

**Country Assistance Program
for
the Federal Democratic Republic
of Ethiopia**

Government of Japan

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Contents

1. Philosophy and Objectives for Japan's ODA to Ethiopia	
(1) From the Perspective of Poverty Reduction and Human Security	1
(2) Strategic Significance of Assistance to Ethiopia (for Stability of the Region).....	1
(3) For Promotion of Development Ownership and Self-help Effort on Ethiopia.....	1
2. Basic Policy for Japan's ODA to Ethiopia	2
(1) Basic Objectives of Japan's Assistance to Ethiopia.....	2
(2) Strategic Significance of Assistance to Ethiopia (for Stability of the Region).....	2
(3) Priority Areas in Japan's ODA to Ethiopia	5
(4) Approach to Priority Areas/Matters in Japan's ODA to Ethiopia	6
(5) Issues for Special Consideration on Country Assistance Program (CAP) Implementation.....	9
 Annexes	
1. Conceptual Diagram of Food Security	14
2. Comparison of SDPRP and PASDEP	15
3. Cooperation Matrix	17
4. Political, Economic and Social Situations.....	18
5. Ethiopia's Development Strategy and Trends in Assistance.....	21

1. Philosophy and Objectives for Japan's ODA to Ethiopia

(1) From the perspective of poverty reduction and human security

“Ethiopia” had long been associated with poverty and hunger, not only in Africa, but also throughout the whole world. A look at any statistics revealed that Ethiopia has been the poorest country in the world over the last several decades. The disaster of the great famine that hit Ethiopia in 1984-5 still remains clear in our memory. Above all, the problems that are threatening food security still remain unsolved.

At every summit meeting of major advanced countries, the leaders discuss measures to deal with the Africa problem, and Ethiopia is one of the countries most frequently mentioned by the leaders. Japan, which upholds contributing to poverty reduction and human security in its new Official Development Assistance (ODA) Charter, should give high priority to Ethiopia.

(2) Strategic significance of assistance to Ethiopia (for stability of the region)

It has often been pointed out that assistance to Ethiopia is important for the stability of West Asia/North Africa, as the country is a key member of the African Union (AU), with the AU headquarters located in the country, and is situated in the hinterland of the Horn of Africa. It should also be pointed out that Ethiopia was often embroiled in disputes with its neighboring countries and civil war in the past.

In addition to these political aspects, we can also point out the aspect of economic importance of Ethiopia. The country has the second largest population among the sub-Saharan African countries, with a population of 70 million, accounting for 8% of the total population of Africa. The Abyssinia Plateau, which covers the northern half of the country, is the riverhead of the Nile River and is important in terms of water resources for northeastern Africa. Ethiopia was once a food exporting country and even now it is the second largest producer of maize and wheat in Africa, suggesting that the country can achieve its abundant potential for development, if water resources and other natural conditions are efficiently utilized.

On the other hand, the increasing food imports by Ethiopia and other African countries, prompted by a sharp increase in population, has become a major destabilizing factor for the international food market, having direct and indirect impacts on Japan. Ethiopia should be given the highest priority as the litmus test for solving the food problem in Africa.

(3) For promotion of developmental ownership and self-help effort on Ethiopia

In Ethiopia, we can see momentum for developmental ownership and self-help efforts for development. The country's pride backed by its long history as an independent state, its original culture, and the relatively well-streamlined central administrative organizations are all important factors from the perspectives of development and aid absorption. In fact, the country has achieved steady results in recent years.

First, the government of Ethiopia, after the end of a civil war in 1991, has been able to avoid

a great famine despite the fact that the country was hit several times by drought, equally as severe as the one caused the great famine in 1994-95. Although the structural vulnerability of food security remains serious, the result should be highly evaluated. We should continue to provide necessary, appropriate assistance to the country.

Second, after the enactment of the current Constitution in 1994, Ethiopia implemented decentralization of the government, on the basis of the Nations, Nationalities and peoples of Ethiopia; a revolutionary change of the political system for an African country. The challenge has come off. The decentralization has helped the country preserve internal peace for a dozen years or so since then, enhancing the restoration of the country and the prevention of famine. At the same time, the decentralization has a great influence on the financial relation between the federal government and regional governments. Therefore, we should keep this in mind when extending assistance. We, however, also need to pay attention to the fact that there is revisionist views over the decentralized federal system.

2. Basic Policy for Japan's ODA to Ethiopia

(1) Basic objectives of Japan's assistance to Ethiopia

Ethiopia has various issues in terms of human security. Among the factors that are threatening human security are conflicts, natural disasters, the spread of infectious diseases, chronic poverty and, in particular, the vulnerability of food access. These factors are intricately intertwined. The vulnerability of food access lies at the heart of the problems of poverty, threatening the life and livelihood of the people. The vulnerability of food access is a chronic, structural problem, intricately related to various social and economic issues. In order for Ethiopia to overcome poverty and initiate long-term sustainable economic growth, it is vitally important to overcome the vulnerability of food access, the most important aspect of the country's economic poverty. Supporting such efforts through development assistance is fully legitimate.

In view of the above, the country assistance program defining Japan's assistance to Ethiopia over the next five years sets overcoming the vulnerability of food access i.e. consolidation of food security as one of its major objectives. The overall Japanese assistance for Ethiopia will be promoted for the purpose of efficiently and effectively contributing to consolidation of human security centering on food security.

(2) Structural understanding of food security problems

(a) Introduction

In order to achieve the objectives described in (1), it is important to have an accurate understanding of the links in the chain of causation that bring about the vulnerability of food access. What is important is for Japan to carry out strategic and focused resource allocation, for its most efficient and effective involvement, based on the said understanding. The understanding must be constantly examined in practical operations and activities.

Annex 1 is a simple presentation of the chain of causation for a group of problems related to food security in Ethiopia. These problems can be explained from two aspects: farmers' lack of subsistence food production and the lack of access to food in the market. The following is a brief explanation of Annex 1.

(b) Problems of low agricultural productivity

First, the shortage of food of farmers who produce all or a part of their own food can be attributed, above all, to their low level of agricultural production capacity. It can be pointed out that behind the low productivity (especially that of land) lie the degradation of productive resources such as soil and water, the shortage or instability of input supplies due to underdeveloped markets and low purchasing power, and delay in the human capital development (technology, education, and health) of farmers and farming households. From these problems, the soil and water resource issues may in certain respects be due to characteristics of Ethiopia's natural conditions, but it can also be said that they are due to inadequate efforts to overcome the given unfavorable conditions, by methods including soil conservation and improvement, and development of an irrigation infrastructure. These inadequacies are the consequence of the country's economic poverty and have much to do with the fact that the country's land system, which was shaken by several decades of turmoil, has failed to provide incentives for long-term investment by farmers. The underdevelopment of the market is also due to Ethiopia's natural conditions, such as the sharp differences in elevation (especially in the northern part of the country) and the existence of arid regions. It is also due to the fact that a transportation infrastructure to overcome the disadvantageous natural conditions has yet to be developed.

Sedentary agricultural areas, mostly in northern plateaus, are densely populated and the size of each farmer's plot in the areas is small. This, coupled with the low land productivity, makes each farmer's production capacity low. The population density, which had already been high, has become even higher due to a rapid growth in population. This has created pressure on expansion of cultivated areas and exhausted soil fertility, putting an extra burden on farming environments such as forests, water systems, and soil. This, in turn, has caused degradation of productive environments, hampering improvement of land productivity.

Farmers' and farming households' low purchasing power to acquire high value-inputs, such as improved varieties of seeds and seedling, fertilizers, and agricultural chemicals, uncertain access to those goods, and the delay in human capital formation are all ascribable to economic poverty. In other words, behind the economic poverty lies delay in research/development and dissemination of technologies (such as improved versions of traditional techniques) that can be used even by poor farmers, and delay in human capital formation. The economic poverty itself is the consequence of low production capacity. The problem of low agriculture and food production capacity has created a vicious cycle with various related factors causing or resulting in low productivity. For a fundamental solution to the problem, it is necessary to formulate a strategy to break the vicious cycle and implement effective measures for this purpose.

(c) Difficulty in food access through the market

The second important aspect of the food problem is that many people obtain food through the market. Not only urban dwellers, non-farm workers residing in rural areas (such as nomadic people, merchants and industrial workers), agricultural wage workers, and commercial farmers, but also, even subsistence farmers have to rely on the market for their foods in the case of a shortage of their own production. If these people are unable to buy foods in the market, it would cause serious starvation unless appropriate food assistance is provided.

