

Country strategy for development cooperation

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Country Strategy for Development Cooperation

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TABLE OF CONTENTS

SUMMARY	3
COUNTRY ANALYSIS – CONCLUSIONS	4
DEEP POVERTY.....	4
THE POLITICAL SITUATION	5
HUMAN RIGHTS.....	6
POVERTY-TARGETED GROWTH.....	7
CAPACITY AND FORMS OF GOVERNMENT	8
DEVELOPMENT COOPERATION IN ETHIOPIA	9
THREATS TO DEVELOPMENT	9
PERFORMANCE ANALYSIS – CONCLUSIONS	11
ETHIOPIA’S DEVELOPMENT POLICY	14
STRATEGIC CONSIDERATIONS	17
KEY DIALOGUE ISSUES	19
DEMOCRATISATION AND GOVERNANCE	19
GENDER EQUALITY.....	19
HIV/AIDS.....	19
LAND TENURE AND USUFRUCT	19
FAVOURABLE CLIMATE FOR THE PRIVATE SECTOR.....	20
AIMS AND OBJECTIVES OF SWEDISH DEVELOPMENT COOPERATION	21
COOPERATION AREAS	21
• DEMOCRATIC DEVELOPMENT AND RESPECT FOR HUMAN RIGHTS	21
DEMOCRACY, GOOD GOVERNANCE AND HUMAN RIGHTS.....	21
SECTOR PROGRAMME FOR THE REFORM OF THE JUDICIARY	22
PEACE BUILDING AND CONFLICT MANAGEMENT	22
COOPERATION WITH CIVIL SOCIETY.....	22
• SOCIAL DEVELOPMENT	23
SECTOR PROGRAMME FOR EDUCATION	24
SECTOR PROGRAMME FOR HEALTHCARE	24
HIV/AIDS.....	25
RESEARCH COOPERATION AND HIGHER EDUCATION.....	25
CULTURE.....	26
• ECONOMIC GROWTH	26
RURAL DEVELOPMENT IN THE AMHARA REGION	27
INFRASTRUCTURE	28
DEVELOPMENT OF THE PRIVATE SECTOR.....	28
BUDGET SUPPORT	29
OTHER PROJECTS AND PROGRAMMES	30
STAFF AND CONSULTANCY FUND.....	30
HUMANITARIAN ASSISTANCE	30
FINANCIAL PLANNING	31
IMPLEMENTATION AND FOLLOW-UP	33
ADMINISTRATIVE RESOURCES	34

Summary

Although Ethiopia is one of the world's poorest and least developed countries, the prospects for the development of its resources are good. It also boasts a cultural heritage few other countries can rival. Certain democratic and economic reforms were implemented in the 1990s and decentralisation is high on the agenda. But despite the reforms poverty is deeply rooted and widespread. The private sector is beset by difficulties, direct foreign investment is limited and individuals and local communities still have little or no say in the decisions affecting them. The conclusions of the country analysis may be summed up as follows: there are immense difficulties and problems to be overcome in almost every sector of development assistance and cooperation.

The Ethiopian government has conducted a poverty assessment and drawn up a strategy for combating and reducing poverty in the form of a sustainable development and poverty reduction paper (SDPRP) – in effect the country's poverty reduction strategy (PRS). The Swedish country strategy is based on this PRS and significant funding will be provided for its implementation. There are, however, differing views on some issues. Areas for dialogue have been identified and support for civil society will be extensive and serve to complement the Ethiopian government's strategy. A high degree of flexibility within the framework established for assistance cooperation will also be essential during the strategy period if support is to adequately reflect changes in key policy areas.

Country analysis – conclusions

Deep poverty

Poverty in Ethiopia is widespread and deeply rooted, particularly in the countryside. With an estimated annual gross domestic income (GDI) per capita of USD 100, Ethiopia is one of the world's poorest countries. Average GDI per capita for highly indebted poor countries (HIPC) stood at USD 300 in 2001 according to World Development Indicators (2001). Ethiopia ranks 168th out of 173 countries on the UNDP Human Development Index for 2002. Approximately 50 % of the population was living in conditions of absolute poverty in 1999–2000. Malnutrition is widespread and the calorie intake for half the population is below the recommended minimum.

It is difficult, however, to measure changes in poverty. According to studies carried out in 1989 and again in 1995, the percentage of poor people fell and food consumption rose during the period. These findings agree with poverty strategy observations based on information from 1995–1996 and 1999–2000. On the other hand, a new study and consultations held in connection with the poverty strategy point in the opposite direction, i.e. towards mounting poverty. All indicators show slight or no improvement for the poor of Ethiopia and, as noted above, SDPRP consultations suggest that poverty may in fact be on the increase.

A major cause of rising poverty in the countryside is the ongoing contraction of agricultural holdings – as these are divided and re-divided among succeeding generations of heirs until they can no longer support a single family – combined with a steadily growing population. State ownership of land coupled with the government's present agricultural policy have provided little incentive to invest in land and led to further land degradation and reduced agricultural productivity. The issue of land privatisation will ultimately have to be confronted. Moreover, low levels of education and job shortages outside the agricultural sector are putting growing pressure on arable land. An average household farms approximately 1.1 hectares, but in large parts of the country the areas under cultivation are considerably smaller. Eleven per cent of the rural population have no land at all, and the figure is rising. Although poverty is mainly concentrated in the rural areas it is now also growing in the cities, and approximately 37 % of the urban population live in conditions of absolute poverty.

