

# Ethiopia



## key figures

• Land area, thousands of km <sup>2</sup>	1 104
• Population, thousands (2007)	83 099
• GDP per capita, USD at constant 2000 prices (2006/07)	141
• Life expectancy (2007)	52.9
• Illiteracy rate (2007)	52.5

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**T**HE ETHIOPIAN ECONOMY CONTINUES the strong performance witnessed since 2004, with real GDP estimated to have grown by 8.2 per cent in 2006/07, well above the 5.4 per cent registered in 2005/06. This growth was broad-based, with industry, agriculture and services all expanding strongly.

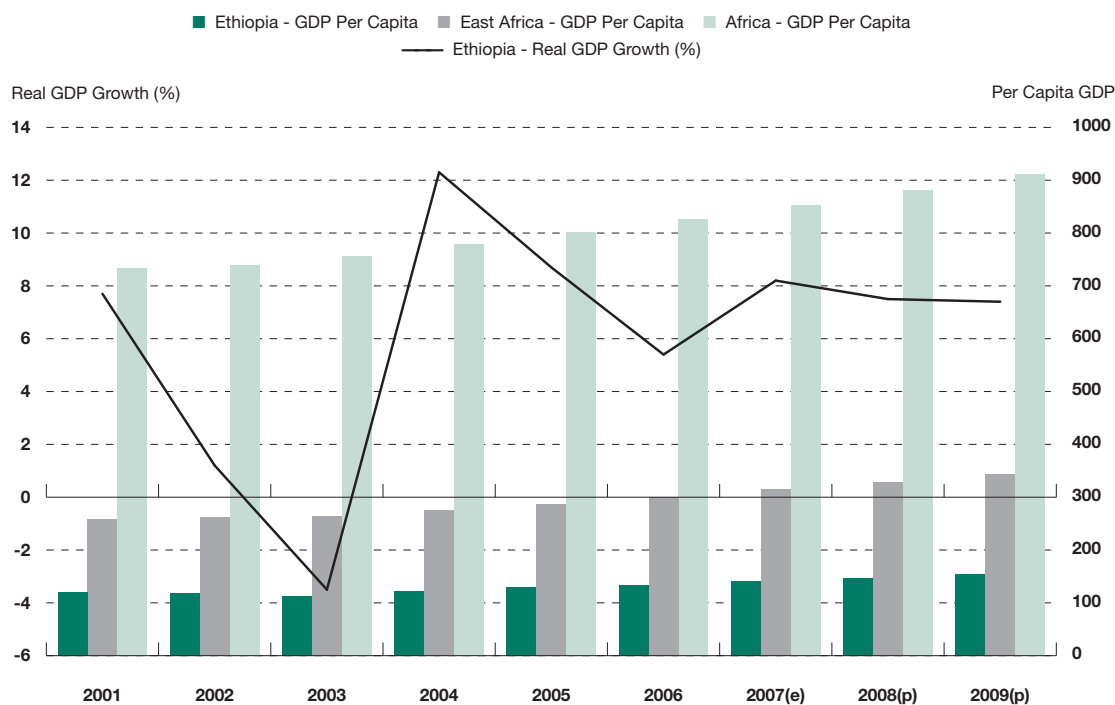
The key objective of the government as enunciated in the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) covering the period 2005/06-2009/10 is to achieve sustained,

robust and pro-poor economic growth so as to accelerate progress towards the Millennium Development Goals (MDGs).

Real GDP is projected to grow by 7.5 per cent and 7.4 per cent respectively in 2008 and in 2009, with all major sectors again contributing. Tourism should perform particularly well in 2007/08 on account of the Ethiopian Millennium celebrations.

**Tighter monetary and fiscal policies are needed to contain inflationary pressures.**

**Figure 1 - Real GDP Growth and Per Capita GDP**  
(USD at constant 2000 prices)



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

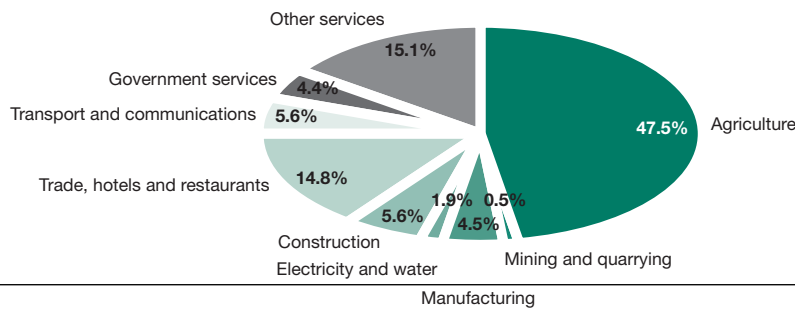
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## Recent Economic Developments


