions of services and institutional coordination</p>	<p>2009/10-20/4/15</p>	<p>Improved social welfare and social protection of the vulnerable groups</p>	<p>150</p>	<p>MO/SA</p>
<p>Conduct feasibility study and Create Social Assistance Fund for financing activities for the vulnerable</p>	<p>Feasibility study report Endorsed Finance Bill</p>	<p>Financial reports on the operations under the Fund</p>	<p>Awareness creation</p>	<p>MOISA BOLSAs MOWA MOYS</p>	<p>Legally registered CSOs/NGOs</p>	<p>Awareness creation on the situation of the vulnerable, Feasibility study report of the NPA to address the problems of the vulnerable</p>	<p>2009/10-20/4/15</p>	<p>Creation of social fund for financing activities for the provision of the vulnerable</p>	<p>50</p>	<p>MO/SA</p>	
<p>Strengthen efforts that Ethiopia fully adheres to the 1951, 1967 protocol UN Refugee convention including the 1969 OAU Refugee convention in the treatment of Asylum seekers (Refugees...</p>	<p>Number of Refugees in Ethiopia from different countries provided with basic services (Shelter and medical supplies)</p>	<p>Reports of Rehabilitation and Development Organization (RADO)</p>	<p>Refugees that are disabled are provided physical appliances like crutches orthopedic legs, braces physio therapy &amp; Psycho social support by Rado a local NGO that is operating in the Sudanese &amp; Somali Refugee Camps. There are now 26,673 Sudanese, 33,027 Somalians, 20,087 Eritrean, 2,245 Kenyans and 1446 Urban Refugees from different countries</p>	<p>ARRA</p>	<p>UNHCR, ARRA, RADO</p>	<p>The National Law &amp; The legal instruments of the UN &amp; AU Refugee Conventions and protocols ratified. Measures to other camps that lack of the services expanded.</p>	<p>MO/ED, Parliament, ARRA</p>				
<p>Organize workshops and seminars for law enforcement bodies (such as the police) at regional and woreda level to familiarize them with the National Law &amp; the international Legal instruments to promote the humanitarian care that is expected from the hosting Community.</p>	<p>Widely publicized of the application of the resolution mechanisms involving notable elders from both sides (local community and Refugees)</p>	<p>Report from Camp Protection officers</p>	<p>ARRA</p>	<p>RADO</p>	<p>In addition the peace Education Program has contributed in lessening conflicts &amp; promote people to live in harmony.</p>	<p>MO/ED, Parliament, ARRA</p>					
<p><b>Sub-Total</b></p>									<p>200</p>	<p><b>5,249,556,373</b></p>	

**Democracy and Political Governance Grand Total Cost**

**III: ECONOMIC GOVERNANCE AND MANAGEMENT**

Objective	Required Action	Monitorable Indicators	Means of Verification	Ongoing Initiatives	Implementing Agency	Stakeholders	Time frame (Baseline and Plans)				Expected Output	Estimated Cost (USD)	M&E
							Baseline	Plan (Targets)	Implementation Period				
							2008/09	2009/10	2014/15				
<p><b>STANDARDS AND CODES</b></p> <p>Ensure compliance with regional standards and codes adopted by Ethiopia</p>	<p><b>Strong then implementation of treaties, conventions, acts and memorandum of understanding (MoU) signed and/or ratified:</b></p> <p>Abuja Treaty</p> <p>Establishing the African Economic Community</p> <p>Treaty Establishing the Common Market for Eastern and Southern Africa/COMESA</p> <p>Constitutive Act of the African Union (2000)</p> <p>The NEPAD Framework Document</p> <p>Memorandum of Understanding On the APRM (2001)</p> <p>Conventions on Preventing and Combating Corruption</p> <p>Inter-Governmental Authority on Development (IGAD)</p>	<p>Observance of these treaties/ conventions, acts and MoUs</p> <p>These international and regional legal documents ratified by Ethiopia are an integral part of the law of the land as per the FDRE Constitution</p>	<p>Reports and official documentation of MoFED and MFA</p>	<p>Most of the treaties, conventions, acts and MoU are signed and ratified,</p> <p>Ratification of the remaining treaties, conventions, acts and MoUs need to be pursued</p> <p>The Right to development is a Right recognised in the FDRE Constitution.</p>	<p>MoFED and MFA</p>	<p>The AU, individual member states, individual COMESA member countries, PTA/COMESA Bank, African Trade Insurance Agency, COMESA clearing Bank</p>					Enhanced regional economic integration		MoFED and MFA
<p><b>N.B</b> The above codes and standards are adopted in the government policies and strategies. They are included in this section for completeness</p>													









OBJECTIVE 4: FIGHT CORRUPTION AND MONEY LAUNDERING				NBE Report	NBE	Anti-money laundering draft proclamation under preparation	Drafted anti-money laundering proclamation	Emette anti-money laundry proclamation	Fully comply with the proclamation	2009/10-2014/15	Clean money in the financial system	9,700	NBE
Improve the legal framework for anti-money laundering.	Improve the controlling system of financial	Laws to curb money laundering	Number of criminal offences reported										
OBJECTIVE 5: ACCELERATE REGIONAL INTEGRATION BY PARTICIPATING IN THE HARMONIZATION OF MONETARY, TRADE AND INVESTMENT POLICIES													
Accelerate regional integration through Transport and Communications													
Accelerate regional integration through expanding transport and communication services	No of joint commissions & institutions for inter and intra-country cooperation in the sector	No of joint commissions & institutions established, BASA signed or related	Budget approval reports, performance reports, Assessment reports on "value for money"	M of ACCAA	All institutions, MFA	14,50	15,58	20,80	20,80	2009/10-2014/15	harmonized ael load, Transit protocol Signed, operation started	65,000	M of TAC
Accelerate Regional Integration through Trade and Market Access													
Accelerate regional integration in trade and market access	Strengthen membership to regional integration Unions	Level of integration, trade flows	Annual Reports, Regional reports on integration, Trade data	MOTI	Governments, Private sector, Civil Society						* Diversified market; Increased in Exports and Imports; Reduction in cost of doing business; Increased in Investment; Removal of Non Trade Barriers; facilitated		M of TI
	Accelerate the integration process	Regional negotiation forums, Studies conducted, National position papers.	Published studies, Negotiation briefs,	MOTI	GOE, MFA, Private sector, regional member states						* Agreement signed, Agreement ratified		M of TI
	Review the diversification of export markets, products and reduce vulnerability as a result of limited products and markets.	Number of new markets assessed and secured	Diversification review documents, ERCA reports	MOTI	Export firms, Service providers, ERCA, NBE						Diversified export items, Increased export destinations, Increased revenue,		M of TI
Sub-Total											65,000	10,117,392	

**ECONOMIC GOVERNANCE AND MANAGEMENT GRAND TOTAL COST**

III: CORPORATE GOVERNANCE															
Objective	Required Action	Monitorable Indicators	Means of Verification	Ongoing Initiatives	Implementing Agency	Stakeholders	Time frame (Baseline and Plans)			Expected Output	Estimated Cost (USD)	M&E			
							Baseline	Plan (Targets)	Implementation Period						
Achieve compliance with best practices in the financial/bank sector	Implement based committee recommendation on banking supervision	Number of recommendations implemented	NBE Report	Ongoing	NBE	Financial Institutions	2008/09	2009/10	2014/15	13 Principles will be implemented	15 Principles will be fully implemented	2009/10-2014/15	Effective and stable financial system	22,000	NBE
STANDARDS AND CODES															

Active compliance with Core Principles of Insurance Supervision	Adopt and implement the Core Principles of Insurance	Number of insurance supervision core principle implemented	Insurance industry survey	Consistency service on developing overall framework for insurance supervision and regulation under finalization	NBE	Financial Institutions	1 principle largely observed	1 principle largely observed	1 principle fully observed, 17 principles partially observed	2009/10-2014/15	Effective and stable financial system	25,000	NBE
	Review insurance Act to incorporate the principles	Number and % of insurance companies fully complying with principles of insurance supervision	NBE Report	Ongoing	NBE	Financial Institutions	First draft prepared	Insurance proclamation enacted	-	2009/10-2014/15	Revised Insurance Act fully in place		
Enhance adoption of principles of Corporate Governance in all sectors of the economy	Adopt corporate risk management	Risk management plan	Strategic or Annual plan document	Ongoing	PPESA,	SOEs, MOTI	50	50	100	2009/10-2010/11	Risk management mainstreamed in the regular planning process	160,000	MoTI
	Develop a Monitoring and Evaluation framework.	Established framework	Monitoring and evaluation documents based on the framework.	Ongoing	MOTI, PPESA, Other representative Organizations	MOTI and Representative Organizations.	1	1	2	2009/10-2010/11	SOEs and other organizations reporting to and benefiting from the Monitoring and Evaluation centre.	630,000	MoTI
Enhance adoption of principles of corporate Governance in all corporations	Require SOEs to publish Accounts and Reports on time.	Number of SOEs submitting their annual accounts and reports in a timely manner	Annual Accounts, Annual reports	Ongoing	PPESA	MOTI, SOEs, MOFED, Medias		50	100	2009/10-2010/11	SOEs maintain transparent and a timely account	268,000	MoTI
	Develop national Codes of corporate social responsibility	National code of social responsibility developed and implemented	MOLSA, PPESA Report	Ongoing	MOLSA, PPESA	CETU, EEF, Private Companies and Public Enterprises	-	1	-	2009/10-2010/11	All codes prepared updated disseminated	162,000	MOTAC
	Recognize company contribution through awards, publicity and other method	Number of companies and enterprises awarded	PPESA, MolSA, FEPA reports	Ongoing	PPESA, MolSA, FEPA	CETU, EEF, Private Companies and Public Enterprises	45	30	30	2009/10-2010/11		132,000	PPESA
	Provide trainings on social responsibility to companies' public enterprises' board of directors and officers	Number of training programme;	PPESA, MolSA, FEPA reports	Ongoing	PPESA, MolSA, FEPA	CETU, EEF, Private Companies and Public Enterprises	-	2	2	2009/10-2010/11		66,000	PPESA
Fulfill ICAO Standards and Recommended Practices (SARPs)	A plan of action ensue safe, regulate and economic Air transport	ICAO Safety Audits, FAA Safety Audits	The gaps identified by the safety Audits	Train technical staff, CNS/ATM facilities procurement and installation projects	CAA	MOTAC, MOFED, Air operators, aviation personnel, Airport operators	65%	75%	85%	2009/10-2014/15	Ensuring aviation safety and security	70,000	MOTAC
Implement sound and transparent Air transport policy	Draft a ploy document and open to public hearing	Public/private sector participation	Forum designed for discussion and level of public/private participation	a technical team composed of subject matter specialists has been assigned and a draft document is prepared	CAA	Air operators, Airport operators, Aviation personnel, the private sector, the public at large	1	1	1	2009/10-2014/15	National Air transport policy	25,000	MOTAC
<b>Sub-Total</b>												<b>1,560,000</b>	





