Country Brief

Ethiopia

Admasu Nebebe
Director, UN Agencies & Regional
Economic Cooperation Directorate
Ministry of Finance and Economic Development, Ethiopia

Emily Bosch
Aid Effectiveness Specialist
UNDP - Ethiopia

October 2015
Contact: admasunebebeg@yahoo.com / emily.bosch@undp.org

The present country brief was prepared by the UNDP Ethiopia, as a part of efforts to further build up the repository of evidence and good practices on the implementation of the effective development cooperation principles at the country level and facilitate the mutual learning under the umbrella of the Global Partnership for Effective Development Cooperation (GPEDC).

Highlights for Ethiopia (LIC)

1. Partnership "darling" country: effective aid coordination / MA framework, the growing trend / contribution of pooled fund
2. Ongoing efforts towards inclusive co-designing process in developing national sector plan.
3. Successful DRM efforts: In 2011/12 and 2012/13, a total of 85.7 billion birr and 107.0 billion birr of tax revenue was collected respectively: contributing factors and strategies for countering illicit financial outflows.
4. Significant contribution of South-South Cooperation to growth / development: success factors (with example)

Context:

Ethiopia is one of the fastest growing economies in the world with double digit-growth of close to 11% for a decade. The overarching objective of Ethiopia's national development strategy, the Second Growth and Transformation Plan (GTP II) is the realisation of Ethiopia's vision of becoming a lower middle-income country by 2025. Thus, GTP II aims to achieve an annual average real GDP growth rate of 11 percent within a stable macroeconomic environment while at the same time pursuing aggressive measures towards rapid industrialisation and structural transformation.

The strategic pillars of GTP II include:

(1) Sustain the rapid, broad-based and equitable economic growth and development witnessed during the last decade, including GTP I.
(2) Increase productive capacity and efficiency to reach the economy's productive possibility frontier through rapidly improving quality, productivity and competitiveness of productive sectors (agriculture and manufacturing industries).
(3) Enhance the transformation of the domestic private sector to enable it to become a capable development force;
(4) Build the capacity of the domestic construction industry, bridge critical infrastructure gaps with particular focus on ensuring quality provision of infrastructure services;

(5) Manage on-going rapid urbanisation to unlock its potential for sustained rapid growth and structural transformation of the economy;
(6) Accelerate human development and technological capacity building and ensure its sustainability;
(7) Continue to build democratic and developmental good governance through enhancing implementation capacity of public institutions and actively engaging citizens;
(8) Promote women and youth empowerment, ensure their effective participation in the development and democratization process and enable them to equitably benefit from the outcomes of development; and
(9) Build a climate-resilient green economy.

The government's pro-poor policy gives priority to social sectors: 70% of the total budget expenditure goes towards education, health, agriculture, water supply and rural roads. Generally, the progress in the social sector shows that Ethiopia is set to achieve all MDGs, although progress has been slowest on MDG 3-Gender Equality and Women's Empowerment and MDG 5-Improve Maternal Health.

The challenges of the GTP I included inflation, which was a threat to macroeconomic stability at the beginning of the GTP period, but then stabilised in the last two years. Another challenge was poor export performance and therefore limited foreign exchange. Going forward, enhancing agricultural productivity and expanding the growth of the manufacturing industry will be the focus of attention.

Development cooperation and partnership framework

In 2013, Ethiopia received USD 3.8 billion in development assistance (including USD 400 million in humanitarian aid). Since 2004, ODA to Ethiopia has increased by 66 per cent in real terms. While the overall volume of aid to Ethiopia remains significant, Ethiopia's aid of USD 41 per capita remains below the sub-Saharan average of USD 49 per capita. Grants made up 68 per cent of ODA in Ethiopia, while concessional (soft) loans constituted 32 per cent of total ODA to Ethiopia in 2013.

There are 22 bilateral and 24 multilateral organizations that support Ethiopia's development. Among bilateral / multilateral development partners, investments in health and population policies account for over one-quarter (26 per cent) of total development assistance, followed by economic infrastructure (14 per cent), and humanitarian assistance (12 per cent) in 2012-13. According to the aid management platform housed in the Ministry of Finance and Economic Cooperation (MoFEC), the agriculture sector was the top sector, receiving USD 1 billion of on-budget development assistance, followed by the health (USD 673 million) and infrastructure sectors (USD 547 million). Since 2005 (EFY 1998) when partners decided to no longer provide general budget support, much of Ethiopia's development assistance has been pooled in large multi-donor and multi-sector fund arrangements, such as the Promotion of Basic Services (PBS); Productive Safety Net Program (PSNP); the General Education Quality Improvement Program (GEQUIP); and Water Supply, Sanitation and Hygiene (WASH) programme. Together contributions from development partners to these five largest multi-donor programmes (pooled funds)[1] account for over one-quarter of official development assistance.