The share of industry in GDP has grown from 10.3 per cent in 2000/01 to nearly 12 per cent in

2006/07. Industry recorded real growth of 11 per cent in 2006/07, up from 10.2 per cent in 2005/06. Manufacturing grew by 10.5 per cent in 2006/07, while mining and quarrying grew slowly by 6.0 per cent,

Figure 2 - GDP by Sector in 2006/07 (percentage)



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

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down from 7.2 per cent in the previous fiscal year. The real growth rate of the services sector was virtually unchanged at 13.5 per cent in 2006/07. However, growth in retail and wholesale trade picked up to 15.7 per cent, from 14.2 per cent in 2005/06. Construction grew by 10.9 per cent in 2006/07, as against 10.5 per cent in 2005/06. The electricity and water sector also boomed, with real growth rising to 13.6 per cent in 2006/07, following 8.8 per cent in 2005/06. The transport and communications sector grew by 7.6 per cent, up from 5.7 per cent in 2005/06.

The economy is still dominated by agriculture, which accounted for nearly 47 per cent of GDP in 2007, down from a high of 56.7 per cent in 1996/97. The sector grew by 9.4 per cent in real terms in 2006/07, down from 10.9 per cent in 2005/06.

Coffee, which remains the largest export product, exhibited output growth of 40 per cent in 2006/07. Tea, the second-largest export, has also performed remarkably well in recent years.

With respect to food crops, in 2006/07 cereal production increased by 10.7 per cent and pulses by 24.2 per cent. Oilseeds grew only marginally by 2.2 per cent in 2006/07, after decreasing by 7.6 per cent in the previous fiscal year. Fruits and vegetables also performed poorly, dropping by 8.3 per cent.

The *meher* harvest, which takes place from October to December, accounts for more than 90 per cent of Ethiopia's annual agricultural production and is of

crucial importance for food security. During the Sustainable Development and Poverty Reduction Programme (SDPRP), which preceded PASDEP, the government launched a National Food Security Programme to assist 5 million chronically food-insecure people. Another 10 million people suffering from temporary food insecurity due to drought and floods have benefited from the Productive Safety Net Programme (PSNP) funded by the World Bank. The PSNP has two components: a public works programme for employing the poor in building roads and other infrastructure, and free distribution of food to orphans, the elderly and others who are unable to work. The World Bank granted USD 175 million to finance the PSNP in 2007. The second phase of the programme is estimated to require USD 915 million, which will be co-financed by the United Kingdom, Canada, the United States and the European Union, World Food Programme and Ireland. The PSNP is also contributing to achieving the MDG of halving extreme poverty and hunger.


The government intends to introduce a number of policy initiatives in agriculture over the next five years to address structural constraints. These include building the capacity of farmers and extension agents, introduction of high-yielding varieties through agricultural research and extension services, establishment of appropriate marketing systems and expansion of small and medium-scale irrigation systems.

Private consumption is estimated to have grown by 9.8 per cent in 2006/07, and government consumption

Table 1 - Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1998/99	2005/06	2006/07(e)	2007/08(p)	2008/09(p)	2006/07(e)	2007/08(p)	2008/09(p)
<b>Gross capital formation</b>	<b>19.6</b>	<b>20.5</b>	<b>15.0</b>	<b>12.6</b>	<b>11.2</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>
Public	13.2	12.2	15.0	13.0	12.0	1.7	1.5	1.5
Private	6.4	8.3	15.0	12.0	10.0	1.1	1.0	0.8
<b>Consumption</b>	<b>93.0</b>	<b>104.0</b>	<b>9.4</b>	<b>9.0</b>	<b>7.7</b>	<b>9.3</b>	<b>9.0</b>	<b>7.8</b>
Public	16.0	13.0	6.1	5.8	5.0	0.7	0.7	0.6
Private	77.0	91.0	9.8	9.4	8.0	8.6	8.3	7.2
<b>External demand</b>	<b>-12.6</b>	<b>-24.5</b>				<b>-3.9</b>	<b>-4.0</b>	<b>-2.7</b>
Exports	12.0	14.9	11.1	7.8	9.1	1.7	1.2	1.4
Imports	-24.6	-39.4	16.7	14.4	10.9	-5.6	-5.2	-4.1
<b>Real GDP growth</b>	-	-	-	-	-	<b>8.2</b>	<b>7.5</b>	<b>7.4</b>