Ensure easy access to finance by the private sector	Conduct study to identify constraints for accessing credit by the private sector	Assessment Study Report	Report of NBE	New initiative	NBE	Private companies (financial and non-financial), public enterprises (financial and non-financial), ECC, AAACC and Regional Chambers Commerce	Start study	The study finalized and constraints identified	2009/10-2014/15	constraints for accessing credit by the private sector identified	600	NBE
	Further reduce rate of non-performing loans through monitoring of the compliance of banks to the NBE directives	Level of Non-Performing Loans (NPL)	NBE Report	Ongoing	NBE	Bankers Associations and Banks	NPLs maintained below 10%	NPLs maintained below 10%	2009/10-2014/15	Improved asset quality of banks	600	NBE
	Strengthen Land Management and Tenure Systems	Number of towns started land lease implementation	Ministry's annual report	Urban land & planning system improvement program	Ministry of Works and Urban Development (MoWUD)	Federal and regional governments	Leasehold in 64 towns	Leasehold in 418 towns	2009/10-2014/15	7% The disputes over boundary & title minimized	15941.4	MoWUD
	Developing and implementing an Improved Land Administration System based on Urban Land Lease	Hectares of serviced land prepared & delivered	Regions annual reports	Land Administration and Management Program	Regional BoWUD	Urban dwellers	68 towns	Leasehold in 68 towns	2009/10-2014/15	Leasehold implemented in 50,148 hectares of land prepared & delivered	3535714.2	MoWUD
	Supply of Developed Land	Number of towns started modern land registration system	MoWUD report	Land Administration and Management Program	MoWUD	Urban dwellers	6,000 ha of land	50,148 ha of land	2009/10-2014/15	Land registration & cadastre system in towns	0	MoWUD
	Establish Land Registration and Information System	Number of towns started modern land registration system	Municipalities records	Land Administration and Management Program	MoWUD	Private sector		land information in towns	2010/11-2014/15	Land registration & cadastre system in towns	720800	MoWUD
	Capacity building for imp/tenanting bodies	Number of imp/tenanting bodies offered training	MoWUD report	Integrated Housing Development Program	Ministry of Works and Urban Development	Regional Governments	60 trained implementing bodies	360 trained implementing bodies	2009/10-2014/15	360 trained non-financing bodies	358120.2	MoWUD
	Facilitate housing finance	Investment finance made available for construction of houses	Municipalities records	Integrated Housing Development Program	Regional Housing Development Agencies	Federal Government	333.7 million (USD)	430 million (USD)	2009/10-2014/15	Improved lives of slum dwellers	600,000	MoARD
	Identify and provide rural land for investors	Cumulative Hectar of land delivered to investors	MoARD Report	Integrated Housing Development Program	MoARD and regional counterparts	Financiers	35,000	63,000	2009/10-2014/15	Increased investment in rural areas	600,000	MoARD
	Rehabilitate and Upgrade the Road Network	Total length of roads rehabilitated and upgraded	ERA Reports	Road Sector Development Program	Ethiopian Roads Authority	Contractors and consultants	1455	1200	2009/10-2014/15	7,200km of roads Rehabilitated and Upgraded	3,927,272.27	ERA
	Develop and maintain Federal roads	Km of Federal Roads constructed	ERA Reports	Road Sector Development Program	ERA	Contractors and consultants	714	800	2009/10-2014/15	4,800km of Federal Roads constructed	1,745,454.545	ERA
	Develop and maintain Rural Access roads	Km of Federal Roads maintained	ERA Reports	Road Sector Development Program	ERA	Contractors and consultants	2014	2000	2009/10-2014/15	12,000km of Federal Roads maintained	741,818.18	ERA
	Develop and maintain Rural Access roads	Kms of Rural Roads Constructed	ERA Reports	Road Sector Development Program	Regional Rural Roads Authorities	Contractors, consultants and regional Governments	1910	1500	2009/10-2014/15	9,000km of Rural Roads Constructed	1,227,272.27	ERA
	Develop and maintain Rural Access roads	Kms of Rural Roads Maintained	ERA Reports	Road Sector Development Program	Regional Rural Roads Authorities	Contractors, consultants and regional Governments	2000	2000	2009/10-2014/15	12,000km of Rural Roads Maintained	309,363.636	ERA
	Increase generation & distribution capacity of electricity	Amount of power generated (Mega Watt)	CSA and MoME/EPECO report	UEAP is in progress, 2700 towns and villages electrified	MoME/EPECO	The public, federal & state governments, investors & business community, financiers, environmental agencies & activists	1534	1791	2009/10-2014/15	Maintained generation capacity increased by 6209 MW	4,468,000,000	PM's Office, HoPR, MoFFD, MoME, EPECO
	Develop & implement aggressive & equitable rural electrification program	Length of distribution grid lines constructed	MoM & EPECO report	New generation plants are under construction,	MoM & EPECO report		120271	5767	2009/10-2014/16	Distribution capacity increase by 137.767km	94,000,000	MoFFD, MoME, EPECO
	Develop & implement aggressive & equitable rural electrification program	increase access and per capita power consumption	MoM & EPECO report	New generation plants are under construction,	MoM & EPECO report		0.33	0.41	2009/10-2014/15	increase access to electricity to the level of 100%	822,000,000	EPECO





**OBJECTIVE 3: PROMOTE ADOPTION OF CODES OF GOOD BUSINESS ETHICS IN ACHIEVING OBJECTIVES OF THE CORPORATION**

Promote good business ethics and ensure compliance	Strengthen the ongoing forums and establish National Integrity System (NIS) to intensify fighting against corruption and promote business ethics	Number of forums organized	FEACC Report	ongoing	FEACC its regional counterpart	Private sectors, affiliated government institutions				Business ethics improved and complied	210,000	FEACC	
		Number of business entities adopted business ethics		ongoing	FEACC its regional counterpart						200,000		
		Increase the role of the media in identifying and publicizing unethical business practices		ongoing	FEACC its regional counterpart							350,000	
		Scale up the activities of the FEACC particularly those in schools and universities to educate and sensitize the young on issues of ethics		ongoing	FEACC its regional counterpart							100,000	
		Introduce business ethics courses in business graduate programmes curriculum		ongoing	FEACC its regional counterpart							100,000	
<b>Sub-Total</b>											<b>960,000</b>		

**OBJECTIVE 4: ENSURING THAT CORPORATIONS TREAT ALL THEIR STAKEHOLDERS (SHAREHOLDERS, EMPLOYEES, COMMUNITIES,**

Institutionalize corporate governance initiatives in Ethiopia	Create awareness among the public on the rights of stakeholders in the operation of companies	Number of forums organized	MoTI Report		MoTI, NBE	MoI, ECC, Sectoral Association, EACC and its regional counterparts, Consumer associations		1	2	awareness created among the public	5000	MoTI	
		Require companies to disclose information (financial and non-financial) to shareholders and stakeholders		MoTI Report		MoTI, NBE, PPESA	MoI, ECC, Sectoral Association, EACC and its regional counterparts, Consumer associations		2	2	Companies complied to the disclosure requirement	10,000	MoTI
		Companies complied with the disclosure requirements							50	100		144,000	
		Promote participation of stakeholders in company management		MoTI Report		MoTI, NBE	MoI, ECC, Sectoral Association, EACC and its regional counterparts, Consumer associations		1	1	Directives in place	5000	MoTI
		encourage stakeholders to organize associations to influence the behavior of companies		MoTI Report		MoTI, NBE	MoI, ECC, Sectoral Association, EACC and its regional counterparts, Consumer associations			2	Association Organized	1000	MoTI
<b>Sub-Total</b>											<b>165,000</b>		