The Development Assistance Group (DAG) holds regular dialogues with the Government of Ethiopia through the annual progress review meetings of the Growth and Transformation Plan and the High Level Forum (HLF). In addition, the government convenes the Effective Development Cooperation Task Force to further promote adherence to the development effectiveness agenda in Ethiopia, and encourage mutual accountability, as well as aid predictability; aid on budget; use of country systems; and the use of a common results framework.

The Development Assistance Group (DAG) comprises 28 bilateral / multilateral development partners and the DAG coordination architecture consists of technical working groups; donor-government sector working groups; and donor working groups. The technical working groups that operate directly under the umbrella of the DAG include:

i) GTP Working Group, which consists of Monitoring and Evaluation, Macro-economic and Public Financial Management sub-groups;
ii) Governance Technical Working Group, which consists of Civil Society and the Justice, safety and conflict sub-group;
iii) Donor Group on Gender Equality (DGGE)
iv) Private Sector Development and Trade Working Group.

Progress in Effective Development Cooperation

The results from the 2013 post-Busan monitoring survey in Ethiopia are as below:

Annual predictability: Seven DPs disbursed 100% of what they scheduled for disbursement, whereas eight others did not indicate any scheduled disbursements despite disbursing ODA for the year under review. The global average for this indicator is 82%. Ethiopia is above average.

Medium-term predictability is the estimated proportion of total funding covered by spending plans covering the next three years, which was 85% for Ethiopia (global average: 70%). Results vary widely among DPs with 13 able to provide these plans for the next 3 years. Often, the determinant is the existence of cooperative agreements signed with the government.

Aid on budget: Progress has been made in Ethiopia since 2010, when only 49% of aid was recorded in the government's annual budget to the latest round of monitoring in which this number rose to 66% (above the global average of 60%). Again, there was wide variation among DPs, where 0% of 11 DPs' ODA is recorded on the government budget, and 3 others where 100% features on the budget approved by the House of People's Representatives. As in 2010, Ethiopia met the requirement on mutual accountability by having country-level targets, assessments toward targets, the involvement of non-executive stakeholders, and public results.

1 Promotion of Basic Services Program (PBS); the Productive Safety Net Program (PSNP); the General Education Quality Improvement Program (GEQIP); the Agricultural Growth Program (AGP); and the Sustainable Land Management Program (SLMP).

Gender equality and women's empowerment Ethiopia is mentioned in the monitoring report as one of the few countries that has a system in place to track and make public allocations on gender equality. Specifically cited are its national gender-responsive budgeting guidelines for mainstreaming gender in the program budget process.

Quality of the country's public financial management systems is based on the World Bank's Country Policy and Institutional Assessments Criteria 13 (Quality of Budgetary and Financial Management). Ethiopia scores the same as it did in 2010 (3.5 on a scale of 1-low to 6-high), although it has since moved up to 4.0. Some countries have expressed reservations on the methodology used for the World Bank CPIA assessment.

Use of country PFM and procurement systems. An average of 51% of total ODA used the country's PFM and procurement systems compared to 56% in 2010. The overall use of country public financial management and procurement systems has remained at its 2010 level. The global average for this indicator is 49%. Ethiopia is above average.

Untied aid: The share of untied aid in Ethiopia as reported to the DAC in 2012 was 87% compared to 70% in 2010. "Traditional" providers of development assistance are delivering on commitments to untie more ODA despite pressures on ODA budgets.

Development Effectiveness Agenda

In preparation for the second Growth and Transformation Plan (2015-2020), the Development Assistance Group supported the National Planning Commission to refine the indicators to monitor the five-year plan. Clusters of sector specialists drafted sector plans, which serve as a basis for the drafting of the second generation GTP. Government has held regional / national consultations with all stakeholders, including development partners. In light of the monitoring results, an action plan has been put in place for development partners and government to measure progress and hold each other accountable. The post-Busan action plan designed by the Effective Development Cooperation Taskforce was recently updated, and will be regularly monitored.

Global Partnership and its contribution to the development effectiveness agenda at the country level

Partnering for Effective Taxation and Domestic Resource Mobilisation for Development
The adoption of a prudent fiscal policy and improvements in tax administration / collection systems have led to the decline in government budget deficit in the past three years (GTP APR, 2005). In 2011/12 and 2012/13, a total of 85.7 billion birr and 107.0 billion birr of tax revenue was collected respectively. The 2012/13 tax revenue is more than double the amount collected in 2009/10, which was only 43.3 billion birr. This is mainly due to increased economic activity, but also attributed to effective administrative measures to increase the tax base; improved tax audit system; and upgrading of the IT infrastructure and systems.