Threats to the food security of buyers from the market can be roughly broken down into three causes: supply, demand, and distribution. The key aspect of the supply factor overlaps with the low production capacity of Ethiopia's food production sector that was described in (b) above. However, domestic production alone does not always cover all food supply. Imported food play an important role. The Ethiopian economy's purchasing power of imported food (foreign-currency earning power) and the amount of aid the country receives determine the supply of imported food.

Demand is largely governed by the purchasing power of food buyers. Needless to say, many people in Ethiopia live in poverty and the country's production and income are vulnerable to external conditions, such as weather and international market prices of the country's major export items including coffee. Behind the poverty and vulnerability lies underdevelopment of human capital as was described in (b) above. Also, the purchasing power of nomads is influenced largely by severe productive environment and its degradation.

Third, distribution should play an important role to link supply and demand. But, it is not playing the role due to, as described in (b) above, underdevelopment of markets and inadequate transportation, storage, and communication infrastructures. Despite the fact that the volume of Ethiopia's food production is only slightly below food demand from the entire population, as many as 5 million people are starving or on the verge of starvation. This suggests that many of the food problems in the country can be attributed to the problems of demand and distribution.

If food supply is sufficient and thereby food prices are low, the real purchasing power of even low-income earners should increase. Conversely, if there is sufficient purchasing power and it is conveyed to the supply side through a distribution system, domestic food production should increase. If the interaction between supply and demand becomes active, it would increase societal demands for the construction of a market system and the development and maintenance of transportation, storage, and communication infrastructures. In Ethiopia, such mechanism has yet to be put in place. On the contrary, stagnation and deficiencies in each of the food supply, distribution, and demand have created a vicious cycle. As was described in (b) above, it is necessary to work out an effective strategy to break the vicious cycle, and Japan should develop measures effective for this purpose.

(d) Proper food security strategy

The idea behind the Productive Safety-net Program and the Cash for Work under the New Coalition for Food Security in Ethiopia proposed by the Ethiopian government is to boost the

production capacity of local communities in the medium and long term, and thereby help increase their food production and income (as purchasing power) by covering farmers' lack of purchasing power with subsidies on a short-term basis, and at the same time by promoting infrastructure construction employing farmers' labor provided in exchange for the said subsidies. Moreover, if the subsidized purchasing power is directed to domestic production, it would stimulate an increase in domestic food production more than the Food for Work program which relies on food aid. Such a strategy is expected to be effective in breaking vicious cycle of supply, demand, and distribution described above. Japan needs to consider supporting such a strategy.

However, a superb strategy alone may not be enough to serve the purpose: it should be accompanied by appropriate policy measures in its actual operation. In this sense, appropriate policy support for infrastructure development and the expansion of food production in response to a rise in purchasing power is the key to a successful Cash for Work. Japan will work out support measures for agriculture and rural development with its effective involvement on these points in mind.

If development of food distribution becomes possible, progress in the division of labor, and production of appropriate crops on appropriate land can be expected in various parts of the country. In the areas where the potential for cereal production is low due to natural environmental factors, efforts should be made to enhance food purchasing power by promoting agricultural production other than of cereals, or increasing income other than from agriculture. On the other hand, in the areas where the potential for cereal production is high, efforts should be made to enhance production capacity and promote distribution in order to provide cereals to the areas with low potential for cereal production. If such commercial production of food expands, it would promote the use of agriculture inputs.

The said efficiency through progress of the division of labor within Ethiopia, however, can be materialized only in the long term. In the short and medium terms, it is necessary to steadily enhance the food production capacity of farmers on the verge of starvation (the biggest issue in Ethiopia's food security is that farmers producing crops for their own consumption often face starvation). Seen in that light, it is important to seek means to improve productivity of low-input agriculture that does not depend much on inputs from the market. In this sense, it is extremely necessary to strengthen research and development for new modes of production based on the traditional techniques.

These efforts must be backed by human capital formation, infrastructures for transportation, storage, and communications, the utilization of water resources, and soil improvement.

(3) Priority areas in Japan's ODA to Ethiopia

It is necessary to strategically formulate Japan's ODA to Ethiopia based on the structural understanding of the problem of food security shown in (2). When doing so, Japan needs to select carefully the sectors or areas in which it should be involved, considering the advantage of its own assistance resources, and concentrate the resources on selected sectors or areas. At the same time, when selecting sectors and concentrating resources, Japan will have full consultations with the Ethiopian government and other development partners, and avoid adopting approaches isolated from

activities of other organizations or redundant measures of other development partners. Rather, Japan will strive to strengthen proactively linkages with other partners and diffuse positive impacts of its activities.

The factors that are highlighted in yellow in Annex 1 are those in which Japan should be involved from the following angles. They can be summarized as follows.

- *Agricultural/rural development*

Research and development of agricultural technology, dissemination of improved technologies and support for their application, improvement of irrigation facilities (including support for water harvesting), soil conservation and improvement

- *Water*

Management of water resources (safe drinking water)

- *Education*

Improvement of the access to education and the quality of education in remote rural areas

- *Health*

Prevention of the spread of infectious diseases

- *Socioeconomic infrastructure*

Development, maintenance and repair of infrastructures essential for trading development

Japan will organize its ODA to Ethiopia by concentrating resources on the above focused sectors and related areas keeping ultimate contributions to food security in mind. In particular, Japan will give top priorities to agricultural/rural development which is closely related to consolidation of food security and to water resource development, on which Japan has accumulated ample knowledge through its previous ODA to Ethiopia

(4) Approach to priority areas/matters in Japan's ODA to Ethiopia

(a) Approach by priority area

- *Agricultural/rural development*

As was described in (2), this Country Assistance Program has defined the fundamental problems of Ethiopia's food security as low agricultural production capacity and the difficulty of access to food. Japan's ODA to Ethiopia in the area of agricultural/rural development will focus on these two problems for the time being.

As to the enhancement of agricultural production capacity, keeping in mind the importance of comprehensive water resources development and management, in the areas with high agricultural potential, Japan will promote support in areas such as improvement of irrigation technology, research, development and dissemination of improved versions of agricultural technology, and diffusion of alternative crops including rice. On the other hand, in the areas with a high risk of facing starvation, Japan will provide support for the conservation of soil and water sources, stabilization of food production and enhancement of production capacity, and diversification of income other than from agriculture, while giving due respect to farmers' risk-aversion and risk-diversion orientation. In

particular, in consideration of the effective implementation of the Productive Safety Net Program that will be introduced by the Ethiopian government, Japan will consider providing, for instance, technical support related to rural infrastructure development projects to be implemented under the Cash-for-Work scheme.

As already mentioned Japan, from mid- and long-term perspectives, will contribute to consolidation of food security based upon enhanced food production capacity and improved farmers' income which would be underpinned by efficient linkage between production and consumption through vitalized domestic food trading. Japan will provide support to such areas as development of trading systems, improvement of post-harvest, management, and improvement of access to market information. Furthermore, in order to reduce adverse impacts of foreign food aid on the domestic production base, Japan will consider modalities for food assistance, such as procurement of grains from domestic markets through participation in the Productive Safety Net Program.

In addition, Japan will actively strive to make proposals for the Ethiopian government's agricultural/rural development policies so that knowledge acquired through the above cooperation can contribute to Ethiopia's agricultural/rural development and consolidation of food security.

- *Water*

As previously mentioned, Ethiopia has a very high potential for utilizing water resources. But, in case of drinking water, the cost of securing quality water is very high. Therefore, in order to secure drinking water for rural villages in Ethiopia on a sustainable basis, Japan will provide cooperation aimed at utilizing ground water or springwater which is abundant and available at relatively low costs compared with the utilization of surface water. Ethiopia's lowest water-supplying rate among the sub-Saharan African countries can be attributed to the lack of water-supplying facilities and the low operating availability of existing water-supplying facilities in rural villages. On the basis of this understanding, Japan will adopt two different approaches to deal with the problem: development of facilities for water-supply whose maintenance is easy and building of people's capacity to maintain water-supplying facilities. Japan's support in this field will target rural villages where access to the water supply is low. Since the shortage of capable manpower in rural areas is widely recognized, Japan will actively promote reinforcement of manpower, at the levels of communities, local government officials and engineers. Since development/management of water resources can be an important entry point to community development, such as health, school education, and kitchen gardens, organic linkages with these activities are to be promoted.