**OBJECTIVE 5: PROVIDE FOR ACCOUNTABILITY OF CORPORATIONS, DIRECTORS AND OFFICERS**

Strengthen mechanisms for the control and accountability of companies, board of directors and managers	Revise directives for the appointment and removal of board of directors for non-financial SOEs	Draft directives	PPESA Report	Ongoing	PPESA	SOEs	1	1	2	2009/10	Directive issued	75,000	PPESA
	Assess the effectiveness of the board of directors in providing strategic directions monitoring and accountability to the SOEs.	Assessment Report	PPESA Report	Ongoing	PPESA	SOEs, EEF	1	1	5	2009/10-2014/15	Proactive and effective M&E system in place	150,000	PPESA
	Develop corporate governance code	draft corporate governance code	MoTI Report	Ongoing	MoTI and NBE/PPESA	ECC, financial institutions, FETI, Ethiopian Employers Federation (EEF)	1	1	2	2009/10-2014/15	Corporate Governance Code developed	100,000	MoTI and NBE
	Develop corporate governance regulations for both public and private companies	draft regulations issued	MoTI Report	Ongoing	MoTI	ECC and Sectoral Association					Regulation issued		MoTI
	Revise directives for the appointment and removal of board of directors for both public and private financial institutions	Draft directives	NBE report	Ongoing	NBE	Financial institutions, bankers, insurers' and MFIs associations	Draft directives prepared				Issue the revised directives	10,000	NBE
Implement the accounting and auditing standardization project initiated jointly by public and private sector	Develop Financial Reporting Law	Draft Financial Reporting Law	OFAG Report	Ongoing	OFAG	Private Sector Hub (PSH), MoCB, ECC, MoFED, AAU, NBE, CSC	Draft submitted to council of ministers				Approved and fully operational law	60,000	OFAG
	Establish National Accountants and Auditors Board (NAAB)	NAAB established	OFAG Report	Ongoing	OFAG	Private Sector Hub (PSH), MoCB, ECC, MoFED, AAU, NBE, CSC	Draft submitted to council of ministers				Approved and fully operational law	200,000	OFAG
	Strengthen Professional Associations of Accountants and Auditors	Number of International Financial Reporting Standard (IFRS)-Compliant Professionals trained	OFAG Report	Ongoing	OFAG	Accounting Professionals, MoFED, Private Sector Hub (PSH), MoCB, ECC, AAU, NBE, CSC	Draft submitted to council of ministers				200 professionals trained	4,000,000	OFAG
	Establish institute of Certified Public Accountants of Ethiopia	ICPAE established	OFAG Report	Ongoing	OFAG	Accounting Professionals, MoFED, Private Sector Hub (PSH), MoCB, ECC, AAU, NBE, CSC					IFRS-Compliant introduced		OFAG
<b>Sub-Total</b>												<b>4,595,000</b>	

**CORPORATE GOVERNANCE GRAND TOTAL COST**

**14,324,173,379**

## IV: SOCIO ECONOMIC DEVELOPMENT

Objective	Required Action	Monitorable Indicators	Means of Verification	Ongoing Initiatives	Implementing Agency	Stakeholders	Timeframe (Baseline and Plans)			Expected Output	Estimated Cost (USD)	M&E
							Baseline	Plan (Targets)				
							2008/09	2009/10	2014/15			
<b>STANDARDS AND CODES</b> Domesticate international and regional standards and codes and make them available in local languages	<b>Strengthen Efforts to domesticate the following standards and codes to which Ethiopia is party to or has signed :</b>  NEPAD Framework Document (2001)  Right to Development in the African Charter on Human and Peoples Rights (1981) including the Protocol on the Rights of Women in Africa  African Charter of Popular Participation in Development (1990)  World Summit on Sustainable Development (WSSD) Johannesburg (2002)  United Nations Millennium Declaration(2000)  United Nations Declaration on the Right to Development  The African Charter on the Rights and Welfare of the Child(1990)  World Summit on Social Development Plan of Action(1995)  Constitutive Act of the African Union (2000)  Convention on the Elimination of All Forms of Discrimination against Women (Beijing Platform of Action)	*Observance of those standard and codes in Ethiopian socio-economic development endeavor * These international and regional legal documents ratified by Ethiopia are an integral part of the law of the land as per the FDRE Constitution	Documents and Reports of MoFED, MFA, MoWA	* Some of the standards and codes are either declarations, UN general assembly resolutions to which Ethiopia is party to. * The Right to development is a Right recognised in the FDRE Constitution.	MoFED, MFA, MoWA	AU, Member state, ECA and other UN agencies				Improved localization/domestication of standards and codes related to promotion of socioeconomic development		MoFED, MFA, MoWA
Adopt UN Convention on the Rights of People with Disabilities	Ratify UN Convention on the Rights of People with Disabilities	Ratified UN Convention on the Rights of People with Disabilities	Implementation Report	Preparation for ratification	MOLSA MFA	Parliament MOFA, MOJ EEF, CETU				UN Convention on the Rights of People with Disabilities ratified		HoPR
<b>Sub-Total</b>										<b>0</b>		

**OBJECTIVE 1: PROMOTION OF SELF-RELIANCE IN DEVELOPMENT AND CAPACITY FOR SELF-SUSTAINING DEVELOPMENT**

**Macro economy, Public Revenue and Expenditure**

Enhance the capacity of National Development Planning systems	Strengthen technical capacities of planning units at all levels of government	Full fledged annual, medium term and long term national socio-economic plans	MoFED Regular Report	SDRP/PASDEP and MDGs Process. Formulation of the upcoming five years development plan spanning the period 2010/11-2014/15 (PASDEP II)	MoFED and Regional Counterparts/BoFDs	Planning Units of All Federal Line Ministries and their Regional Counterparts, CSA, NBE, Non-State Actors	X	X	2009/10-2014/15	Improved National Development Planning Capacity	MoFED 4,004.615
Promote sustained economic growth and socio-economic transformation	Strengthen socio-economic development research works with government executive bodies	Up to date socio-economic research study reports informing socio economic development plans of various durations	MoFED MoARD, MoTI Annual Report	Ongoing	MoARD, MoTI and their regional counterparts	Exporters Associations, ECC and AACCC and Regional Chambers, sectoral associations	X	X	2009/10-2014/15	sustained economic growth	MoFED
Ensure increased share of Domestic Revenue is generated from the domestic productive sector of the economy	Strengthen linkages between agriculture and industry	A well functioning sectoral M&E systems	MoTI annual report	Ongoing	MoTI regional counterpart	Exporters Associations, ECC and AACCC and Regional Chambers, sectoral associations	Refer on economic governance		2009/10-2014/15	reduced dependence on foreign Aid	MoFED
Maintain macroeconomic stability	Further integrate /mainstream the MDGs into the national development planning framework	Strengthen ongoing efforts to improve agricultural productivity	MoFED and NBE report	MoARD report	MoARD and its regional counterpart	Exporters Associations, ECC and AACCC and Regional Chambers, sectoral associations	Refer on economic governance		2009/10-2014/15	Single Digit inflation target achieved	MoFED

**N.B: Some of the above indicators explained under Economic governance objective 1. They had been explained here for completeness**

Enhance efficiency and effectiveness of tax collection and administration system	Intensify tax and customs administration Reforms	Number of regions issuing/adapting tax proclamations, regulations and directives	ERCA & Regional Revenue Bureaus Progress Report	Implementation of Business Process Reengineering and Tax & Customs Reform program in the sector	ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs	6		5	2012/13-2014/15	Issuance and adoption/adaptation of tax proclamations, regulations and directives	39,700
		No. of regions and City Administration completing revenue potential study and also completing revenue potential study at federal level	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs				2012/13-2014/15	Completion of revenue potential study in federal, regions and City Administration	3,000,000
		Interface completed by third-parties using TIN for disclosure and compliance	ERCA Progress Report		ERCA	Government bodies, business societies, Donor, CSOs	1		3	2012/13-2014/15	Use of TIN by third-parties	541,000
		Number of potential taxpayers registered	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs	504,088	ongoing	ongoing	ongoing	Registration of potential taxpayers completed	
		Number of registered VAT payers to total (estimate from potential study)	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs	47345	ongoing	ongoing	ongoing	VAT payers registration completed in the program period	
		Amount of VAT refunds annually paid by ERCA	ERCA Progress Report		ERCA	Government bodies, business societies, Donor, CSOs		ongoing	ongoing	ongoing	An increase in VAT taxpayers & Facilitation of trade and investment	
		Number of regions and CAs with Tax file management system implemented	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs					Tax file management system implemented	
		Integrated tax system customized and implemented in number of Regions/CAs	ERCA & Regional Revenue Bureaus Progress Report	Implementation of Business Process Reengineering and Tax & Customs Reform program in the sector	ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs			6	2012/13	Integrated tax system customized and implemented	11,362,000
		Reviewed organizational Structure	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs			11	2012/13	Organization structure reviewed and restructured	
		Number of Federal, Regional and City Administration staffs trained	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs			2500	2012/13-2014/15	Federal, regional and CA staff trained in Customer-oriented service delivery	338,000
		Number of taxpayers covered by education programs at federal, regional and City Administration levels	ERCA & Regional Revenue Bureaus Progress Report		ERCA & Regional Revenue offices	Government bodies, business societies, Donor, CSOs				2500	Taxpayer education for the program period completed (improved compliance, higher tax realization, improved tax pay or satisfaction)	379,000
		Migration to ASYCUDA World completed; Customs staff trained in new system	ERCA Progress Report		ERCA	Government bodies, business societies, Donor, CSOs			1	2012/13	Customs automation implemented	1,039,000
<b>Sub-Total</b>											<b>20,703,315</b>	