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

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by 6.1 per cent. The contribution of private consumption to real GDP growth was 8.6 per cent and that of public consumption 0.7 per cent in 2006/07. Gross capital formation grew by 15 per cent in 2006/07, following 20.5 per cent growth in the previous year. Gross capital formation contributed 2.8 per cent to real GDP growth in 2006/07. The gross domestic savings ratio is only 6.0 per cent of GDP, however, which means that large capital inflows and corresponding current account deficits are required to fund investment.

## Macroeconomic Policies

### Fiscal Policy

Total revenue and grants as a share of GDP rose from 19.0 per cent in 2005/06 to 20.8 per cent in 2006/07. Tax collection remained weak, with tax revenue declining marginally from 11.6 per cent of GDP in 2005/06 to 11.4 per cent in 2006/07. This points to the need for further strengthening of revenue collection institutions. Grants recovered to 4.9 per cent of GDP in 2006/07 from 3.1 per cent in 2005/06, as donor concerns about political repression eased. Grants under the World Bank's Protection of Basic Services programme surged 330 per cent to ETB 4 091 million (Ethiopian birr) in 2006/07.

On the expenditures side, the government maintained the restraint shown in recent years, with expenditure falling slightly from 24.0 per cent of GDP in 2005/06 to 23.9 per cent in 2006/07. Current expenditure declined from 12.5 per cent of GDP in 2005/06 to 12.2 per cent in 2006/07 and is expected to drop further to 11.8 per cent of GDP in 2007/08. Capital expenditure, in contrast, increased to 11.7 per cent of GDP in 2006/07 from 11.5 per cent in the previous fiscal year, due to strong emphasis on infrastructure development.


Given the decline in expenditure relative to revenue as a share of GDP, the overall fiscal deficit improved to 3.1 per cent of GDP in 2006/07 from 5.0 per cent in the previous fiscal year. The deficit was financed by domestic and foreign borrowing amounting to 3.7 per cent and 0.5 per cent of GDP respectively. In the next few years, expenditure management is expected to remain prudent, with cuts in current expenditure and priority given to key social sectors such as health, education and agriculture, as well as support for infrastructure development. Priority social expenditure areas include food security and capacity building programmes, especially in education. Defence expenditures are also likely to rise sharply in 2007/08 owing to the escalation of the Eritrean border dispute. Since total revenue is projected to decline more than

Table 2 - Public Finances (percentage of GDP)

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
<b>Total revenue and grants<sup>a</sup></b>	<b>18.1</b>	<b>21.9</b>	<b>20.5</b>	<b>19.0</b>	<b>20.8</b>	<b>20.2</b>	<b>20.7</b>
Tax revenue	9.7	13.3	12.6	11.6	11.4	11.6	11.7
Grants	2.8	4.9	4.6	3.1	4.9	4.1	4.5
<b>Total expenditure and net lending<sup>a</sup></b>	<b>26.4</b>	<b>25.1</b>	<b>25.2</b>	<b>24.0</b>	<b>23.9</b>	<b>23.8</b>	<b>23.7</b>
Current expenditure	18.4	17.1	14.3	12.5	12.2	11.8	11.3
<i>Excluding interest</i>	<i>16.6</i>	<i>15.7</i>	<i>13.3</i>	<i>11.7</i>	<i>11.1</i>	<i>10.7</i>	<i>10.3</i>
Wages and salaries	4.9	6.3	6.0	5.6	5.0	4.6	4.2
Interest	1.7	1.3	1.0	0.9	1.1	1.1	1.0
Capital expenditure	8.1	10.1	11.5	11.5	11.7	12.0	12.4
<b>Primary balance</b>	<b>-6.6</b>	<b>-1.9</b>	<b>-3.7</b>	<b>-4.1</b>	<b>-2.0</b>	<b>-2.5</b>	<b>-2.0</b>
<b>Overall balance</b>	<b>-8.3</b>	<b>-3.2</b>	<b>-4.7</b>	<b>-5.0</b>	<b>-3.1</b>	<b>-3.6</b>	<b>-3.0</b>

a. Only major items are reported

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

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expenditure as a ratio of GDP, the fiscal deficit should grow to 3.6 per cent of GDP in 2007/08.