- *Socioeconomic infrastructure*

From the viewpoint of food security, Japan will focus its ODA to Ethiopia on the development of transportation infrastructures for the purpose of facilitating trading of agricultural products and inputs. Since road transportation accounts for 95% of inter-city traffic in Ethiopia, it is important to develop road infrastructures, including bridges. As to trunk road construction for which Japan has provided cooperation, Japan will implement cooperation after evaluating its impacts from

the viewpoint above and confirming the availability of adequate capacity of maintenance and management (financially, systematically, and technically). At the same time, from the viewpoint of avoiding reinvestment requiring enormous amounts of money, Japan will provide support for building of financial, systematic, and technical capacity to maintain the infrastructure on a constant basis. From the viewpoint of food security in rural areas, Japan will also explore the possibilities of cooperating for construction and maintenance of roads contributing to the improvement of access to markets and social services in rural areas.

- *Education*

Although Ethiopia has succeeded in improving the primary enrollment rate under the Education Sector Development Program, it still faces major challenges in the aspects of regional disparity in the access to education and the quality of education, in which increasing school enrollment rate in rural and remote areas and decreasing the dropout rate for pupils should be policy priorities. Human resource development through the dissemination of education contributes to the expansion of income opportunities in rural and remote areas troubled by food shortages. Therefore, Japan will cooperate for 1) increasing the access to education in rural and remote areas and 2) improving the quality of primary education through the capacity building of local educational administrations and the promotion of community-based school construction and management.

- *Health*

Infectious diseases, such as malaria, tuberculosis, polio, HIV/AIDS, and viral diarrhea, are among the major diseases in Ethiopia, and the fight against infectious diseases has been a priority area in Japan's assistance. When there is a famine, it often results in an increase in the number of those suffering from infectious diseases due to declining of physical strength caused by food shortage and malnutrition. Japan will focus on creating an administrative framework to cope effectively with infectious diseases and enhancing its functions. Japan will consider the possibility of extending assistance to local health care activities, such as providing guidance on nutritious improvement to communities and individuals.

(b) Enhancement of aid effectiveness and aid harmonization

One of the serious problems that afflicted the least developed countries in Africa was "aid proliferation," a situation under which the aid recipient countries, due to their over-dependence on aid, became unable to control various aid projects flooding in from many development partners (DPs). Needless to say that it is important to look at the comprehensive effects and consistency of Japan's assistance. What is as important as these is effectiveness of the whole developmental resources consisting of Ethiopia's domestic resources and the aggregate of assistance from all the DPs.

The government of Ethiopia prepared a three-year Sustainable Development and Poverty Reduction Program (SDPRP) as a framework to enhance development effects of its own resources and aid as a whole, and has so far made certain progress. It is not sufficient for Japan to aim merely for

isolated, internal consistency of its assistance. Rather, Japan should consider alignment of its own activities with the policy framework laid out by the government of Ethiopia in the Plan for Accelerated and Sustained Development to End Poverty (PASDEP).

It is important for Japan to prioritize its activities and to build mutual collaboration with other partners. No less important than these is that Japan must hold close consultations with the government of Ethiopia and other stakeholders including development partners, aid agencies, and NGOs, and promote collaboration and division of labor effectively. Inconsistencies and unnecessary redundancy must be eradicated (Yet, a sound competition of ideas among development partners should be duly encouraged. On the other hand, care should be taken not to confuse the recipient government and counterparts.)

From this viewpoint, the collaboration and harmonization among parties concerned should encompass sharing and alignment of resources, and selection of appropriate modalities for assistance. Japan will provide assistance so that it could most effectively contribute to the success of PASDEP and the food security policies of the government of Ethiopia.

As indicated in (1) (d) of Annex 5, Ethiopia is moving toward strengthening of the General Budget Support (GBS). In addition to its merits described in that section, the GBS enables aid recipient countries to allocate resources flexibly and to reduce managerial costs which would otherwise increase due to a mixture of various modalities, and thus help prevent “aid proliferation.” Since it enables integrated management of domestic public funds and foreign aid, the budget authorities can reinforce effectiveness of the budget. On the other hand, since the GBS is combined with policy dialogues, collaborative formulation process of a poverty reduction strategy/fiscal framework, and ex-post review over public finance, more comprehensive and strategic allocation of financial resources oriented for development and poverty reduction could be possible as development partners desire. By building systems for budgetary management and accounting report, monitoring and evaluation, it would help reconstruct the administrative and fiscal systems of developing countries and enhance their transparency. This last point means imposing burdens indispensable for democracy on the shoulders of the government of Ethiopia. The government, however, appears to have a good understanding of this. We will constantly sound the government’s understanding.

If Japan, for its part, considers taking part in the GBS, while monitoring the progress of governance by the government of Ethiopia in the medium- and long-term, it would lead to meeting the wish of the Ethiopian government (although the government of Ethiopia does not rule out project-type assistance, it regards the GBS as the most preferable modality for assistance and asks development partners for this type of support). Japan will consider appropriate measures, including the possibility of providing GBS (including the Productive Safety Net Program and PBSG) as one of its aid approaches to Ethiopia.

(5) Issues for special consideration on Country Assistance Program (CAP) implementation

(a) Governance of the government of Ethiopia

As described in (1) Annex 4, the governance of the government of Ethiopia has made

progress, as can be seen in the peaceful campaigns and votings of elections. However, there are still factors of instability, such as clashes between the government and opposition parties and its supporters. Japan's ODA Charter reads, "Full attention should be paid to efforts for promoting democratization... and the situation regarding the protection of basic human rights and freedoms in the recipient country." In order to make this CAP contribute to poverty reduction in Ethiopia, it is important for the government of Ethiopia to be transparent and clean, and ready to listen to different views at home and abroad. Therefore, it is vitally important for Japan to implement assistance while seeking improvement of the governance on the part of the government of Ethiopia, such as the promotion of dialogues with opposition parties.

(b) Specific method for the realization of human security

The Mid-Term Policy on Japan's ODA calls for "assistance that puts the center of concerns." and "assistance to strengthen local community." Although "human security" in relation to development tends to be regarded as synonymous with the activities of narrowly defined social sectors, such as health and education, we do not limit this concept to such a narrow interpretation. Viewed from this angle, experiences of on-going technical assistance projects, such as water resource management, education in Oromiya state, the development and dissemination of agricultural technology, and forest resource management, which have been sincerely addressing "people's participation" and have been producing positive outcomes are to be fully consluted and extended where appropriate.

When doing so, it is essential to devise ways to extend the achieved outcomes to wider contexts with diverse conditions, rather than simply replicating similar projects from one limited place to another. In the sectors such as "water," "agriculture," and "education," it is important to strive to spread knowledge and experiences widely by using Ethiopia's existing social resources including administrative systems of the government of Ethiopia and information-sharing functions of the society.

In this context, it is all the more required to make use of sector programs in order to build collaborative relationship with government ministries and agencies, NGOs, and other development partners.

(c) Emphasis on finance/management elements

In order to enhance impacts and sustainability of each project, it is indispensable to add finance/management elements to assistance for infrastructure and human resources development. In this regard, it is desired to make effective use of experiences gained through aid activities in promotion of community participation in management of facilities and services e.g. water resources management and educational development.

(d) Emphasis on local communities and the non-government sector and understanding their circumstances

In order to provide assistance for effective decentralization, building of managerial and planning capacity is at regional and wareda levels essential. We should pay close attention to this

point.

Since the government is not necessarily accommodative, NGOs' activities in Ethiopia are not active considering the size of the country. However, the role of NGOs is recognized in the country to a certain extent partly due to their contributions at the time of the great famine in the 1980s, as mentioned in (4) of Annex 5. The country has abundant quality human resources and an accumulation of experiences with rural development and human resource development. It is desirable that Japan will provide support that will allow the government of Ethiopia to utilize them as social resources.

From the viewpoint of poverty reduction and human security, it is necessary to take the actual situations of local communities into account, and it is vitally important to obtain intellectual contributions from people well versed in the circumstances, including Ethiopian intellectuals and anthropologists.

(e) Consideration for environment

The environment needs to be taken into consideration in every aspect. The fact that population pressure in areas has prompted the government to promote a resettlement program, despite development partners' criticism and skepticism, shows how concerned the government is about environment degradation, even only within the area of production bases. Consideration for the environment is a prerequisite for achieving food security.

(f) Consideration for gender

The issue of gender, as well as that of the environment, is important in all aspects. Since there are still many problems with regard to the status of women in general, we have to give special consideration to them. Structural violence against women in regional communities is a potentially serious problem. It is impossible to achieve rural development in Ethiopia without enhancing the status and ability of women. The situation is the same as that in other African countries. The SDPRP and the PASDEP position the problem as a cross-sectoral theme. We need to address this issue from the perspective of gender mainstreaming.