**OBJECTIVE 2: ACCELERATE SOCIO-ECONOMIC DEVELOPMENT TO ACHIEVE SUSTAINABLE DEVELOPMENT AND POVERTY ERADICATION**

AGRICULTURE AND RURAL DEVELOPMENT		2009/10-2014/15		427,800		CSA						
Enhance implementation of agriculture and rural development policies and strategies supporting sustainable development	Strengthening the efficiency of agricultural extension services	Rural capacity building project	MoARD /RBoARD	Farmers & pastoralists/Private investors, input suppliers/ Research Institutes	21,400	35,360	43,400	Growth in agricultural production	Growth in agricultural production and GDP	78,600	MoARD	
		Increased in total agricultural production and productivity:										
		total major Crop production (Cereals, pulses & oil crops) (000 tons)										
		Average total major crop productivity(Qt/ha)										
Strengthening the efficiency of agricultural extension services	Progress reports of MoARD	Cumulative number of extension service beneficiary households (millions)	MoARD /RBoARD	Research institutes	4.9	8.5	13.5	Growth in agricultural production and productivity	Growth in agricultural production and productivity	78,600	MoARD	
		Percentage of extension service beneficiary women in male headed HHs	MoARD /RBoARD			10	30	50				Improved employment of women.
		Percentage of extension service beneficiary rural youth	MoARD /RBoARD			5	10	30				Intensified commercialization of agriculture
		Quantity of Fertilizer supplied ( tons )	MoARD /RBoARD	Private and public input suppliers, cooperatives, research institutes	550,000	820,000	1,481,173	Increased availability & level of consumption of agricultural inputs				
Strengthen effective agricultural input delivery system	Progress reports of MoARD	Quantity of Improved seed supplied (Qt)	MoARD /RBoARD		754,645	900,000	1,896,820				MoARD	
		Number of technologies generated and/ or adapted	Ethiopian research institute	150			410	Improved availability of alternative technologies				
		Number first level certificate of land tiling issued (Million No.)	MoARD, MoARD	NGOs, GEF/WB, Communities	4.7		8.8	Ensure land owner rights & improved productivity				
		Number of 2 <sup>nd</sup> level certificate of land tiling issued (Million No.)	MoARD, RBoARD	NGOs, GEF/WB, Communities	0.6		1.6	Ensure land owner rights & improved productivity				
Improve availability of improved agricultural technologies	Progress reports of MoARD	Cumulative area under small scale irrigation (000 ha)	MoARD, RBoARD	NGOs, private sector, farmers	60		360	Improved productivity			MoARD	
		Cumulative area under soil & water conservation (000 ha)	MoARD, RBoARD	Private sector, NGOs	450		2,700	Reduced natural resource degradation				
		Number of chronically food insecure households participated	MoARD /RBoARD	Donors, Regions	7,355,042		487,921	Timely transfer of adequate cash/food				
		Cumulative Number of households obtained credit	MoARD /RBoARD	Donors, Regions	284,025		1,920,021	Improved access to credit				
Strengthen disaster risk management system	Progress reports of MoARD	Cumulative Number of households access to productive agricultural land	MoARD /RBoARD	Donors, Regions	7,215		150,961	Access to more productive land			MoARD	
		Cumulative Number of households graduated from food insecurity	MoARD /RBoARD	Donors, Regions	3,295		1,574,000	Increased food secure households				
		Number of Woredas/Districts for which Vulnerability profile developed	MoARD /RBoARD	Donors, Regions	100	300	740	Improved preparedness capacity				
		Number of strategic areas where preparedness established	MoARD /RBoARD	Donors, Regions	7	7	11	Improved preparedness capacity				
Strengthening the efficiency of agricultural extension services	Progress reports of MoARD	Quantity of Improved seed supplied (Qt)	MoARD /RBoARD		754,645	900,000	1,896,820				MoARD	
		Number of technologies generated and/ or adapted	Ethiopian research institute	150			410	Improved availability of alternative technologies				
		Number first level certificate of land tiling issued (Million No.)	MoARD, MoARD	NGOs, GEF/WB, Communities	4.7		8.8	Ensure land owner rights & improved productivity				
		Number of 2 <sup>nd</sup> level certificate of land tiling issued (Million No.)	MoARD, RBoARD	NGOs, GEF/WB, Communities	0.6		1.6	Ensure land owner rights & improved productivity				
Improve availability of improved agricultural technologies	Progress reports of MoARD	Cumulative area under small scale irrigation (000 ha)	MoARD, RBoARD	NGOs, private sector, farmers	60		360	Improved productivity			MoARD	
		Cumulative area under soil & water conservation (000 ha)	MoARD, RBoARD	Private sector, NGOs	450		2,700	Reduced natural resource degradation				
		Number of chronically food insecure households participated	MoARD /RBoARD	Donors, Regions	7,355,042		487,921	Timely transfer of adequate cash/food				
		Cumulative Number of households obtained credit	MoARD /RBoARD	Donors, Regions	284,025		1,920,021	Improved access to credit				
Strengthen disaster risk management system	Progress reports of MoARD	Cumulative Number of households access to productive agricultural land	MoARD /RBoARD	Donors, Regions	7,215		150,961	Access to more productive land			MoARD	
		Cumulative Number of households graduated from food insecurity	MoARD /RBoARD	Donors, Regions	3,295		1,574,000	Increased food secure households				
		Number of Woredas/Districts for which Vulnerability profile developed	MoARD /RBoARD	Donors, Regions	100	300	740	Improved preparedness capacity				
		Number of strategic areas where preparedness established	MoARD /RBoARD	Donors, Regions	7	7	11	Improved preparedness capacity				

## Labour and Social Affairs

Address the special needs of people with disabilities	Establish national & regional disability council and Promote the activities of the National Councils	Annual reports	MOLSA Annual reports	Disability forum established	MOLSA, BOLSAs	Ministries, CSOs, NGOs	Disability forum established in 3 Regions	Establish disability council in six Regions and Promote their activities	Establish disability council in all regions and Promote their activities	2011/12	Disability Councils operationalized at Federal and Regional level	65	MOLSA
	Undertake a needs assessment Pass and Develop a plan to enforce legislation	Need Assessment report and Legislation	MOLSA Annual Reports	Preliminary assessment	Parliament, MOLSA, BOLSAs, Ministry of Works & Urban Development	NGO, CSOs, The Association of the Disabled, Federation of the National Association of PWDS	Preliminary assessment	Enforce legislation and develop a plan to enforce the legislation for the provision of access to activities	Enforce legislation and develop a plan to enforce the legislation for the provision of access to public facilities	2014/15	Disabled provided access to public facilities	250	Parliament, MOLSA
Address the humanitarian and developmental needs of the elderly	Operationalize the National Plan of Action for the Elderly	Number of Forums established and services mainstreamed	MOLSA Reports	NPA on elderly	MOLSA, BOLSAs	NGOs, CSOs, Elderly Associations	National steering committee established	Forums established and services mainstreamed in all regions	Forums established and services mainstreamed in all regions	2014/15	Services for the elderly enhanced	150	MOLSA
Enhance implementation of programs for poverty alleviation through upgrading slums	Scale up and strengthen implementation of slums upgrading and low cost housing development programs	Number of houses built in slum areas	MOLSA annual report	Implementation of Integrated Housing Development Program	Ministry of Works and Urban Development Housing Development Agencies Regional Government BoWUD	Regional Governments Municipalities Federal Government Cities' Population Financiers	44,250	57,000 387,000	Sum upgraded	2009/10-2014/15		3,030,000,000	MoWUD

## Culture and Tourism

Create enabling environment for the implementation and Coordination of tourism sector development policy	Issue a new Tourism policy	New Tourism Policy Issued	MoCT Report	o Government has initiated a new tourism paradigm which will enable tourism to play a pivotal role in sustainable development and poverty elimination; Final draft of the tourism policy now under preparation	MoCT*	o MoCT, Tourism firms, government departments (federal and regional)	5000	MoCT	Direction of development and priorities defined; coordination of efforts facilitated
	Prepare a Five year strategic plan for development of tourism sector	tourism development strategic plan developed	MoCT Report	o Current plan ending in 2010	MoCT	o MoCT, Tourism firms, federal and regional government departments	15000	MoCT	A strategic plan on tourism development will be in place
	Create a National Tourism Council, regional councils and local committees to help guide the sector	Increased public-private partnership	MoCT Report	o An ad hoc council at federal and official regions exist	MoCT, Regional states	Tourism firms, federal and regional governments, CSOs	10000	MoCT	Shared vision coordinated efforts, synergy in development
Ensure Sustainable Tourism Development with pro-poor focus	Develop existing tourist routes, destinations and sites into world class attractions with good management systems	* Number of routes, destinations and sites developed and properly managed * Increased flow of tourists * Increased tourism receipts	MoCT Report	Nine project studies are to be conducted during 2008/09 with IBRD assistance to be integrated into a programme for sustainable development and poverty elimination for implementation over the next six years;	MoCT	Local communities; Fed. and Reg gov./tour operators; hoteliers; Ethiopian Airlines; IBRD, USAID, NGOs	35,000,000	MoCT	Ethiopian tourist attractions become world-class; increased flow of tourists, foreign exchange receipts; increased investment and employment opportunities; poverty elimination; heritage protection; improved image of Ethiopia
	Identify additional sites, destinations and routes for tourism development	Number of sites, destinations and routes identified	MoCT Report	Studies being conducted by Regional Govts.	MoCT and its regional counterparts; Regional governments	Local communities; the tourist industry; Reg. Govts		MoCT	More and diverse attractions can be offered to the tourism market; increased competitiveness;
	Promote community based tourism in several regions on a pilot basis	* Number of projects involved in community-based tourism	MoCT Report	Two pilot projects, Konso and Dorze now underway; community-based tourism is running well in Meket, Amhara Region	o MoCT, Regional and local Offices	o Local communities; Regional and local governments	90,000	MoCT	Increased local employment and income; community participation; entrepreneurial development
									<b>Sub-Total</b> 3,067,438,265