### Monetary Policy

The main goals for monetary policy are to maintain price and exchange rate stability and safeguard the soundness of the financial system. Although the central bank has not explicitly adopted inflation targeting, the objective of monetary policy for the next five years is to contain inflation below 10 per cent. Broad money supply and domestic credit increased in 2006/07 by 19.7 per cent and 23.1 per cent respectively; these rates are consistent with the inflation objective only if real GDP growth remains strong and demand for money expands.

Inflation rose to 17.1 per cent as at the end of fiscal year 2006/07, up from 12.3 per cent in 2005/06 and 6.8 per cent in 2004/05. Both food and non-food inflation increased significantly in 2006/07, with the latter increasing strongly to 18.9 per cent from 14 per cent in the preceding fiscal year. The rise in non-food inflation was due to strong demand associated with large public investment projects and rising fuel prices, which in turn led to higher prices for construction materials, water and energy.

The National Bank of Ethiopia (NBE) has taken a number of steps to bring down inflation. The deposit rate was raised by a full percentage point to 4 per cent.

The government sought to restrain some key prices directly by imposing a ban on the export of maize and distributing wheat and edible oil to the urban poor at subsidised prices.

The monetary authority's tools include sale and purchase of treasury bills and setting of the minimum deposit rate and reserve requirements. To mop up excess liquidity in the banking system, in 2006/07 the central bank increased the reserve requirement from 5 per cent to 10 per cent and aggressively sold treasury bills.

The NBE is continuing with the implementation of its five-year strategic plan, which features 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.

The premium between the official and parallel foreign exchange rates fell to 1.85 per cent in 2006/07 from 3.97 per cent in the preceding year. The monetary authority expects the exchange rate of the birr against the US dollar to depreciate by 5 per cent in 2007/08.


### External Position

Ethiopia's exports grew 18.5 per cent, reaching about USD 1.2 billion in 2006/07. Coffee accounts for about one-third of exports. A slight decline in the

Table 3 - Current Account (percentage of GDP)

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Trade balance	-14.1	-20.9	-24.5	-24.1	-24.1	-25.3	-25.8
Exports of goods (f.o.b.)	6.3	6.3	7.4	7.1	6.9	6.5	6.4
Imports of goods (f.o.b.)	20.4	27.3	31.9	31.2	31.0	31.8	32.2
Services	0.9	3.3	2.4	1.1	1.1	1.2	1.3
Factor income	-0.4	-0.7	-0.3	-0.3	-0.2	-0.1	-0.1
Current transfers	6.1	13.0	13.7	12.3	12.6	13.6	14.9
<b>Current account balance</b>	<b>-7.4</b>	<b>-5.3</b>	<b>-8.6</b>	<b>-11.0</b>	<b>-10.5</b>	<b>-10.6</b>	<b>-9.8</b>

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

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unit price of coffee from USD 2.4/kg in 2005/06 to USD 2.37/kg in 2006/07 was more than offset by a sharp rise in the volume of coffee exported. As a result, export earnings rose 19.7 per cent in 2006/07 to USD 424.2 million. Although oilseeds remain the country's second-largest export item, the boom in oilseed exports subsided in 2006/07, with export earnings falling from USD 210 million to USD 190 million due to lower unit prices and a drop in production. The Ministry of Trade and Industry is developing an export business plan to boost the quality and quantity of oilseeds destined for Europe, China, Korea and Japan. Despite the 13 per cent increase in the unit price of meat, exports of meat and meat products declined by 18 per cent from USD 18.5 million in 2005/06 to USD 15.1 million in 2006/07.

Exports of some non-traditional agricultural commodities, notably flowers, have shown promise. The value of flower exports grew from USD 21 million in 2005/06 to USD 63 million in 2006/07. New entrants, both domestic and foreign, as well as expansion by existing farmers have boosted production and exports. Favourable climatic conditions for horticultural production, generous investment incentives and lower freight costs to the main European markets give Ethiopia a competitive advantage over other flower producers such as Kenya.