(g) Consideration for issues concerning human security, such as disabilities

In addition to the issues of environment and gender, there are several other factors that are threatening the stability and security of the livelihood of poor people, and thus rendering them vulnerable. One of them is the problem of disabilities. From the viewpoint of poverty reduction and human security, we cannot forget the issue of disabilities. As in other poor developing countries, the ratio of people with disabilities to the total population in Ethiopia is probably higher than in advanced countries and we guess that the problem is largely covered up. Although the PASDEP does not mention the issue, Japan, which advocates human security, should strive to raise the awareness of the counterpart government and the parties concerned in the private sector.

(h) Monitoring and evaluation

The Ethiopian government's efforts for rationally and comprehensively formulating and implementing policies, like SDPRP, should be appreciated. The challenge ahead is how to promote the transparency and orchestration of monitoring and evaluation under stakeholders' participation in Ethiopia (beneficiaries, NGOs, etc.) and development partners, regardless of whether or not they have contributed to the GBS and/or pool funds. Although it is not necessarily an area advantageous to Japan, it is important for Japan to actively participate in the formulation of an evaluation matrix through development collaboration. It is also important to have constructive consultations with government officials, stakeholders, and other development partners, and reach a consensus. This is also an important point when setting conditions for the provision of GBS.

(i) Support and monitoring of resettlement program

As previously stated in (1) (g) of Annex 5, the Ethiopian government has been implementing a resettlement program in some parts of the country for the purpose of mitigating population pressure. The resettlement policy implemented by the Mengistu regime drew criticism, as it had many problems including the death of many people. The Ethiopian People's Revolutionary Democratic Front (EPRDF) regime tried to seek development partners' understanding of its resettlement policy by announcing that it would limit resettlement within the same region and respect settlers' voluntary will. However, development partners' criticism and skepticism of the resettlement policy remains strong, partly because the disclosure of information was limited. Recently, the government of Ethiopia again called on development partners for support. Japan, for its part, should carefully consider whether or not to provide support after securing such conditions as the right to monitoring and evaluation, full disclosure of information, and provision of sufficient support (including emergency support measures) for farmers in the case of resettlement failure, while ascertaining trends in other development partners. Since many farmers have resettled, it is extremely important to stabilize their livelihood. In this sense, it is critical to establish systems for monitoring and evaluation, information disclosure, and dispute mediation, as previously mentioned.

(j) Long-term development strategy

It is necessary for Japan to maintain and nurture a lasting international cooperative partnership with Ethiopia. To that end, it would be necessary to develop a long-term perspective.

The Ethiopian government has come up with the Productive Safety Net Program in its food security policy system and is shifting its support to poor farmers from payments in kind to payments in cash. The United States, which had balked at the program from the viewpoint of promoting its food exports, has recently changed its stance in favor of the program. Since the underpinning of the purchasing power of poor farmers through the implementation of the Productive Safety Net Program, who are unable to buy food, leads to the vitalization of domestic food production and trading, the direction of the program should be highly commended. Japan, for its part, might as well think of providing fiscal support or modified food aid focused on this point.

Given Ethiopia's geographical features, such as isolated highland villages and precipitous

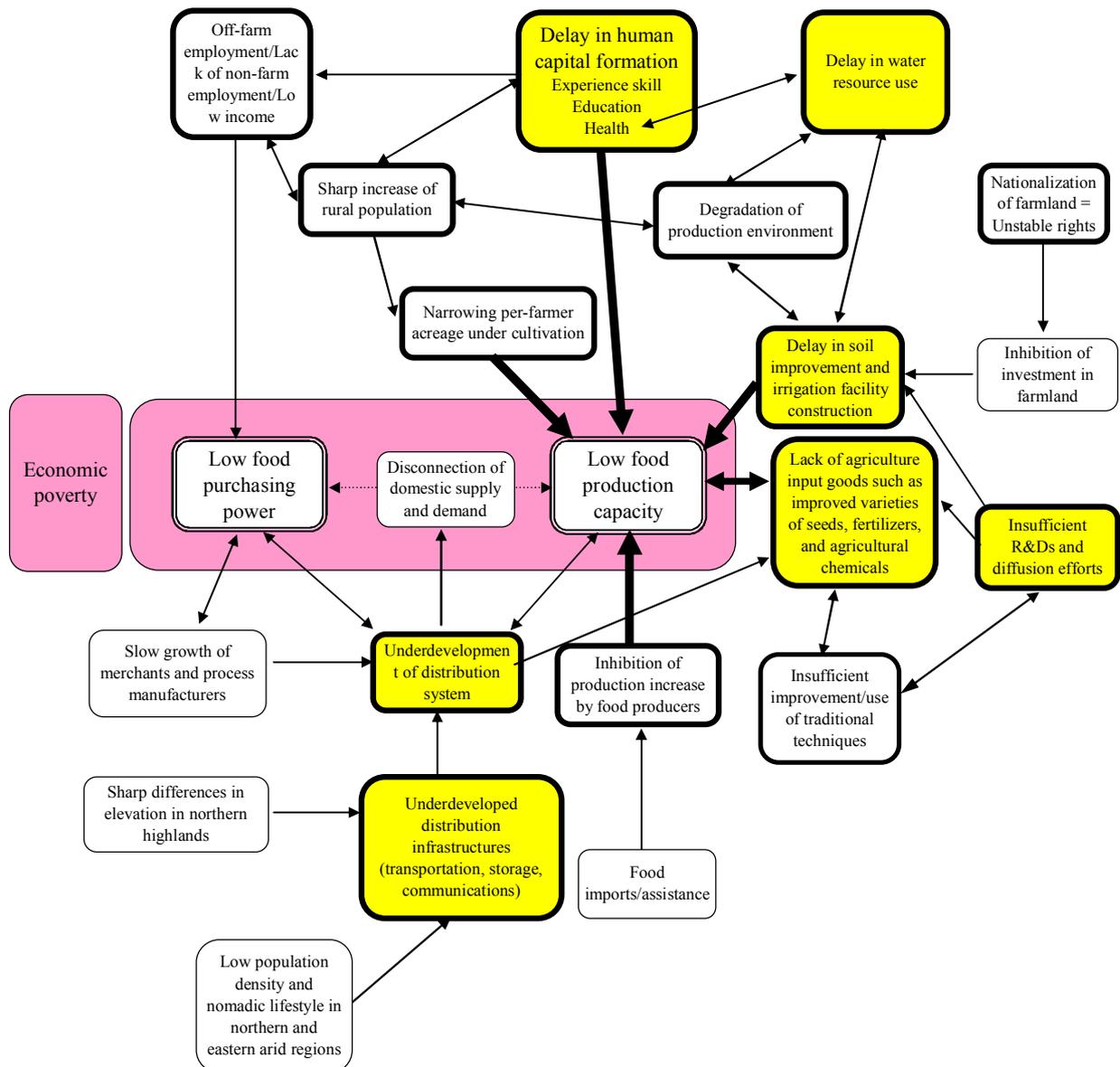
mountains, and in order to achieve food security, it is necessary to enhance farmers' food self-sufficiency on the basis of low input mode of production, along with the promotion of food trading and market-oriented production.

In the long term, Ethiopia needs to consider non-agricultural income opportunities and development of urban industries, focus on economic growth through the promotion of industries and exports, and extend its comparative advantage on the international market. To this end, development strategies, such as further development of economic infrastructures, the utilization of natural resources, and the promotion of small and medium-sized enterprises, would increase their importance in the not-so-distant future. The need for such efforts is already mentioned in the PASDEP. It is desirable for Japan to conduct effective research and analyses in order to address the challenge.

Annexes:

1. Conceptual diagram of food security
2. Comparison of SDPRP and PASDEP
3. Cooperation matrix
4. Political, Economic and Social Situations
5. Ethiopia's Development Strategy and Trends in Assistance

Annex 1 Conceptual diagram of food security



Note: Many factors are mutually related, and many factors are the causes or results of other factors.

The main objectives of rural development and vulnerability reduction under the SDPRP are as follows.