<b>Environmental Protection</b>											
Enhance national capacity for adaptation to and mitigation of climate change	Preparation and implementation of national system on climate change adaptation and nationally appropriate mitigation actions	No. of approved and implemented climate change public instruments	Approved public instruments on climate change adaptation and low carbon-economy	Draft programmes of adaptation is prepared and Nationally Appropriate Mitigation Actions of Ethiopia are registered	EPA/ REPA	public agencies, the private sector, and all Ethiopians and international community	approved public instruments on combating and mitigating climate change	Continue the activities	2009/10-2014/15	Enhanced capacity for a climate resilient and carbon neutral socio-economic development	10,000 FEP/Environmental Council
<b>Sub-Total</b>											
										<b>2,916,994,488</b>	

**OBJECTIVE 4: ENSURING AFFORDABLE ACCESS TO WATER, SANITATION, ENERGY, FINANCE (INCLUDING MICRO FINANCE), MARKETS, ICT, SHELTER AND LAND TO ALL CITIZENS ESPECIALLY THE POOR**

<b>WATER AND SANITATION</b>												
Ensure increased Access to potable water to all users among rural community	<ul style="list-style-type: none"> <li>* Conduct Source Verification Studies</li> <li>* Conduct Feasibility studies and Detail Design</li> <li>* Construct Rural water supply Schemes and pipe systems</li> <li>* Reduce non functional rural water supply schemes (increase rehabilitation &amp; maintenance of RWSS)</li> </ul>	% of people with improved access to water supply	CSA data & information reports, MoWR report, Regional annual reports, Field Visits, Rapid appraisals	Universal Access program, WaSH program, Ground water initiatives, Food security initiatives, Water and Sanitation Programs in PASD/EP	MOWR, Regional water bureau, NGOs	MOWR, Regional Donors, NGOs, Rural communities	58%	60%	100%	2009/10-2014/15	Improved Access to water supply (%)	450,479,400 MoWR
		% of non functional Rural water supply Schemes	CSA data & information reports, MoWR studies & sample surveys, Regional reports, Field Visits, Rapid appraisals	Universal Access program, WaSH program, Ground water initiatives, Food security initiatives, Water and Sanitation Programs in PASD/EP	MOWR, Regional water bureau, NGOs, Town Municipalities & Town Boards	MOWR, Regional Donors, Urban communities	20%	18%	58%	2009/10-2014/15	% of reduced non functional RWSS (% %)	81,651,000
Ensure increased Access to potable water to all users among urban community	<ul style="list-style-type: none"> <li>* Conduct Rehabilitation &amp; Expansion Studies,</li> <li>* Conduct Feasibility studies and Detail Design,</li> <li>* Construct Urban water supply systems,</li> <li>* Reduce an unaccounted for water,</li> </ul>	% of people with improved access to water supply	CSA data & information reports, Regional reports, Field Visits, Rapid appraisals	Universal Access program, WaSH program, Ground water initiatives, Food security initiatives, Water and Sanitation Programs in PASD/EP	MOWR, Regional water bureau, NGOs, Town Municipalities & Town Boards	MOWR, Regional Donors, Urban communities	86%	88%	100%	2009/10-2014/15	Improved Access to water supply (%)	547,996,800 MoWR
		% of reduction of an unaccounted for water	CSA data & information reports, Physical verification reports, Sectoral annual reports	Nile Basin Initiatives, ENTRO facilitated regional cooperation, Power trade and Municipalities & Town Boards programs in PASD/EP	MOWR, Regional governments, EEPCO, Town Municipalities & Town Boards	MOWR, EEPCO, States, Rapanian countries, EPA, Private Developers	20%	18%	10%	2009/10-2014/15	% of reduction for an unaccounted water (10 %)	115,074,060
Enhance Water Storage Capacity	<ul style="list-style-type: none"> <li>* Increase Water Storage Capacity</li> <li>* Conduct Pre Feasibility studies (4 sites)</li> <li>* Conduct Pre Feasibility studies and Detail Design (8 sites)</li> </ul>	Number of project study stored water (Volume of Water)	Physical verification reports	ongoing	MOWR, Regional governments, EEPCO, Town Municipalities & Town Boards	MOWR, EEPCO, States, Rapanian countries, EPA, Private Developers	3	3	7	2009/10-2014/15	Increased volume of stored water (in study Projects 219 billion m3)	24,000,000 MoWR, EEPCO
		No. of project study reports and Additional irrigable hectares	Reports of MOWR	ongoing	MOWR, Regional counter parts	Farmers Business community, MOWR, regional governments,	MOWR, Regional counter parts	50,000	250,000	2009/10-2014/15	Study report and identified additional irrigable hectare (300,000)	27,000 MoWR, Regional counter parts
Enhance water use for food Security	<ul style="list-style-type: none"> <li>* Conduct Ground water development studies and Detail Design (11 sites)</li> <li>* Drilling of Boreholes and Construction of Irrigation and Water Supply infrastructures (11 sites)</li> <li>* Construction of dams (14) and irrigation schemes (412,574 ha)</li> </ul>	Study reports and No of sites developed,	Study reports and No of sites developed,	Ongoing	MOWR, Regional counter parts, Regional government, NGOs	MOWR, Regional counter parts, Regional government, NGOs, Donors	3	3	8	2009/10-2014/15	Study reports and No of developed (11 sites) for irrigation and Water supply	56,172
		Additional irrigable hectares developed	Additional irrigable hectares developed	Ongoing	MOWR, Regional counter parts, Regional government	MOWR, Regional counter parts, Regional government	109,969	191,374	370,093	2009/10-2014/15	Additional irrigable hectares developed (412,574 ha)	1,843,237,80

## MINING AND ENERGY

Enhance alternative sources of energy and reduce import of Petroleum	Strengthen Bioethanol production and diesel production	produced ethanol and dies (in million litre	MoME Reports	8 MoME	farmers, MoARD, MoTL, Sugar factories, private sectors, FEPA	7	8	110 M liter ethanol and 150M liter diesel	2009/10 to 2014/15	217,289 M liter ethanol and 430 M liter diesel will be produced during the 5 <sup>th</sup> period blending	40,320	MoME	
	Strengthen ethanol blending	% Ethanol blended	MoME Reports			0.05	0.05		2009/10 to 2014/15	10% ethanol blending			
	Strengthen biodiesel blending	% Biodiesel blended	MoME Reports						0.10	2012/13 to 2014/15	10% bio-diesel blending		
	Strengthen plant oil production	Amount of plant oil produced	MoME Reports						150 M liters	2011/12 to 2014/15	430 M liter plant oil will be produced during the plan period		
	Dissemination & efficient use of Improved Biomass Stoves	No. of domestic biomass stoves disseminated	MoME Reports	MoME, EREDPC, Regional M&E Agencies	750,000 improved domestic stoves	MoMED, BoFED, MoARD, PMoH, Ministry of Women's Affairs, NGOs/donors	701,000	1,160,000	9,000,000	2009/10 to 2014/15	Dissemination of 900,000 biogas stoves	10,800,000	MoME
Enhance access of the rural and urban population to improved, efficient & clean energy services	Dissemination of biogas plant	No. of stove producers trained & engaged	MoME, EREDPC, Regional M&E Agencies	50 institutional/commercial stoves			100	10,000	2009/10 to 2014/15	10000 institutional stoves			
		No. of biogas digesters constructed	MoARD, MoFED, BoFED, RBOARD, Donors/ NGOs	500 Biogas digesters			500	1,200	27,400	2009/10 to 2014/15	27,400 biogas digesters	14,400,000	MoME
	Dissemination of bio-fuel stoves & lamps	No. of experts & masons trained			105 masons trained								
		No. of systems disseminated	MoME Reports	MoME, EREDPC and their regional counterparts	ongoing	MoFED, BoFED, Donors/NGOs,	105	120	900	2009/10 to 2014/15	900 trained experts		
	Dissemination of Institutional PV systems	Number of systems distributed	MoME Reports	MoME, EREDPC and their regional counterparts	300 Institutional Solar PV systems disseminated	MoFED, BoFED, Donors/NGOs,	300	500	100,000	2009/10 to 2014/15	100,000 bio-fuel stoves/ lamps	2,160,000	MoME
Small-scale hydropower for off-grid Rural Electrification	Dissemination of wind pumps	No. of systems installed	MoME Reports	MoME, EREDPC, regional M & E Agencies	15 small-scale hydropower plants (mini, micro & pico)		15	2	110	2009/10-2014/15	110 micro-hydro plants	15,120,000	MoME
		no. of wind pumps installed	MoME Reports	MoME, EREDPC, regional M & E Agencies	Ongoing	WB, GFZ, GIZ, EPCO, Donors/NGOs, LVIA	2	5	900	2009/10-2014/15	960 pumps installed	648,000	MoME
	Wind & Solar energy resource assessment	Regions covered	MoME Reports	MoME, EREDPC, regional M & E Agencies	Ongoing	Donors/NGOs, National & regional Agencies			11	2009/10-2014/15	A national solar energy data and map	360,000	MoME
	ICT and Telecommunication Access to the rural, remote and low income society	To increase access to telecom in the rural areas based on the existing government program	% of Kebeles provided with telecom services	ETC	Vendor financed CDMA wireless 2 <sup>nd</sup> phase project	Federal and regional governments, suppliers/vendors	60%	90%	100%	2009/10-2011/12	Communities under all rural kebeles get access to telecom	88,412,698	MoTAC
		Avoid barriers such as cost of terminals, SIM cards and etc	Tele density	ETC report	Vendor financed NGN projects of fixed CDMA wireless mobile and IP projects	Federal and regional governments, suppliers/vendors	6.56	12.6	42.0	2009/10-2014/15	increased in tele density	612,000,000	MoTAC
<b>Sub-Total</b>											<b>1,990,988,688</b>		