Imports grew by 11.6 per cent to USD 5.1 billion in 2006/07. The value of imports remained a little over four times the value of exports, such that even though exports grew faster than imports, the trade

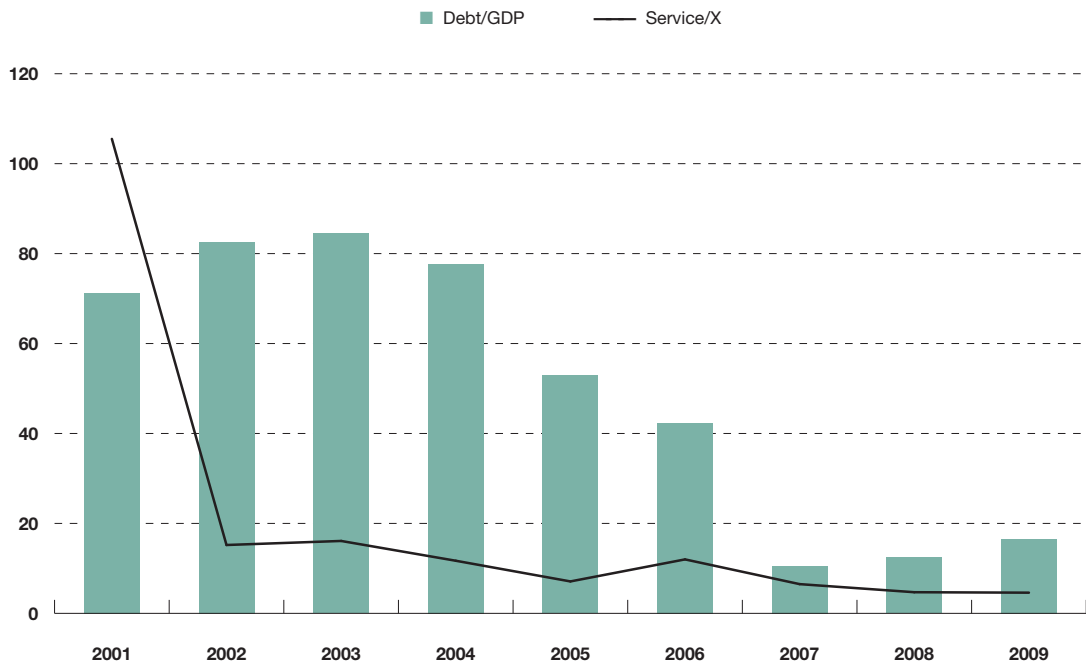
deficit rose to USD 3.9 billion in 2006/07 from USD 3.6 billion in 2005/06. High growth in capital goods imports reflects the growth of the industrial sector, notably construction. Capital goods accounted for a little over a third of total imports in 2006/07.

Over half of Ethiopian exports in 2006/07 went to European countries, notably Germany, Switzerland, the Netherlands and Italy. Close to a third of exports went to Asia, mainly China, Saudi Arabia and Japan. Within Africa, neighbouring countries such as Somalia, Djibouti and Sudan were the largest importers of Ethiopian products. Close to three-fifths of Ethiopian imports came from Asia, again mostly from China, Saudi Arabia and Japan. Over a quarter of imports came from Europe, mostly Italy, Germany and France. Close to a tenth of imports came from African countries.


Net services trade grew from USD 148.1 million in 2005/06 to USD 190.8 million in 2006/07, an improvement of 28.8 per cent, due largely to growth in net travel and transportation receipts. The current account deficit narrowed to 10.5 per cent of GDP in 2006/07, from 11.0 per cent of GDP in 2005/06, as a result of improvement in services and transfers.

The surplus on the capital account increased in 2006/07 to USD 780 million, from USD 633 million in the previous fiscal year, despite the 47 per cent drop in foreign direct investment and a modest decline of 12 per cent in long-term loan disbursements. The overall balance of payments improved from a deficit of USD 208 million in 2005/06 to a surplus of USD 85 million in 2006/07.

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



Source: IMF.

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In line with the changes in the overall balance of payments, which moved from a deficit to a surplus, the net foreign assets position of the country improved modestly to USD 1.583 billion in 2007 from USD 1.523 billion in 2006.

Ethiopia's total external debt at end-2006/07 had declined considerably to USD 2.3 billion, from USD 6 billion in 2005/06. This was due to debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) coupled with lower external loan disbursement. External debt is projected to decline again in 2007/08 owing to further HIPC and MDRI debt relief. The government also signed a debt cancellation agreement with the Chinese government amounting to USD 18.8 million in 2007.

## Structural Issues

### Recent Developments

Privatisation is a key component of the market-oriented reforms initiated in the mid-1990s. Since the restructuring of the Privatisation and Public Enterprise Supervising Authority (PPESA), 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 247<sup>1</sup>. 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 Yarn Share Company, Combolcha

1. See Privatisation and Public Enterprises Supervising Agency (PPESA), Biannual News Magazine, Vol. 1, No. 2, July 2007.