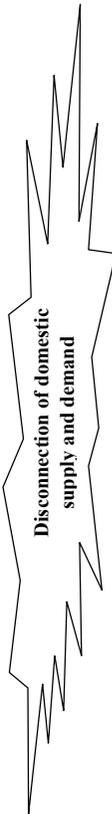
1. Differentiation of response to predictable chronic food shortage and unexpected food shortage
2. Nutrition improvement of children aged 5 or below through multi-sectoral activities at rural level
3. Strengthening implementation of the existing environment conservation policy and laws, and improving their effectiveness
4. Enhancing the response capacity of research and diffusion system
5. Improving farm product distribution system
6. Establishing more flexible and transferable land ownership system

Annex 2 Comparison of SDPRP and PASDEP

SDPRP	Draft PASDEP
Pillars	Pillars
<p>① Agricultural Development Led Industrialization (ADLI)</p> <p>② Justice System and Civil Service Reform</p> <p>③ Decentralization and Empowerment</p> <p>④ Capacity Building and Private Sector Development</p>	<p>1. A Massive Push to Accelerate Growth</p> <p>1-1 Agriculture and Rural Development</p> <p>1-2 Private Sector Development</p> <p>2. A Geographically Differentiated Strategy</p> <p>3. Addressing the Population Challenge</p> <p>4. Unleashing the Potential of Ethiopia’s Women</p> <p>5. Strengthening the Infrastructure Backbone</p> <p>6. Managing Risk and Volatility</p> <p>7. Scaling up to Reach the MDGs</p> <p>8. Creating Jobs</p>
Priority areas	Priority Areas
<p>① Rural and Agricultural development</p> <p>② Food Security</p> <p>③ Pastoral Development</p> <p>④ Road</p> <p>⑤ Water Resource Development</p> <p>⑥ Education</p> <p>⑦ Health</p>	<p style="text-align: center;"><u>On-going major programs since SDPRP</u></p> <ul style="list-style-type: none"> • Food Security Program (2003–2008) • Road Sector Development Program 2 (2002-2007 and 2007-2012) • Water Sector Development Program (on going) (2001-2015) • Education Sector Development Program 3 (2005/6-2010/2011) • Health Sector Development Program 3 (2005/6-2010/2011) • Public Sector Capacity Building Program (PSCAP) (2005–2009) <p style="text-align: center;"><u>Major areas for PASDEP</u></p> <p>① Agriculture</p> <p>② Food Security and Vulnerability</p> <p>③ Private Sector Development</p> <p>④ Export Development</p> <p>⑤ Tourism</p> <p>⑦ Mining</p> <p>⑧ Infrastructure</p> <p>⑨ Health</p> <p>⑩ Education</p>

Cross-Cutting Issues	Cross-Cutting Issues
<ul style="list-style-type: none"> ① Environment ② Population ③ Gender ④ Urban Development and Management ⑤ HIV/AIDS 	<ul style="list-style-type: none"> ① Gender (National Action Plan under development) ② Addressing Particular Needs of Children ③ Addressing the Population Challenge ④ HIV/AIDS ⑤ Environment ⑥ Capacity-Building, Governance, and Decentralization
<p>Others</p>	<p>Economic Growth</p> <p>Calculations show that a growth rate of about 8% p.a. would have to be sustained to reach the MDG of halving income poverty by 2015. This compares to an average rate of about 5% over the 10 years 1993-2003, and of about 5% during the SDPRP I period.</p> <p>The MDG Needs Assessment estimated that Ethiopia would need to spend between 40 and 60 billion Birr (US\$ 5-7 billion) p.a. on average over the next 10 years to reach the MDG targets set for 2015. This compares to total government spending of about Birr 24 billion (US\$ 3 billion) today.</p> <p>Even assuming that significant additional foreign aid can be mobilized, the government will still need a massive increases in tax revenue to scale up to meet the MDGs , implying the need for economic growth of about 6 to 8% per annum during the period of the PASDEP and beyond.</p>

Annex 3 Cooperation Matrix

		Country assistance program		PASDEP	
Main theme	Factors threatening the establishment of food security	Challenges in establishing food security in Ethiopia (those requiring particular attention in Japan's assistance program for Ethiopia)	Focused cooperation areas and approach	Main policy	
Establishment of food security	<div style="border: 1px solid black; padding: 5px; text-align: center;"> Low food production capacity  Disconnection of domestic supply and demand Low food purchasing power </div>	Insufficient farming technology R&D and diffusion activities - Unable to get out from low-input, low-output cycle	◎ Increasing agricultural productivity - In the areas with high agricultural potential: enhancement of irrigation technology, research and diffusion of improved versions of farm technology, promotion of alternative crops like rice, and promotion of the use of fertilizers - In the areas with frequent incidence of famine: support for strengthening farming households' production base - Making policy proposals to Ethiopia for its agriculture/rural development projects by using Japan's knowledge acquired through cooperation	Agriculture and rural development	Private sector Development
		Delay in soil improvement and irrigation facility construction - Agriculture production is greatly affected by natural conditions, such as drought.			
Delay in utilization of water resources - Since access to safe water is difficult, people have health problems and bear a great burden of housework, like water fetching. - Since agricultural water is not utilized properly, disasters caused by drought expand.	○ Improvement of the access to quality education in remote rural areas - Support for improving the access to education in remote rural areas and enhancing the capacity of local education administration	Geographically differentiated strategy			
Delay in human capital formation - Income opportunity is limited due to lack of education. - Decreased strength makes people vulnerable to infectious diseases, thus making it difficult to secure a sound workforce.	○ Prevention of the spread of infectious diseases - Support for the construction of a framework to deal with the spread of infectious diseases properly, and for enhancing its capacity - Japan will study the possibility of providing assistance to regional health care activities, such as giving guidance on nutrition		Strengthening the infrastructure base/Ethiopia		
Underdeveloped distribution system - Higher cost of agriculture input goods - Higher food prices	◎ Facilitating the distribution of agricultural products and agriculture input goods - Support for the establishment of the appropriate maintenance and management ability (financial resources, system, technology) of trunk roads - Studying possibilities of providing support for the development and maintenance of rural roads	Managing risk and volatility Scaling up to reach the MDGs Creation of jobs			
			◎ Improvement of farm product distribution system - In order to link agriculture producers and consumers efficiently, Japan will provide support for provision of price information, quality improvement and distribution infrastructure improvement. - Study on modalities for food assistance by taking into account the impact of food assistance from abroad on domestic agriculture		

Annex 4 Political, Economic and Social Situations

(1) Domestic/diplomatic policies

After the collapse of the Mengistu regime in May 1991, a transitional government led by the Ethiopian People's Revolutionary Democratic Front (EPRDF) was established in July of the same year. The interim government adopted a policy giving priority to self-determination of nationalities and democratization. Accordingly, in 1993, the government recognized Eritrea's independence from the country based on the Eritrea's referendum. The Ethiopian government had been engaged in a civil war against Eritrea rebels for as long as 30 years since 1962. In the elections for the House of Peoples' Representatives and local assemblies held in 1995, the EPRDF won a landslide victory, and the new state adopting a parliamentary system of government was established under the federal republic system.

Thereafter, multiparty elections have been held on a regular basis. In the meanwhile, crackdowns on the mass media have continued, and the freedom of speech and political activities have not been totally ensured. There are several politically destabilizing factors, such as the existence of rebel forces centering on Omoro nationalists, as well as ethnic conflicts.

On May 15, 2005, the third general elections (the House of Peoples' Representatives) (547 seats) and local assembly elections were held, and the ruling party won in both elections. But, the opposition forces made considerable gains and won a complete victory in the election for the Addis Ababa city assembly. Although the elections were held peacefully, there were several clashes over the outcome of the elections, including clashes between students and security forces in June, and between opposition supporters and security forces in Addis Ababa and local cities in November. The clashes caused many fatalities and injuries.

Through the media, the UK, U.S., and EU ambassadors to Ethiopia called on the government of Ethiopia to resolve the turmoil quickly, respect human rights, and promote democratization. Japan made a similar request through the Development Assistance Group (DAG) in Ethiopia.

On the diplomatic aspect, although Ethiopia maintains good-neighborliness, a border conflict with Eritrea broke out in May 1998. The two countries reached an "agreement on cessation of hostilities" in June 2000 and a "peace agreement" in December of the same year through the intermediation of the Organization of African Unity (OAU), the predecessor of the African Union (AU). However, the final demarcation of the boundary is currently on hold due to conflicts over the attribution of some land, despite intermediation efforts by UN Secretary General Koffi Annan and the five peace plan that said Ethiopia would accept the decision of the independent boundary commission. The Ethiopian government is opposed to an arbitrament of the Eritrea-Ethiopia Boundary Commission and has refused to accept the verdict on delimitation despite repeated resolutions by the UN. In November 2005, the government of Eritrea tightened restrictions on the activity of the United Nations Mission in Ethiopia and Eritrea (UNMEE) deployed on the Eritrean border, intensifying the tension between the two countries.