**OBJECTIVE 5: PROGRESS TOWARDS GENDER EQUALITY, PARTICULARLY EQUAL ACCESS TO EDUCATION FOR GIRLS AT ALL LEVELS**

Enhance gender sensitive	Enact affirmative actions and laws	*Gender parity in schools	MoWA Report	Parliament, MoJ, MoWA and Sectoral Ministries	Media, MoLSA CSOs and ECCA and its regional counterpart				2000/11	Women's Decks at Effective National Gender Mainstreaming Guideline	21,000	MoWA, MoWA, MoFED
	Develop and popularize National Gender Mainstreaming Guideline (GHG)	Existence of National GMG	MoWA Report	MoWA and Sectoral Ministries	CSOs and ECCA and its regional counterpart				2010	Effective Women's Development Package	30,000	MoWA, MoFED
	Develop and popularize Women's Development Package	Existence of Women's Development Package	MoWA Report	MoWA and Sectoral Ministries	CSOs and ECCA and its regional counterpart				2010/11	Existence of gender disaggregated information system	100,000	MoWA, MoFED
	Develop gender disaggregated database	Existence of gender disaggregated information system	CSA, MoWA and BoWAs reports	MoWA and BoWAs	CSA and government institutions				2010/11	Effective & efficient gender mainstreaming skill and capacity of public offices	100,000	MoWA, MoFED
	Develop Training manual on Gender mainstreaming	Existence of Training manual on Gender mainstreaming, gender budgeting & auditing	MoWA and BoWAs reports	MoWA, BoWAs, MoFED	GOs, CSOs and private sector				2010/11		8,000	MoWA, MoFED
<b>Sub-Total</b>										<b>259,000</b>		



**OBJECTIVE 6: ENCOURAGE BROAD-BASED PARTICIPATION IN DEVELOPMENT BY ALL STAKEHOLDERS AT ALL LEVELS**

Enhance local participation and democratic consultation	strengthen democratic participation of membership-based civil society	Involvement of membership-based civil societies in local council meetings	Progress report of MoCB	ongoing	MoCB	CSOs, affiliated government institutions,	system guideline established and being practiced in six regions	system guideline adopted in four affirmative seeking regions and practiced in all regions	gaps and degree of participation identified and capacities of involvement of membership-based civil societies enhanced	2009/10-2014/15	systems established and capacities strengthened to attain enhanced democratic participation of membership-based civil society	93297/MoCB
	conduct consultation with CSOs in a structured manner on a regular basis at federal and regional levels	Framework for consultation established Forum for consultation established; Consultation with CSOs made operational as per the framework	Progress report of MoCB	ongoing	MoCB	CSOs, affiliated government institutions,	hire consultants for the study of Framework for consultation of CSOs at local level under study	Framework for consultation of CSOs at local level completed and executed	Consultation with CSOs conducted in a structured manner on a regular basis at federal and regional levels	2009/10-2014/15		65965.2/MoCB
enhance local level participatory planning system	Implement effective planning system in wordas	Improved worda planning manual introduced	Progress report of MoCB	ongoing	MoCB/MOFED	CSOs, affiliated government institutions,	improved worda planning manual prepared and adapted	Planning system implemented in all wordas	Strengthened effective planning system in wordas	2009/10		15624.4/MoCB-MOFED
enhance institutionalized participations of the people in local decisionmaking and development	ensure the rights and interests of citizens through institutionalized participation	demanding capabilities strengthened and contribution of resources by people for development activities enhanced	Progress report of MoCB	ongoing	MoCB	adapt simple and modified participation manual		adapt simple and modified participation manuals and systemize of forms for participation	active and institutionalized participation of citizens at local level ensured	2009/10-2014/15		204175.8/MoCB
Enhance local level decentralization and local level good governance in affirmative support seeking regions	local level decentralization legal framework refined and introduced in affirmative support seeking regions	enabling environment created for implementation of development and governance strategies at decentralized administrations	Progress report of MoCB	ongoing	MoCB/MOFA	CSOs, affiliated government institutions,	prototype prepared and attempt to introduce decentralization legal framework	introduce local level decentralization legal framework	local level decentralization legal framework introduced	2009/10-2014/15		28131.6/MoCB-MOFA
	implement local level wordas and lebele good governance package fully in affirmative support seeking regions	solutions and responses provided to governance questions with democratic participation of the citizens	Progress report of MoCB	ongoing	MoCB/MOFA	CSOs, affiliated government institutions,	good governance package being implemented in four regions	conduct consultative workshop to share experiences and practices for implementation	provide training to the public and at different levels and introduce improved systems structures at local level	2009/10-2014/15		513406.8/MoCB-MOFA
conduct public opinion survey at local level good governance service delivery and democratization issues for continuous corrections/adjustments	conduct regional level public opinion survey on local governance service delivery development and democratization issues in order to understand the perception of the people	the benchmarks and the status of the local level good governance known and corrected by six regions	Progress report of MoCB	ongoing	MoCB	CSOs, affiliated government institutions,	consultative workshop conducted on public opinion survey and training on data analysis software for regions	create public opinion survey conducted and reports prepared	capacities for carrying out public opinion survey at regional level created and regular survey conducted	2009/10-2014/15		504395.4/MoCB

<b>Sub-Total</b>											<b>1,425,196</b>
<b>SOCIO ECONOMIC DEVELOPMENT GRAND TOTAL COST</b>											<b>7,997,808,952</b>



## APPENDIX 11

### **RESPONSE OF THE GOVERNMENT OF FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA TO THE APRM COUNTRY REVIEW REPORT.**

*Panel's Comments: Factual errors in the text have been corrected, but the Panel considered it important to append some comments explaining government position and policies.*

#### **The Executive Summary.**

Para. XVI: Ethiopia has implemented the international conventions adopted by its parliament.

Para. XIX: Censorship of the media is prohibited in Ethiopia. The media outlets do not indicate existence of self-censorship by journalists of statements by the opposition leaders. Government media reports their statements.

Para. XX: The impartiality of FACCCC and NEBE is firmly founded on legal basis, oppositions' reservations notwithstanding.

Para. XXXIX: The political process in Ethiopia is open to all the parties. The ruling party does not closely control the process. It has created conducive atmosphere which allows all political parties which abide by the constitution and other laws of the land to actively participate on all fields of life. As a result there is no political deficit in this regard. The opposition's lamentation that there is no sufficient political space is unfounded.

Para. LXX to LXXII: The importance of land to Ethiopians is accepted. Ethiopia has a policy on land in place. It does not have to make a new choice as these choices were considered during the adoption of the constitution by the constituent assembly. Researches, including the one conducted by the EEA have shown that the majority of people living in the rural areas want land to remain state owned.

#### **Chapter Two: Historic Background and Context.**

Para. 39 (a): The opposition did not dispute the results peacefully. Neither were the demonstrations peaceful. They were part of a declared plan to overthrow the constitutional order by force.

Para. 40. The statement in this paragraph does not represent the federal system that is currently in place in Ethiopia.

1. It is not the federal government that devolved power to the Regional States. The representatives of the nations, nationalities and peoples came together to design the constitutional framework. The federal framework is therefore much more than just devolution of power.

Para. 42. The Ethiopian government believes that the CSOs law can serve as a model to other African countries. It makes a distinction between international and local CSOs. International ones are not allowed to operate on political matters which are legitimately reserved for Ethiopians. As regards local CSOs it puts a limit to external funding if the CSOs want to get involved in some matters. The law is not therefore restrictive to CSOs that can mobilise local resources. They can get involved on all matters.

Para. 50 (a) The trial of the officials of the former government has taken as much time as it deserves given the nature of the crimes they were charged with, the number of defendants, the number of witnesses and the complexity of the matter. The Ethiopian government took the right decision when it opted for



adjudication rather than reconciliation. The trials were fair, conducted in public, and have served their purposes although there were many constraints as indicated in the report. Given the circumstances under which the trials were conducted they cannot be considered to be exceptionally slow. (As indicated in the report thousands of witnesses and documents had to be heard and examined on both sides before judgments could be given).

Para. 51: There was adequate political management of the investigation.

Para 53. There was no frustrating generational division in fighting impunity in Ethiopia, although some might have expressed some reservations

Para. 54. No defendant in the Red Terror Trials was released on political grounds. Many were released after judicial orders to that effect. The grounds for the order were all legal such as issues of law or sufficiency of evidence, and not political

Para.69 -71: The establishment of a developmental state is collapsed with the long-term process democratisation to arrive at the conclusion that “Ethiopia is a country in transition that aspires to become a developmental state”. The argumentation is flawed. The determinants of a developmental state are the economic policy direction of the government and the capacity of the state to implement its policy. On both counts Ethiopia is already a developmental state. The process of building a democratic state or “deepening political reforms and administration” is a separate issue equally applicable to developing countries irrespective of the role assigned to the state. Ethiopia is undergoing the process of democratization; but it does for a country to have a developmental state its democratization process has to be completed or that it has to have a mature democracy.

Para. 72: The political environment is not deteriorating. Neither is it tense. It is improving. The government is engaged in constructive dialogue with many of the parties.

Para. 78: The casualty on the Ethiopian side is not in tens of thousands.

Para. 78: Ethiopia is not to blame for the tension between Ethiopia and Eritrea

Para. 79. The government did not brutally crackdown peaceful supporters of the opposition.

Para.81: The first sentence states: “Moreover, the desire for a strong role of the state in Ethiopia should not, however, be interpreted as a market vs. non-market issue”. It is not.

Para.84: Fixed line penetration is usually lower than mobile market penetration in developing countries.