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.

The promotion of small and micro enterprises is also critical to private sector development. The government has been providing support to such enterprises in several areas such as training, business skill development, micro-credit, and information and marketing.

Under PASDEP, the government will focus on strengthening the capacity and competitiveness of the private sector through the implementation of the Private Sector Development Capacity Building (PSD-CB) project. The government will also continue to strengthen the public-private consultation mechanism through the Public-Private Consultative Forum, chaired jointly by the government and the Ethiopian Chamber of Commerce.

The business climate in Ethiopia is rated relatively favourably. Although Ethiopia's *Doing Business* ranking worsened slightly in 2007 (to 102nd out of 178 countries, as against 97th out of 175 countries in 2006), it still ranked above most countries in the region. For example, launching a business in Ethiopia requires only seven procedures compared to the regional average of 10.8. Nevertheless, potential entrepreneurs still face a number of challenges in Ethiopia. According to the World Economic Forum's *Global Competitiveness Report*, the three biggest challenges to doing business in Ethiopia are lack of finance, poor infrastructure and inefficient government bureaucracy.

The NBE introduced new rules governing the appointment of boards of directors of commercial banks. The Licensing and Supervision of Banking Business Directive requires that two-thirds of banks' board members be degree holders and possess at least ten years of experience. In addition, they cannot serve for more than two consecutive three-year terms and are prohibited from serving in two institutions at the same time. The new policy directives are likely to improve

the governance of financial institutions by reducing corruption and conflicts of interest. The NBE's Financial Sector Capacity Building Programme aims to contribute to the development of a transparent, well-regulated and competitive financial sector, including a corporate regulatory framework and government bond markets.

As in SDPRP, rehabilitation and construction of roads is accorded high priority under PASDEP. The government intends to increase capital expenditure in 2007/08, with the Ethiopian Road Authority receiving the largest allocations.

The Universal Electrification Access Programme extends electricity to under-served rural areas. Generation capacity has expanded considerably and will increase further in the next few years, as four hydropower projects are under construction.

Despite substantial water resources, water distribution and management have been uneven and ineffective. In urban areas, groundwater supplies are depleted and the infrastructure is antiquated.

Telecommunications infrastructure in Ethiopia is amongst the least developed in the world, lagging well behind other countries in the region in both fixed and mobile use. There are approximately five lines per 1 000 people, and 87 per cent of the rural population lives more than 5 kilometres from the nearest phone service.

The state-owned Ethiopian Telecommunication Corporation (ETC) is making substantial investments to upgrade telecommunications infrastructure, notably by connecting more than 600 high schools to the internet. The government has also launched the Agri-net, which connects over 50 agricultural research centres in the country. The installation of fibre-optic cables has also advanced, notably with the completion of the Gondar-Metemma fibre highway. In line with the rural connectivity project, over 4 706 rural homes have been connected with basic phone lines, and testing of a radio station that would connect 5 000 homes has been completed. The government is overseeing an expansion of the mobile and fixed-line networks. As a result, there has been a slight increase in the number of fixed-line

subscribers from 610 347 in 2004/05 to 740 257 in 2005/06. The number of mobile users rose from 410 000 in 2004/05 to 866 700 in 2005/06.

### **Technical and Vocational Skills Development**

The Ethiopian government accords great importance to technical and vocational education and training (TVET)<sup>2</sup>. TVET in Ethiopia comprises both formal and informal training. Several public and private institutions provide TVET to the informal sector, although the qualifications they offer are not recognised due to lack of systematic testing and certification systems. In addition, a number of small and micro enterprises offer apprenticeships.

The priority sectors for TVET are agriculture, health and teacher training. TVET in agriculture is geared towards supporting the development of new industries such as nurseries, horticulture, spices, fruits and vegetables, and cotton. The number of TVET institutions providing non-agricultural training increased from 17 in 1997 to 199 in 2005, with the number of students rising from 3 000 to 106 300 over the same period.

There are currently 126 medium-level TVET institutions in the country, offering training in a variety of fields: textile and garment production, bakery and pastries, hotels and catering, electronics, electricity, auto mechanics, secretarial services and construction.

Despite this massive increase in provision, there are indications that the demand for TVET education services far exceeds supply. Thus, a high percentage of Ethiopians do not have access to TVET. Increasing access to TVET services is hampered by the lack of qualified TVET teachers and adequate funding.