(2) Economy¹

Although agriculture accounts for approximately 85% of its workforce and about 45% of its gross national income (GNI), the Ethiopian economy is still vulnerable due to the shortage of food caused by frequent droughts, huge amount of external debts, and too much dependence on coffee and other primary commodities for its main export items.

Although the country's gross domestic product (GDP) for fiscal 2002/2003 contracted by 3.9% from the previous year due to a serious drought in 2002, it increased by 11.6% in 2003/2004 and 8.9% in 2004/2005. However, the high growth rates were largely owing to the recovery of farm production brought about by the continuous rainfall that began in 2003. With its economic growth depending largely on the outcome of rain-fed agriculture, the country's vulnerabilities to external factors, such as weather, natural disasters, and the fluctuation of international market prices of its main export items remain serious. Considering all the various factors together, such as the country's GDP growth rate, population growth rate, and inflation rate, the poverty of Ethiopia will increase its seriousness in the long term. Behind the serious condition of the country's poverty lies the fact that the reinforcement of a production base and the development of infrastructures do not catch up with the increasing population of the country (an annual increase of about 2%; the population is estimated to double in 25 years). There are optimistic views about Ethiopia's economic growth, citing the country's abundant potentials, such as, for water resources, rare minerals, and tourist resources. At the same time, however, there are many factors that hamper investment and thereby, economic development. Among such factors are the country's geographical disadvantages in terms of transportation and distribution, due to the country's complicated geography divided by the great rift valley and the lack of seaports, the land tenure system, the delay in the accumulation of human resources, and the delay in privatization, transfer to a market-oriented economic system, financial liberalization, and development of a transportation infrastructure (See Annex 1). Some people in the country are always in unhealthy conditions, regardless of the total amount of food in the country. For instance, it is said that about 5-6 million people (about 7-8% of total population) are unable to obtain sufficient food even in a good harvest year. Also, the country is unable to utilize its abundant workforce due to inadequate infrastructures for basic education. In order to promote economic development by utilizing the country's precious resources, it is necessary to extend and enhance education and healthcare (including eradication of HIV/AIDS), break away from the dependence on foreign assistance and rain-fed agriculture, build an efficient transportation infrastructure, and strengthen food production capacity.

(3) Society

It was early in the 20th century that Ethiopia's territory was fixed after tough negotiations with European powers trying to colonize Africa. As a result, various people with different historical backgrounds, religions, culture, and languages have come to live together. Emperor Haile Selassie I, who acceded to the throne in 1930, tried to establish a modern state "on a par with European powers" by "overcoming" cultural and religious diversity and realizing national unity. On the other hand, the government that was established

¹ Source of figures : Ethiopia Sustainable Development and Poverty Reduction Program Annual Progress Report (MoFED)

after the civil war has adopted a federal system based on national self-determination, asserting that individual ethnic groups should be the pillar of national development. The question is still being discussed with regard to whether it is “national self-determination” or “national unity” that brings a better social life to Ethiopian people. The international community involved in the development of Ethiopia should be well aware of the historical background of the problem of ethnicities.

Ethiopia’s territory can roughly be divided into the cool, semiarid highland area, the subtropical humid lowland area, and the hot semiarid lowland area. People in the highland area are mainly engaged in agriculture and those in the lowland areas are engaged in livestock husbandary. In recent years, frequent disasters caused by drought in livestock husbandary areas in Somali and some other states, and the extremely low school enrollment rate in these areas have been drawing international attention. Although Somali and three other so-called frontier states – Afar, Benshangul Gumuz, and Gambela – have different historical and cultural backgrounds, they have common development challenges, such as shortage of capacities of institutions and personnel of responding to the rapid progress in decentralization. Situation in four states are aggravated by previous central governments’ failure to address social infrastructure development, underdeveloped school education, and limited experience in public administration. While the current administration has increased the budget allocation to the frontier states, it is indicated that a substantial amount of the budget remains unappropriated due to the lack of the administrative organization’s budget implementation ability.

Annex 5 Ethiopia's Development Strategy and Trends in Assistance

(1) The Ethiopian government's development strategy

After establishing the transitional government in 1991, EPRDF launched Five Years Programme for Development, Peace and Democracy in 1995, and revised it in 2000. Those had been known as national development programme. At present, Ethiopia forward its development in line with poverty reduction strategies as below.

(a) From "Sustainable Development and Poverty Reduction Program (SDPRP)" to "A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)"

The Ethiopian government formulated the SDPRP, the country's first poverty reduction strategy, in July 2002, and obtained the approval of the World Bank and the International Monetary Fund (IMF) in September of the same year.

After a period of three years covered by the SDPRP, the government announced a final plan of PASDEP, a five-year (2005/06-2009/10) development program in early December 2005, and the plan was passed in the House of Peoples' Representatives on May 16, 2006. The PASDEP is based on the SDPRP and carries forward important sectoral programs pursued under the SDPRP, such as food security, expansion of education, reinforcement of health policies and HIV/AIDS prevention and care,, human resource development and decentralization. It will continue to pursue the strategy of Agricultural Development Led Industrialization (ADLI). At the same time, the PASDEP also includes the development of infrastructure (electric power, telecommunication, water, road etc.), tourism and mining as new priority areas. The fact that the PASDEP specified addressing the population challenge and accelerating growth, including private sector development, as major policies indicates that it has reflected the proposals of the DAG to a certain extent. As cross-cutting issues, the PASDEP includes such issues as gender, particular needs of children, HIV/AIDS, and the environment. It focuses on economic growth by linking rural areas and cities and targets an average annual economic growth of 6-8% to achieve the Millennium Development Goals (MDGs).

(b) Major policies in the PASDEP

(i) A Massive Push to Accelerate Growth

The PASDEP positions commercialization of agriculture and faster promotion of fostering of the non-agriculture sector as the two main driving forces for Ethiopia's economic growth.

- *Agriculture and rural development*

While continuing to provide support to poor farmers relying on low-input and low-output farming, the PASDEP aims to realize dramatic economic growth by promoting crops of higher value added through commercial agriculture and large-scale farming in high-potential areas. To that end, the PASDEP lists the following measures: construction of farm-to-market roads, development of an agricultural credit market, specialized extension services for differentiated agricultural areas, development of national business plans for export crops, expansion of agricultural irrigation through multi-purpose dams, measures to improve

land tenure security to make land available for large-scale commercial farming, and reforms to improve the availability of fertilizer and seeds.

- *Private Sector Development*

The Ethiopian government says that it will pursue every avenue available to promote the development of agriculture and the private sector. In order to accelerate economic growth led by the private sector growth, the PASDEP lists measures such as simplification of business processes and licensing requirements and the improvement of the financial sector, the privatization of state-owned enterprises, land system reform, and improvement of infrastructures. Other elements of the strategy include exploitation of niche markets and development of the environment for export promotion.

(ii) Geographically differentiated strategy

Ethiopia consists of roughly three very different economic and agro-climatic zones: cold semi-arid highlands, sub-tropical humid lowlands, and hot semi-arid lowlands as mentioned above. While respecting these regional characteristics, the PASDEP will promote strengthening of administrative capacity, investment in essential urban infrastructures, development of a financial mechanism that limit the demands on the public budget, and the reform of the land tenure system. It will also focus on rural-urban linkages to take full advantages of synergies. In order to minimize drought damage in the pastoral areas, the PASDEP will promote the diversification of cultivation and livestock husbandary and the enhancement of public services, such as education and health services.

(iii) Addressing the Population Challenge

Noting that the high population growth rate in Ethiopia is closely related to the country's poverty problem, the PASDEP emphasizes that the fertility of poor households magnifies their poverty. The PASDEP also indicates the need to address the population problem at the national level, saying that excessive population growth has grave impacts on the degradation of farmlands and rangelands and natural environment. As a countermeasure, the government has come up with Broad Population Policy Targets, setting various targets to be achieved by 2015. The government aims to achieve the targets through measures including the introduction of female health extension workers who can interact with women in villages.

(iv) Unleashing the potential of Ethiopia's women

Noting that the potential of Ethiopia's women has not been fully tapped in the development of the country, the government says that it will promote the development of women's ability and social participation. The PASDEP provides the following six measures: increasing women's school enrollment rate, improving women's health (in particular, ensuring the safer delivery of babies), reducing women's water fetching labor, opening up small entrepreneurship opportunities for women, intensifying the responsiveness to female clients of a wide range of programs designed to boost productivity, and continuing legislative and institutional reforms to protect the rights of and opportunities for women.

(v) Strengthening the infrastructure backbone

The government aims to further strengthen the infrastructure backbone, such as roads, clean water supply, power supply./rural electrification, and telecommunications. Based on the current development programs implemented in each sector, the PASDEP sets forth development policy of the

infrastructure backbone for the period of the PASDEP.