### **Chapter Three: Democracy and Political Governance**

Para. 93. There are no political asymmetries between the Regional states. All the states have the same political and legal powers given to them by the constitution. Economic inequalities however, exist.

Para. 94. If there are serious problems of capacity, corruption and inefficiency, the decentralisation process is designed to cure these problems. Such issues as lack of capacity or corruption should not hinder an important process of power devolution to the grass roots. They can be addressed while implementing decentralisation.

Party rules (such as democratic centralism) are designed to be applied within the party structure and not in government structures. This is alluded to in a number of paragraphs but is a wrong reading of the relationship between the party and the government institutions in the Ethiopian context.

Para 117-122: The severity of intra-state conflict discussed in these paragraphs is over blown. These are marginal issue in the current federal structure.



Para. 119: The role of the human rights Commission and the Ombudsman in conflict management is limited. Their conspicuous absence, if it is relevant, must be seen in light of their mandate within the Ethiopian context. Their mandate is clearly provided in the establishment proclamations, which was included in the CSAR.

Para. 120: The cautionary remark regarding the drive for judicial efficiency does not take the whole package of judicial reform in Ethiopia into account. There could be no rivalry between judges in this regard as each of them will be held accountable not only for disposing cases within a short period of time but also for ensuring the fairness of the process as well as the accuracy of their verdicts. Apart from efficiency, effectiveness and accountability are important components of judicial reform in addition to independence and access to justice.

Para. 125: The sense in which lack of a culture of rule of law is used in the CSAR is different from the content stressed in this paragraph.

Para. 126: The sense of alienation by the opposition is not widely shared by the public. The growing tendency is for the public to support the policies of the government. The allegation that opposition supporters are discriminated in some services is completely unfounded. All citizens get the services regardless of their political inclination.

Para. 127: All members of the opposition who were in prison following court decision were released based on their own request for pardon by the time the CSAR was completed. The only prisoner whose pardon had been revoked because of breach of conditions on her part was also released recently. It should also be noted that they were not detained because of their protest of elections. They were convicted because of a substantial proof that they were involved in an act to overthrow the constitutional order by force.

Para. 128: The ruling party considers itself as a revolutionary democrat, and for good reasons, but does not label the others as 'reactionary democrats' or 'opportunistic democrats'. Besides the possibility of democratic alteration is determined by the will of the people, not through the agreement of the parties.

Para. 129: The problem of internally displaced persons is not largely left to the Regional States. In fact it is primarily a responsibility of the federal government. The federal government has undertaken a number of programs in this respect. That this is so is stated in the CSAR.

Para. 130: The same with refugees. A federal agency oversees the matter in connection with all refugees, including the Eritreans in Tigray. Thus it poses neither a major resource burden nor a security threat to Tigray.

Para. 131: Internal party discipline does not affect the constitutional mandate of the House of the Federation.

Para. 151: The complaint of the opposition regarding the neutrality of FEACC and NEBE is unfounded.

Para. 167-171: The CSAR report observes that there are significant improvements in the protection as well as the actual enjoyment of the rights and freedoms mentioned in these paragraphs. The government has the responsibility to bring to justice those who are involved in criminal acts which includes the crime of overthrowing the constitutional order by force. No one was detained for making political speeches. Members of the oppositions were convicted for their criminal acts in a court of law.

Para. 177: There was no crackdown on peaceful protestors and demonstrators. It was part of planned criminal act to overthrow the government by force.

Para. 170 and 178: Ethiopian laws do not require permission from government authorities to conduct public meetings as alleged by the opposition. All they require is notification to the authorities. The media is not intimidated by fear of prosecution. That this is so can be observed from a cursory glance of their content. Censorship is prohibited. If journalists are found to have breached the rules there is no reason why they should not be brought to justice.





Para.180: NGOs, specially the international ones, were not significantly involved in access to justice activities. The new law will not, therefore, exacerbate the problem of access to justice. The local CSOs are still permitted to participate in this process provided that they can mobilise 90% of their resources locally. At any rate the main challenges of access to justice in Ethiopia are outlined in the CSAR.

Para. 181. The efficiency of the courts was achieved and sustained through a well developed judicial reform program of the government. Details are available.

Para.182: Courts handle election disputes in their appellate jurisdiction. In such cases they resolve election disputes in a transparent, impartial and expeditious manner. In any case it was not discussed in the preceding paragraphs.

Para.189: Implicit in many paragraphs is the assumption that the ruling party is not interested in strengthening democratic institutions, including the legislature and House of the Federation. This is a wrong understanding of the policies of the ruling party and the achievements of the Ethiopian government. Since assuming power the ruling party has established many intuitions whose purpose it is to ensure the revitalization of democratic culture and the prevalence of rule of law.

Para. 191. The suitability of 'proportional system' to the Ethiopian situation was debated during the drafting of the constitution. The constituent assembly decided that it is not.

Para.195: Vesting the power to interpret the constitution in the House of the Federation is not against the principles of cardinal justice.

- a. The House of the Federation does not make the laws whose validity vis-à-vis the constitution it checks.
- b. The representation in the House of the Federation is not along party lines. The seats are for the representatives of nations, nationalities and peoples.
- c. In any case the experience in this regard is not uniform as the CSAR indicates

Para. 238: There is no child soldiering in Ethiopia.

## **Chapter Four: Economic Governance and Management**

Para 267: It is found that "a major concern for Ethiopia is the current low levels of domestic resource mobilisation and the reliance in large part on external resource inflows". The first half (regarding domestic revenue) is indeed a major concern, but not the second half (regarding reliance on aid). Foreign aid constitutes a relatively low portion of the government's budget. The latter is put at 20 per cent according to para.388

Para.296: The statement that "the central bank has a monopoly of all foreign exchange transactions" is not true.

Para. 302: The Gini coefficient is said to have increased from 0.28 in 1990/00 to 0.32 in 2004/05. Possibly there is a typing error and the earlier period is 1999/00. It would be good if the source of data is mentioned. The data we have shows Gini coefficient of 0.30 for 2004/05. According to World Bank data, Ethiopia's Gini coefficient is among the lowest globally. Also the increase over the last decade or so in Ethiopia compares favourably with most developing countries. Given these facts it is untenable to conclude, as the report does, that in Ethiopia "growth has not been broad based".

Para.310: In connection with the banking sector, the report refers to lack of "competition for deposits and loans and a distorted interest rate structure". The reference to distortion is correct if it is market clearing interest rate structure that is taken as an appropriate goal for least-developed/ developing countries. But, this is not the goal of Ethiopia's monetary policy.



Para.314: The data of 2008/09 does not show “a decline in inflows of foreign exchange” either for exports or for total inflows. Similarly there was not a fall in “tourist receipts”.

Para.343: The eighth recommendation suggests the reduction of “the negative list to enhance the participation of Ethiopians and foreign nationals in the private sector of the economy”. To start with the negative list does not apply equally to Ethiopians and foreigners, as clearly and correctly indicated in para.321. The restriction to Ethiopian investors is much smaller and, notably, does not include banking, insurance, broadcasting, and air transport domestically, activities which are, however, restricted to foreign investors.

Para.345: The fiscal federalism that is in operation in Ethiopia is cast in terms of decentralization. In paragraph 338, decentralization of power is further equated with devolution of power. However, there is clear distinction between decentralization and devolution of power under federal state systems. The Ethiopian system of federation is located beyond decentralization at an extreme end of the continuum of devolution.

Paras.343 and 364: These paragraphs consist recommendations. They are similar to the advice that the government receives from the World Bank and IMF, which have not been accepted by the government.

Para.402: The government has not given recognition to the ranking of Ethiopia by the Global Integrity Index or, for that matter, the Transparency International. We are not aware that the APRM reached an agreement to adopt the results of these two institutions.

### **Chapter Five: Corporate Governance**

Para.514: There were concerns regarding the safety conditions in the flower farms in response to which a parliamentary group made a site visit. The group found that working conditions were adequate and that workers were not exposed to health risk. This is what the CSAR describes.

Para.537: The CSAR does not come with a “general acceptance of corruption as part of the day to day practice”.

### **Chapter Six: Socio Economic Development**

Para.578: Urban poverty head count index stood at 0.332 in 1995/96, 0.369 in 1999/00 and 0.351 in 2004/05. These changes are normally read as an increase over the first half of the decade, and a decline in the second half of the decade. The question would then be whether the level reached in 1999/00 shows a peak or not.

Para.584: Disaster risk management is given due emphasis by the government. There are three major programmes that are implemented in drought prone districts. These include: (a) productive safety net programme, (b) food security programme, and (c) voluntary resettlement programme.

Para.586: The gross enrolment ratio in primary schools in Afar and Somali regions are low, as correctly pointed out. The report should also mention that these two regions have pastoralist population to shed light on how access is rendered difficult.

Para.608: It is not correct to conclude that the “revenue buoyancy has been short-lived” since both total and tax revenue have not stopped to increase at a fast rate. The figures are as follows:



Annual change in per cent					
	2005/06	2006/07	2007/08	2008/09	2009/10
Domestic revenue	25.3	11.6	36.7	33.3	38.2
Tax revenue	14.2	22.6	37.1	17.8	52.3
Nominal GDP	23.6	30.5	42.9	36.8	21.1

### **Chapter Seven: Overarching and Cross-Cutting Issues**

Para.794: There is a reference to “shortage of adequate institutional capacity”, and a consequential “apparent reversal to authoritarian rule”. The logic is not very clear. It may be that enforcement of rules and procedures, which is one of the goals of capacity building, is being viewed by some as a reversal to authoritarian practice.