The formulation and implementation of TVET policies is currently the responsibility of the Ministry of Education. The Ministry of Capacity Building (MCB) has since 2006 been implementing the

Engineering Capacity Building Development Programme, with technical assistance from the German government. The programme is aimed at improving the competitiveness of the private sector through reform of TVET, non-formal education and universities. The government is considering reforms of TVET governance and management structures through the establishment of autonomous TVET authorities at federal and state levels, which will be governed by the TVET Council.

Joint review missions and annual review meetings were conducted to assess the implementation of the second Education Sector Development Programme (ESDP II). They revealed, among other things, that although considerable efforts have been made to enhance access to TVET, quality has not kept pace with expansion. Another finding is that most TVET graduates do not meet the expectations and requirements of employers.

To address the shortcomings of ESDP II, the government formulated ESDP III, covering the period 2005/06-2009/10. The broad objective of ESDP III is to attain the MDGs and other development goals by providing “necessary, relevant and demand driven education and training that correspond to the needs of the economic and social sectors for employment and self employment”<sup>3</sup>. TVET will be re-organised into an outcome-based system, with competencies and skills identified as being in demand on the labour market informing the design and content of TVET. Quality will be measured through an assessment of learners’ achievements. A demand-oriented curriculum has already been developed with the involvement of experts in the field.

The government intends to increase enrolment in TVET programmes to 315 000 by 2009/10. Furthermore, 3 300 classrooms and workshops will be built and an additional 4 500 TVET teachers hired. Another important aspect of reform is progressive decentralisation, with responsibility for TVET devolved to lower levels of government.

2. See, for example, Federal Democratic Republic of Ethiopia, National Technical and Vocational Education and Training Strategy (2006).

3. Government of Ethiopia, National Technical and Vocational Education and Training Strategy, 2006.

The sources of financing for TVET include government allocations, community contributions, student fees and assistance from bilateral and multilateral donors. In fiscal year 2004/05, the government spent ETB 4.6 billion on TVET, which represented 8.6 per cent of total expenditure on education. The contribution of local communities to financing covers about one-fifth of TVET expenditures. The contribution from student fees is expected to rise considerably by 2009/10. Italy, Belgium and Germany are the main bilateral donors supporting TVET in Ethiopia. GTZ, the German technical co-operation agency, is the largest donor, supporting existing TVET programmes as well as reforms.

The government intends to introduce new funding mechanisms. One of the options is to encourage private investment in TVET through provision of financial incentives and co-financing through voucher schemes and outsourcing of public training programmes. Employers will be encouraged to contribute to the financing of TVET through scholarships and donation of equipment.

## Political Context

The tense political climate following the disputed May 2005 elections eased in 2006/07. The Commission of Inquiry appointed to investigate the violence that erupted in June and November 2005 finally released its report in early 2007. According to the report, 199 people were killed during the protest, including six police officers, and 30 000 people were arrested. The report accused the security forces of using “excessive force”. Since then, one of the key members of the Commission, who charged that the report had been watered down, has been granted asylum in the United Kingdom (Economic Intelligence Unit, January 2007).

A breakaway faction of the opposition party Coalition for Unity and Democracy (CUD) split off, forming the Coalition of Unity and Democracy Party. Radical elements of the original CUD formed the Alliance for Freedom and Democracy (AFD) in May 2006, which continued to show strong support for

imprisoned opposition leaders. Some of the outlawed opposition parties such as the Oromo Liberation Front and Ogaden National Liberation Front also joined the AFD.

In July 2007, 38 opposition leaders who were accused of fomenting violence, genocide and treason and attempting to overthrow the government were found guilty, but were pardoned by Prime Minister Meles Zenawi. In another step towards political reconciliation, the ruling party, Ethiopian People’s Democratic Revolutionary Front, concluded a working agreement in mid-2006 with some of the opposition parties on parliamentary procedures and rules of conduct.

A less positive political development in 2007 was the establishment of a new ultra-nationalist Tigray for Unity and Democracy Party in the prime minister’s home region of Tigray. The new party opposes the concessions to Eritrea. Whether the party will be able to pose a significant political challenge to the dominance of the Tigray People’s Liberation Front in the Tigray region remains to be seen.

Relations between Ethiopia and Eritrea continue to be strained. Although Ethiopia has accepted in principle the ruling of the Eritrea-Ethiopia Boundary Commission (EEBC), it has been reluctant to hand over the contested town of Badme. Instead, Ethiopia has demanded new talks on the demarcation of the border, whereas Eritrea continues to insist on adherence to the original EEBC decision. The EEBC has given the two countries an ultimatum to begin demarcating the border by November 2007.