(vi) Managing risks and volatility

The PASDEP maintains that volatility needs to be managed at three levels: at the most immediate human level, which are affected by crop failure and major illness; at the (national) economic management level, affected by large variations in aid inflows, in revenues, or in crude oil prices; and at the GDP level, the most aggregate national level. The PASDEP gives the following three keywords as solutions to the volatility common to the three levels; 1) **Diversification** (diversifying crops and income sources at the individual level; export commodity diversification out of coffee at the national level), 2) **Irrigation** (irrigation development to stabilize crop yields at the individual level, and to reduce the susceptibility of GDP to rainfall variation), and 3) **Stabilization and equilibration mechanisms** (engineering stable aid inflow, maintaining macroeconomic and political stability, development of a strong private sector, and establishing specialized mechanisms, such as stabilization funds)

(vii) Scaling up to reach the MDGs

The PASDEP maintains that reaching the MDGs in each sector requires the government of Ethiopia and its partners to redouble their efforts and increase the level of foreign aid based on the outcome of the MDG Needs Assessment.

(viii) Creating jobs

Noting that unemployment in Ethiopia, especially in urban areas, is a serious challenge, the PASDEP says that the challenges faced by the government are two-fold: managing the dynamics of population growth and expansion of labor-intensive productive activities. The PASDEP attaches importance to regional development, the promotion of small-scale enterprise development, and the creation of jobs in construction projects.

(c) Efforts for enhancing aid effectiveness and aid harmonization

Following the Rome Declaration on Harmonization in February 2003, the government of Ethiopia and the DAG-Core Group (CG) have been working on an action program for harmonization. Also, following the declaration by the Paris High-Level Forum on Aid Effectiveness in March 2005, the government of Ethiopia and the Harmonization Task Force drafted a harmonization statement incorporating 12 main indicators¹. Four countries (Austria, Germany, Japan and the U.S.) opposed the initial plan on the ground that the harmonization proposal was infeasible and that it went beyond the intent of the Paris Declaration. A modified joint declaration (final) (dated Nov. 4, 2005) was circulated within the DAG. However, the negotiations between the DAG and the government came to a standstill due to the clash between the government and the opposition forces, as previously described. At this stage, the draft declaration remains on hold.

Although the DAG and Prime Minister Meles Zenawi agreed to continue the dialogue concerning

¹ Indicator 1: Partners have operational development strategies. Indicator 2: Reliable country system. Indicator 3: Aid flows are aligned on national priorities. Indicator 4: Strengthen capacity by coordinated support. Indicator 5: Use of country system. Indicator 6: Strengthen capacity by avoiding parallel implementation structures. Indicator 7: Aid is more predictable. Indicator 8: Aid is untied. Indicator 9: Use of common arrangement or procedures. Indicator 10: Encourage shared analysis. Indicator 11: Results-oriented frameworks. Indicator 12: Mutual accountability.

governance at their meeting on May 8, 2006, a new modality for assistance is expected to be initiated as will be described later, as they are of the view that it is difficult to provide General Budget Support (GBS) for the time being until the issue of governance is settled. For this reason, it is expected to take time for the government and the DAG to agree on the procedures for the revision of the draft declaration, build consensus and sign the document.

(d) Current situation of budget support

(i) Trends in budget support to Ethiopia

Among the least developed countries (LDCs) in Africa, Ethiopia is not necessarily a pioneering case of aid reform, with the country being the 13th country in the world to reach the completion point under the Enhanced Highly Indebted Poor Countries (HIPC) Initiative.

However, after reaching the completion point, the aid reform has made rapid progress. The position of Ethiopia has been substantially enhanced due to the following reasons.

- As the MDGs have come to be established as common goals in international development assistance, the magnitude of the population in the absolute poverty of Ethiopia has increasingly gained its strategic importance in development assistance.
- In line with this, the resource gap in implementing the SDPRP has widened, raising the importance of enhancing aid effectiveness.
- On the presupposition that strengthening local administration systems is a political priority for the sake of stability of the multi-ethnic country, it has become increasingly necessary to shift from in-kind assistance to budget support in order to enhance control through the disbursement of public funds of the central government.
- The government's high level of ownership that was demonstrated in the process of formulating the SDPRP has increased the interest in Ethiopia as a country eligible for strategic concentration of assistance, despite its conflicts with Eritrea.

A total of eight development partners² have implemented general budget supports (GBS) to Ethiopia in fiscal 2004/05. Their contributions amounted to about 35 billion yen in 2004 and about 40 billion yen in 2005, accounting for about 13-15% of Ethiopia's annual budget. The ratio of their contributions to total ODA inflows stood at 47.6% in 2004. However, the development partners share the view that it is difficult to provide GBSs due to political turmoil caused by the clashes between the government and the opposition forces over the elections held in May 2005.

From the viewpoint that it is necessary to continue to provide assistance to the Ethiopian people despite mutual disagreement mentioned above, development partners have been considering modalities which could substitute the GBS. In July 2006, the World Bank, the UK, Canada and Ireland initiated the Protection of Basic Services (PBS) to provide support directly to local governments instead of the central government, specifying support for health sector development, fiscal transparency and accountability, and promotion of the participation of the civil society. Later, the Netherlands, the EC, Germany and the

² Of them, Germany provided co-financing with the World Bank's PRSC.

African Development Bank also took part in the PBS.

(ii) Ethiopia's system for budget support

In 2003, seven development partners³ jointly conducted a study on the current situation of Ethiopia's public financial management. A report released after the study shows the kinds of situations that are often seen in the LDCs in Africa, such as delays in accounting reporting and the lack of ability on the part of local administrative organizations (especially Wareda's).

The intended purpose of budget support is enhancing the incentives to improve the process of public financial management. In this respect, it is important to see the Ethiopian government's stance toward the improvement of the situation. In 2001, the government formulated the National Capacity Building Program (NCBP), consisting of 14 areas⁴, and established the Ministry of Capacity Building (MOCB) as its implementation agency. In addition, in May 2003, the government initiated the Public Sector Capacity Building Program (PSCAP)⁵, a reform program focused on the public sector. One should appreciate the Ethiopian government's positive efforts to enhance capacity of public financial management and should provide assistance to these efforts with proper timeliness.

(iii) Japan's response

Ethiopia's sincere ownership demonstrated in the formulation and promotion of the SDPRP has been highly evaluated in the international community. If Japan is to support the contents of the SDPRP and the government's stance, Japan should show it with deeds. There is a high possibility that GBSs and sector budget supports or budget supports to local governments will increase in Ethiopia in the future, albeit depending on the condition of improvement of the political situations. Under the circumstances, Japan will consider appropriate modalities for support, including the possibility of providing budget support, in order to be associated with various modalities for budget support by using grant aid without delay.

(e) Outline of sector programs and their progress

The programming of policies by the government and development partners made progress in the Education Sector Development Program (ESDP) and the Health Sector Development Program (HSDP). In the two sectors, sector development programs have been formulated twice since 1997. A third five-year program starting in 2005 has already been formulated for the education sector, and a tentative third program for the health sector is now being prepared. Based on the programs, projects are now being implemented under the cooperation of the government and development partners. A sector group meeting is held basically once a month with the participation of the government and development partners. In addition,

³ The world Bank, the EC, DfID, Ireland, Norway, the Netherlands, and Sweden.

⁴ They are 1) Civil Service Reform, 2) Justice Reform, 3) Tax Reform, 4) District-level Decentralization, 5) Urban Management, 6) ICT, 7) Cooperatives, 8) Private Sector, 9) Textiles and Garments, 10) Construction Sector, 11) Agricultural Training of Vocational and Technical Levels, 12) Industrial Training of Vocational and Technical Levels, 13) Higher Education, 14) Civil Society

⁵ The areas covered by the PSCAP are from 1) to 6) listed in footnote 7. As subprograms of footnote 7 1), the PSCAP covers 1) Expenditure Management and Control Activities Program (EMCAP), 2) Human Resource Management, 3) Service Delivery, 4) Top Management, 5) Ethics.

a joint review mission (JRM) is sent to fields and an annual review meeting (ARM) is held every year.

As to the road sector and the water sector, each sector development program is now being prepared under the leadership of the government, and development partners are implementing their individual projects in line with the government policy. Reflecting a sharp increase in aid volume in the water sector, as of the end of 2005, major development partners increased their efforts to coordinate their projects.