Although tax revenue has increased over the last two years, it still remains low compared to the tax revenue generating capacity of the economy, the financing requirements of the development programs and the sub-Saharan Africa average. To further boost the domestic resource generation capacity of the government to finance its wide development finance needs, promoting compliance and equipping tax collection institutions with adequate enforcement power will be critical. In addition, Ethiopia has made recent strides for increased access to international financial markets, as demonstrated by Ethiopia's sale of Eurobonds last year and its plans to start an equities and secondary debt market.

Fighting illicit financial flows is also another critical area for Ethiopia. The African Union's high-level panel on illicit financial flows earlier in 2015 ranked Ethiopia among the top 10 African countries with the highest illicit financial flows. According to the Global Financial Integrity, Ethiopia stood 39th out of 144 countries in terms of the volume of illicit financial flows with over USD 20 billion making its way out of the country between 2002 and 2011. This amounts to an average of USD 2 billion per annum. Ethiopia has improved its legal and institutional framework to combat corruption, and its 2013 proclamation on money laundering and terrorist financing is largely in accordance with international good practice and standards. The Financial Intelligence Center, an independent body which reports to the Prime Minister, is tasked with enforcing anti-money laundering rules. Similarly, the 2010 Proclamation on Disclosure and Registration of Assets requires all government officials to declare and register assets. More could be done with regard to applying business regulations more uniformly; simplifying tax and customs rules; and increasing external oversight to build awareness and prevent corruption.

South-South, Triangular co-operation and Knowledge Sharing

Development cooperation with southern partners has been a cornerstone of Ethiopia's unprecedented decade-long double digit economic growth success and it will continue to play an important role in the country's future development endeavors. The advantages of South-South cooperation include stronger ownership of the development process by Ethiopia; sharing of technology and best practices that may be more appropriate to the needs of Ethiopia; and encouraging self-reliance by identifying local solutions based on the experience of developing countries.

In September 2014, the Brazilian Ministry of Foreign Affairs and its technical cooperation department (ABC) invited a delegation from Ethiopia composed of 16 water and sanitation officials from sector line ministries and regional bureaus to Brazil. The delegation was led by the State Minister of Health and Water, and also included senior government officials from the Ministry of Urban Development, Construction and Housing; Ministry of Health; and Ministry of Water, Irrigation and Energy. The federal level delegates were accompanied by Water Bureau leaders from Tigray, Amhara, Oromia and Somali regions, as well partners such as World Vision (NGO), DFID and UNICEF. The "South to South" learning visit was one of the preliminary activities financed under the One WASH Plus Programme. The delegation held senior level consultations in the presence of the Ethiopian Ambassador to Brazil with the Ministry of Foreign Affairs, Ministry of Cities, Ministry of Health (FUNASA), Ministry of Integration, Ministry of Environment and National Department of Water in Brasilia. In January 2015, the Brazilian experts undertook a technical feasibility mission to Ethiopia. After visits to selected regions, two thematic areas were agreed upon, namely urban sanitation and urban water regulation. The two-year programme document of collaboration has now been signed by the governments of Ethiopia and Brazil as well as UNICEF. Expert missions are underway to design appropriate sanitation systems for urban condominiums by Brazilian experts.

Ethiopia is eager to draw lessons from and explore ways to support transitioning from a lower-income to a higher-income category to ensure that eventual adjustments on concessional regimes and other development cooperation instruments do not hamper the development gains achieved by these countries. This will be particularly relevant as Ethiopia strives towards its vision of becoming a low carbon emission middle-income country by 2025.

Business as a partner in development

Ethiopia aims to continuously develop and strengthen the platforms / hubs for inclusive and structured multi-stakeholder dialogue on the broad range of public-private partnerships, including trade unions and CSOs, with the aim of improving the alignment of business and development core objectives. They will do this through the enhancement of shared value delivery along the breadth of the value chain, sustainable consumption and production patterns, and corporate social and environmental responsibility. Economic transformation is at the center of the state developmental model. The Government of Ethiopia continues to prioritise peace and stability and works towards creating a conducive environment for private sector development, including by guaranteeing property rights, and ensuring macroeconomic stability. Investments in infrastructure and human resource development are crucial and will continue to expand to attract private investment.

The investment code was revised to further improve the investment incentives particularly to priority sectors. Trade and credit policy incentives, better facilitation in licensing, registration, customs and taxation as well as the allocation of land (industrial zone development) for manufacturing and agriculture investments serve to encourage private sector development. The participation of the private sector in the economy is growing, and will increase to accelerate the economic growth of the country (GTP APR 2004). These activities linked to industrialization and commodity diversification also contribute towards Ethiopia’s structural transformation.

Conclusions and recommendations

Ethiopia’s rapid economic growth and progress in poverty reduction, as well as significant achievements in attaining most of the MDG targets is a testament to the strong leadership of the government in reducing poverty and improving access to services. Going forward, improving the quality of services and creating an environment for increased private sector development in order to sustain the development gains achieved thus far will be important.