## **APPENDIX III**

### **THE PEER REVIEW OF ETHIOPIA AT THE 14<sup>TH</sup> SUMMIT OF THE APRM FORUM**

1. The Federal Democratic Republic of Ethiopia was peer-reviewed at the 14<sup>th</sup> Summit of the APRM Forum held in Addis Ababa on 29th January 2011. The Peer Review Session was attended by following Heads of State and Government:
  - a. H.E. Blaise Compaoré, President of the Republic of Burkina Faso;
  - b. H.E. Ismail Omar Guelleh, President of the Republic of Djibouti;
  - c. H.E. Meles Zenawi, Prime Minister of the Federal Democratic Republic of Ethiopia
  - d. H. E. John Atta Mills, President of the Republic of Ghana;
  - e. H.E. Pakalitha Mosisili, Prime Minister of the Kingdom of Lesotho;
  - f. H.E Ellen Johnson Sirleaf, President of the Republic of Liberia;
  - g. H.E. Armando Guebuza, President of the Republic of Mozambique;
  - h. H.E Goodluck Ebele Jonathan, President of the Federal Republic of Nigeria;
  - i. H.E. Jacob Zuma, President of the Republic of South Africa; and
  - j. H.E. Omar el Bashir, President of the Republic of Sudan;
2. Other APRM member countries were represented by Ministers and Heads of Delegations.
3. The members of the African Peer Review Mechanism Panel of Eminent Persons [APR Panel] present were Professor Mohamed Seghir Babés (Chairperson), Professor Amos Sawyer, Barrister Julienne Ondziel Gnelenga and Barrister Akere Tabeng Muna.



4. The Chief Executive Officer of the APRM Secretariat, Mr. Assefa Shita, and the Deputy Chief Executive Officer, Dr. Moise Nembot, were also in attendance.
5. The Lead Panel Member in charge of the Review Process of Ethiopia, Barrister Akere Muna, presented the Country Review Report of Ethiopia, which highlighted the key strengths of Ethiopia, such as the country being the symbol of African resistance and Ethiopia's high economic growth rate.
6. He also cited some commendable practices identified in the Ethiopia Report, namely, Ethiopia's role in cementing African unity, the road development programme, macroeconomic policies, commodity exchange, ownership of Ethiopia's development planning progress, pro-poor expenditure pattern and Ethiopia's approach to microfinance and access to markets.
7. Barrister Akere Muna indicated that Ethiopia is faced with the challenges of poverty, lack of deepened political reforms and democratisation, human insecurity, lack of established clear private sector, and the Government's monopoly of telecommunications. He also pointed out the overarching issues, such as the Ethiopia-Eritrea conflict, management of diversity, capacity building, aid dependence, rapid population growth, land policy, corruption, HIV/Aids, gender mainstreaming, climate change and food insecurity.

### **The Prime Minister's Response**

8. In his response, H.E. Meles Zenawi, the Prime Minister of Ethiopia, thanked the APR Panel for the Country Review Report. He, however, pointed out that the Report did not reflect the real situation on the ground.
9. He further noted that not all the factual errors identified in the Report had been corrected. He therefore advised that the remaining errors be corrected. He specifically cited Paragraph 126 of the Report. He reiterated that the Ruling Party never referred to the Opposition Parties or to anybody as "revolutionary democrats, reactionary democrats or opportunist democrats", as stated in the Report.
10. On ideological issues in the Report, the Prime Minister stated that the APRM process was not an additional instrument to the IMF and World Bank mechanisms. He recalled that the APRM Forum had agreed that each country would be reviewed on the basis of its own principles, culture, and development stage and approach. He informed the Summit that he had agreed with the Lead Panel Member in charge of Ethiopia, Professor Adebayo Adedeji that APRM is an African mechanism established to review African countries on basis of their own principles and culture instead of foreign principles which had failed to work in and develop Africa.
11. The Prime Minister indicated that the neo-liberal paradigm failed to transform the African states and bring about the desired democratic change. Supporting his assertion, Prime Minister Meles Zenawi indicated that African countries have been experiencing formidable market failures and institutional inadequacies since independence. This was the result of the adoption of two paradigms: (i) the paradigm of predatory state; and (ii) the neo-liberal paradigm. According to him, the paradigm of predatory state, which was adopted in the early 60s was defined as a pervasive rent-seeking, large but weak state. It brought significant growth during the first decade of independence but failed later on because it was unable to reform itself and overcome the crisis that Africa was facing. The shift to neo-liberal paradigm also did not bring about the desired sustainable growth.
12. He added that indeed the situation has rather created vicious circles and poverty traps. In fact, despite the tremendous efforts deployed by African countries, there has been increasing poverty and downward spiral of underdevelopment. The Prime Minister asserted that, the shift from the pitfalls of underdevelopment can only be addressed adequately by an activist State. He therefore wondered why the Report was criticizing Ethiopia, whose Government had intervened to break the vicious





- circle and poverty traps in order to accelerate economic growth along with the ongoing process of democratisation. According to the Prime Minister, as neo-liberalism failed to transform the political economy of rent-seeking, the new alternative paradigm must be one that successfully brings about such a change and puts Africa on a trajectory of rapid and sustained growth and socio-economic development. He therefore advocated for a Democratic Developmental State paradigm, which Ethiopia has adopted. However, the Prime Minister indicated that democracy cannot come before a developmental state because democracy takes a long time to achieve and sometimes it is forced to engage in patronage and wasteful rent-seeking activities, which are the main causes of economic failures, as exhibited in early days of Africa's independence. Development, therefore, is primarily a political process that leads to economic and social processes.
13. Justifying his strategy, the Prime Minister gave an example of two South-East Asian countries - Korea and Taiwan - which had problems in agricultural development and industrialisation. He stated that the two countries made massive and systematic government interventions in their economies that resulted in spectacular success in agricultural development and industrialisation through technological capacity building and adaptation. The two countries intervened by replacing the financial market and allocated investible resources in accordance with their development plans, to address their market failures that impeded agricultural development. He attributed the industrialisation of these South-East Asian countries to their governments' interventionist policy to boost economic growth. After assessing the tremendous progress made by the so-called *Asian Tigers*, the Prime Minister expressed the view that only developmental states can efficiently and effectively tackle the impediments to sustained growth and socio-economic development as they create dynamic and functional economies. He concluded on this issue that Ethiopia is a developmental state that is transforming the structure of its economy in order to establish viable democracy and development with a double digit growth rate.
14. Prime Minister Meles Zenawi cited Paragraph 79, beginning with “*markets are vital but imperfect in the distribution or sharing of the fruits of development...*” which he considered speculative about Ethiopia's imitation of the development of Eastern Asia. He cautioned against speculation on imitation and reiterated that Ethiopia is a developmental state executing its developmental plan based on its environment and culture. It is not merely imitating the East Asian countries
15. On “*democratic centralism*”, Prime Minister Meles Zenawi explained that *democratic centralism* in Ethiopia is an ideological issue applied within his ruling party structure and not in government structures, and does not therefore make political compromises difficult, contrary to what was stated in the Report.
16. Ethiopia disagrees with the Report's recommendations in Paragraph 316, which the World Bank has been advising Ethiopia to implement. H.E. Meles Zenawi added that these recommendations reflected foreign ideology and not Ethiopians' evaluation and recommendations, which the APR Panel is supposed to note.
17. On the Charities and Societies Proclamation No. 12/2009, cited in Paragraph 176, the Prime Minister explained that the law aims at protecting the sovereignty of the people of Ethiopia. He indicated that, as done in USA, foreign NGOs are not allowed to fund political parties because that practice compromises the sovereignty of Ethiopia. He noted that foreign NGOs work for foreign governments and that Ethiopia passed this law to limit foreign-funded entities. He emphasised that if an NGO gets 90 percent of its funding from abroad, then it was not qualified to operate within Ethiopia as a local NGO.
18. Concluding his response, the Prime Minister said that the thematic areas of Democracy and Political Governance, and Economic Governance and Management of the report, were evaluated on the basis of the “rejected, bankrupt and dead” principles of World Bank, and not on the basis of the African principles.



## Forum Discussion

19. Reacting to the Prime Minister's presentation, H.E Blaise Compaoré observed that it seemed that the Forum did not have clear parameters for the evaluation of the member countries. He wondered how the evaluation could focus on development without democracy and advised that the states design a formula to focus on both areas - development and democracy.
20. H.E. Ismail Omar Guelleh opined that every country should be reviewed on the basis of the strategic options it adopted. He added that the review of every country should be based on the study of the political and economic situation of that particular country.
21. Prime Minister Pakalitha Mosisili recalled that the evaluation instruments adopted by the Forum were outdated and should be revised. He however congratulated Ethiopia on its review and advised Ethiopia to improve in the areas where the country was reportedly not doing so well.
22. H.E. Omar el Bashir commended the existing ties between Ethiopia and his country - Sudan. He congratulated Ethiopia on its economic development, taxation and anti-money laundering policies and on the protection provided to children and refugees in the country. He further commended Ethiopia for addressing the complaints made by the Opposition during Ethiopia's 2005 elections.

## Response from the Panel

23. The Panel responded to the comments made by Prime Minister Meles Zenawi and indicated that the APRM member countries are reviewed on the basis of standards adopted by the APR Forum.

## Conclusion

24. In concluding the review of Ethiopia, the Chairperson of the Session, H.E. Armando Guebuza, reminded his peers that the Panel and the Prime Minister of Ethiopia had raised a number of *cross-cutting issues*. He requested the members of the Forum to deliberate on those cross-cutting issues in a Retreat to be organised in due course. He also called for early discussions on the parameters for the review of the APRM Countries.