In the agriculture/rural development sector, a number of development partners are providing funds to the New Coalition for Food Security in Ethiopia and the Productive Safety Net Program, which will be described below. However, since the area covered is extremely broad, the creation of a sector development program covering the whole agriculture/rural development is not making progress. Instead, studies are being made to create subgroup programs.

(f) The New Coalition for Food Security in Ethiopia and the Productive Safety Net Program

Reducing poverty through food security is the largest challenge facing Ethiopia. With the view to improving the food security situation, the Ethiopian government, in December 2003, launched the New Coalition for Food Security in Ethiopia, consisting of the government, the civil society, the private sector, and development partners, and in February 2005, began to implement a Productive Safety Net Program targeting chronically food-insecure households, with cash-for-work (engaging such households in social infrastructure development in exchange for the income they earn) as one of its pillars. The government has secured a part of financial resources necessary for the program and asked for development partners' supports. The Productive Safety Net Program is designed to address the needs of about 5-6 million chronically food-insecure people in Ethiopia by implementing labor-intensive public works (road repair, public facility construction, etc.) at the local administration level, and paying cash to them in return for their work, thereby supporting their food purchasing power and achieving their food security in the next five years. The program is expected to stimulate domestic demand for domestically produced food and reinforce incentives for production increase, as the implementation of public works in rural areas improves their basic infrastructure and boosts poor farmers' purchasing power.

Emergency (food) assistance to deal with contingencies, such as drought, and the Productive Safety Net Program are financed by separate budgets.

(g) Land system reform and resettlement

With longtime feudalistic rule, and with nationalization by socialists, the land system of Ethiopia had been unsettled in the past. As well, the land system differs greatly from one region to another. Although the current government upholds its land nationalization policy in principle, it allows inheritance of the right of land-use, short-term land lease, share-cropping, etc., depending on the actual possession or use of land, and has introduced a registration system to guarantee farmers' rights of land-use. However, the government has yet to establish a stable land system that would prompt farmers to make investment, for productive purposes such as soil improvement.

The resettlement program, which is based on the "Voluntary Resettlement Program (VRP) (Vol II)" announced in November 2003, was embarked upon in the country's four major regional states (Tigray,

Amhara, Oromia, and Southern Nations, Nationalities and Peoples) in December of the same year. With a view to ensuring the food security of 2.2 million (about 440,000 households) of the 5 million chronically food-insecure people, the VRP is designed to resettle them from areas with problems such as soil erosion, drought, high population pressure, low-input farming, and fragmentation of farmland, to low population density areas with “underdeveloped land” on a voluntary basis. By promoting the VRP, the government aims to develop the infrastructure backbone of the “underdeveloped land” and plots for cultivation and, from a long-term perspective, establish the food security of farming households. In this sense, the resettlement program is closely related to the New Coalition for Food Security in Ethiopia. According to the PASDEP, 149,000 households had been resettled by June 2005, and the majority of the settlers have attained self-sufficiency in food, and their livelihood has improved considerably. The target of resettling 291,000 households remains. However, major development partners remain noncommitted to the VRP due to their experiences during the Mengistu regime. There are also other problems, such as a heavy burden on farmers living in their resettled areas, conflicts with administration and neighboring residents in the resettled areas, and inefficiency in terms of cost effectiveness. Since life after resettlement is a crucial issue for about 150,000 households that have actually resettled, the development partners might need to reconsider their noncommitment policy.

(2) Japan’s assistance and its evaluation

In view of the serious condition of poverty in Ethiopia, with its per-capita GNI standing at only about US\$100, while Ethiopia is the second most populous country in the sub-Saharan African countries, Japan has provided support to Ethiopia from the viewpoint of poverty reduction and human security advocated in Japan’s new ODA Charter. In the absence of a country-by-country assistance policy and assistance program to Ethiopia, Japan established a forum for regular policy dialogues with Ethiopia so that Japan’s aid to Ethiopia could be based on the two governments’ agreement on development policies. The priority areas of Japan’s ODA to Ethiopia have been agriculture/rural development, water, economic infrastructures, education, and health/HIV/AIDS, and they have corresponded to the SDPRP.

In the evaluation of Japan’s assistance to Ethiopia conducted in FY 2004, it was indicated that Japan’s aid policy for Ethiopia had been relevant in terms of resource allocation to areas of activities. Regarding Japan’s specific contribution in the priority areas, it was confirmed that the Ethiopian government, development partners and local NGOs highly appreciated Japan’s contribution in the road sector and that Japan undertook effective coordination between its grant aid and technical cooperation in the area of infectious disease prevention. The evaluation report maintains that for Japan to focus more selectively it should consider strong needs in the following areas: 1) food security (agriculture, water, road), 2) health (infectious disease prevention) and 3) education (primary education). At the same time, it calls on the Japanese government to take a more active stance toward assistance to Ethiopia, and improve its ODA system, including the enhancement of its aid predictability and the untying of its grant aid. It also stresses the needs to increase the number of personnel engaged in economic cooperation in Ethiopia and to build their capacity.

(3) Assistance by other development partners

The Country Assistance Strategy (CAS) of the World Bank was developed in accordance with the objectives of the SDPRP (2002-2005) from the perspective of improving the government's systems, strengthening the private sector and the civil society, providing investment capital, and enhancing analytical works. The three core objectives of the CAS are to enhance pro-poor growth, both urban and rural, to enhance human development outcomes by improving governance, and to reduce vulnerability.

In response to the rising interest in food security in the international community, the World Bank was preparing the CAS for 2006-2008, with the aim of scaling up assistance to attain MDGs. However, following the political turmoil that took place in Ethiopia in June and November 2005, it changed its policy, and instead, formulated an interim CAS (shortening the period to 2006-2007) focused on Protection of Basic Services.

The United States has been providing support to Ethiopia as a top bilateral partner. In particular, with regard to food aid, the U.S. issues warnings to prevent famine by using its Famine Early Warning Systems Network (FEWS NET). Following the incidence of famine caused by drought in 2002/03, the U.S. formulated a five-year (2004-2008) Integrated Strategic Plan in March 2004. In the Plan, the U.S. has shifted its basic policy from food security to livelihood security through economic growth. With the aim of establishing the foundation for reducing vulnerability to famine, hunger, and poverty during the five years, the Plan sets five strategic objectives: increasing capacity to forecast and manage crises, building human capacity and social vitality, enhancing capacity for good governance, accelerating market-led economic growth and vitality, and coordinating and institutionalizing knowledge management.

The United Kingdom revised its Country Assistance Plan for Ethiopia in March 2003 following the formulation of the SDPRP. With regard to direct budget support, the country exchanged a memorandum of understanding with the government of Ethiopia, calling for the implementation of direct budget support, coordination among development partners, and the enhancement of aid predictability. Regarding technical cooperation, the revised plan says that the UK has comparative advantages in such areas as food security, education, and capacity building. The UK had intended to provide humanitarian assistance, support the Ethiopia-Eritrea peace process, and drastically increase aid amounts, mainly direct budget support. However, the country revised the assistance plan following the June and November 2005 incidents in Ethiopia, and decided to provide Protection of Basic Services in cooperation with the World Bank.

The EC has formulated the "Country Strategy Paper and Indicative Program for the period 2002-2007." Under the program, the EC has been providing support, focusing on three sectors: transportation, capacity development for macro-economic growth and economic reform, and food security. The EC also focuses on capacity building for governance, the civil society and conflict prevention.

Sweden has formulated the "Country Strategy" for 2003-2007, focusing on sectoral support and budgetary support. The themes covered are democratization and governance, gender, human rights and judicial reform, HIV/AIDS, land ownership and its stability, and fostering environment to enable the private sector. Amhara Regional State is treated as a priority region.

(4) Measures by NGOs/CBOs

Partly because of the memory of the contributions made by NGOs during the great famine, expectations are high on development NGOs and local governments (Wareda administrations, etc.) as the entities to implement assistance programs with people at the grassroots level.

Some development NGOs with high implementation capacity are playing vital roles in local development. However, given the fact that local governments are the main entities providing public services to local people on a continuous basis, we should think that NGOs and local governments are complementary to each other. In addition, in some regions of Ethiopia, residents' associations are actively promoting activities to improve their living conditions.

From the perspective of contributing directly to community development in Ethiopia, it is important for Japan to strengthen strategic cooperation with these stakeholders.

At the same time, however, we have to be aware of the fact that some NGOs are not in good terms with the EPRDF government for its repressive policies toward NGOs. The government is also under criticism from NGOs over its stance on the 2005 election. The credibility gap between the government and NGOs should be removed as soon as possible. Japan, for its part, should help the Ethiopian government consult openly with stakeholders in the private sector.