In the December 2006 invasion of Somalia, Ethiopia routed the Union of Islamic Courts (UIC), but the UIC is regrouping and has declared a “holy war” against Ethiopia. There are indications that Eritrea has been providing military support to the UIC, raising fears of a regional conflagration. Ethiopia has vowed to withdraw its troops from Somalia when the Transitional Federal Government (TFG) has established full authority over the territory with the support of the African Union peacekeeping force. The situation is far from stable,

however, and Ethiopia may be bogged down in Somalia for some time.

The Somali situation is also exacerbating the conflict in the Ogaden region of Ethiopia. Historically, the Ogaden National Liberation Front (ONLF) has had close relations with Somalia, supporting it in the war against Ethiopia over Ogaden in the 1970s. Armed attacks by the ONLF against the Ethiopian government have intensified in the aftermath of the Somali invasion. On 24 April 2007, the ONLF launched an attack on a Chinese-owned gas project in Ogaden, killing nine Chinese expatriates and 65 Ethiopians. This was followed by another attack on 28 May 2007 in Jijiga and Degahabur, killing 17 people. In response to the attacks, the Ethiopian military launched an offensive against the ONLF. In efforts to hunt down the rebels, the Ethiopian army closed all the roads into the region to commercial and humanitarian traffic. As a result, the military campaign may have triggered a serious humanitarian crisis. In July 2007, the International Committee of the Red Cross (ICRC) was banned from Ogaden, although there are still 12 humanitarian and relief agencies operating in the region.

While the political situation has improved recently in some respects, governance remains weak. According to the World Bank's governance indicators, Ethiopia ranks in the bottom 10 per cent of countries on political stability. On voice and accountability, the country ranks in the bottom 10-25 per cent with a score of 15.8 (out of 100) in 2006, as against 19.3 in 2005. Similarly, Ethiopia's score on political stability and absence of violence declined from 8.0 in 2005 to 5.3 in 2006, due to the crackdown on opposition and suppression of civil liberties in the aftermath of the 2005 elections.

With respect to corruption, Ethiopia's score improved from 25.1 in 2005 to 36.9 in 2006 in the World Bank indicators. However, Ethiopia's ranking in Transparency International's Corruption Perception Index for 2007 was roughly unchanged, at 138th out of 179 countries compared to 130th out of 163 countries in 2006.

## Social Context and Human Resources Development

PASDEP will continue the SDPRP's strong emphasis on female participation with a five-year National Action Plan for Gender Equality. The plan focuses on women's empowerment, promoting equal access to education and training, reducing violence against women and increasing women's participation in decision-making processes.

Robust growth, coupled with initiatives directly targeted at poverty reduction, has started to show some positive results. According to PASDEP, the proportion of people living in poverty declined slowly from 44.2 per cent in 2000 to 38.7 per cent in 2005. Both urban and rural poverty indices have declined. Despite the decline in poverty in recent years, Ethiopia is unlikely to meet the MDG of halving poverty by 2015. PASDEP aims to reduce poverty to 29 per cent by 2010.

Despite strong economic performance in recent years, the unemployment rate remains stubbornly high at 26 per cent. In some big urban centres such as Addis Ababa, unemployment may be as high as 40 per cent. One of the key objectives of PASDEP is to reduce unemployment through TVET and public works programmes.

In the area of health care, the government's strategy focuses on the most common diseases such as malaria, tuberculosis and HIV/AIDS. To improve health care delivery in rural areas, the government has launched the Health Extension Worker Programme (HEWP) under the Accelerated Expansion of Health Care Coverage. One of the accomplishments of the programme has been the training of close to 10 000 women in the provision of sanitation and immunisation services<sup>4</sup>. Health extension workers work under difficult conditions, travelling long distances and facing poor transport and communication facilities. In addition, the health reporting and management information system is weak.

4. See Center for National Health Development in Ethiopia, "Assessment of the Working Conditions of the First Batch of Health Extension Workers", 2006.



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The government has formulated a multi-sectoral HIV/AIDS plan, covering prevention programmes and anti-retroviral treatment (ART). As a result, the proportion of HIV/AIDS-positive women receiving ART has increased to 42 per cent, from only 15 per

cent at the end of SDPRP. The government intends to intensify the fight against the pandemic during the implementation of PASDEP through a major mass media and community mobilisation campaign to raise awareness on HIV/AIDS.