Poverty is the single greatest source of food insecurity. As usual, it is the poor who come off worst in terms of access to natural resources, legal rights, jobs and income, and who for the most part live in a perpetual state of food insecurity. The poor lack purchasing power and cannot take advantage of food surpluses where these occur in Ethiopia. Although the majority of those who lack food security live in the country, access to food has become a growing problem in the bigger cities. Food deficits are chronic in Ethiopia; even in a good year some 5 million people are dependent on food aid.

Serious food shortages can – and often do – arise in certain parts of the country even as surpluses are being produced in other areas where conditions for crop production are better. Inadequate market infrastructure, poor road networks and high transport costs hamper

movement of commodities between regions of surplus and deficit, and result in exceptionally low grain prices despite substantial food shortages in parts of the country. It is therefore essential that donors buy food aid locally: stimulating local prices is an effective means of boosting farmers' incomes.

In March 2002, the Ethiopian government published a new food security strategy focused on access and the right to food from a national and household perspective. The document lays particular emphasis on the need to secure better access to food through increased domestic production, greater access to food for households hit by food shortages and improved crisis management capability. The strategy has been criticised for not providing sufficient information on implementation, the role and function of authorities or proposed financing procedures.

Measures to tackle poverty and improve food security should not be limited to agricultural production but should also target alternative sources of income in order to reduce dependence on agriculture. Greater access to micro credits could have a significant impact. Ethiopia has one of the most highly developed micro-financing systems in Africa. However, it will require further development if it is to stimulate economic diversification in the countryside. Efforts must be made to improve conditions for commercial food distribution between surplus and deficit areas. Expansion of the private sector will have a significant effect on economic diversification and trade.

The government is pursuing active decentralisation policies which, it is assumed, will lead to greater grass-roots participation. However, low levels of education, malnutrition and minimal access to information make it virtually impossible for poor people to have a say in government policymaking or measures that directly affect them.

The political situation

Democracy in Ethiopia is still young and fragile. Despite an overwhelming parliamentary majority it is not clear how much real support the ruling party, the EPRDF, commands in the country as a whole. Opposition parties exist but there are reports of harassment by the government. Human rights violations are common despite the government's stated goals in this connection. The government resorts to legal and other means to restrict the freedom of expression of the private press among other entities.

The EPRDF subscribes to the concept of revolutionary democracy, a notion predicated on collective participation and representation based on mutual understanding and agreement. Small farmers, who make up most of the party's power base, are seen as a homogeneous group with common needs and interests and a shared political outlook. Thus the party has never publicly advocated or supported political pluralism.

Relations between the government and many organisations in civil society are strained. Until recently it has been difficult for such bodies to gain official recognition from the government for their operations. While the government has not objected to organisations' carrying out development work, it is more sceptical about their opinion moulding functions.

The democratisation process in Ethiopia is affected by the way in which social and economic relations at different levels of society change over time. In view of the fact that the government has so far exercised well-nigh absolute control over the country's resources, the issue of devolving the federal government's resources and decision-making powers is of paramount importance.

Factors determining the pace of development in Ethiopia include the decentralisation goals embodied in the federal constitution. However, limited capacity at various levels are a serious obstacle to their implementation. There is also a danger that decentralisation will hasten the disintegration of an already fragmented society. But it could also create new opportunities to extend practical support for local democratisation, as well as give large sections of the population a bigger say in the decision-making process.

Human rights

Although human rights are protected under the 1994 constitution, the government's ability to honour these guarantees is affected by a number of factors including the paucity of economic resources. Moreover, democratic traditions are lacking and the relevant institutions are weak. Legislation is often antiquated and difficult to understand. The judiciary is severely hampered by lack of resources, which in turn has contributed to an inefficient, complicated and erratic system. The government has introduced reforms to tackle the problem, including redrafting legislation, as part of the implementation of the SDPRP.

Human rights violations are common in the countryside, where training and education opportunities for police officers and judges are negligible, access to higher education for the rural population is virtually non-existent and conditions for women are particularly oppressive. The countryside should accordingly be targeted by strategies aimed at enhancing respect for human rights. Human rights violations also occur in urban areas, and there are limited opportunities for exercising civil and political rights.

Although women in Ethiopia formally enjoy the same rights as men, their situation is onerous and shows no sign of improving. Ethiopia ranks 142nd out of 146 countries for which statistics are available on the UN gender-related development index (GDI), which compares gender equality in health, education and work. To date, neither the various action programmes nor the special Women's Office have had much impact. There can be no basic improvement in the status of women until the government's policy commitments are translated into a firm, unequivocal recognition of women's rights. Among other measures, this includes prioritising efforts to ensure equal access to education, jobs and further education and training.

Developing adequate healthcare and education systems and services poses an immense challenge to a poor country like Ethiopia. The healthcare system is one of the least developed in the world, and only about half the population has access to services. School attendance and participation in literacy classes are among the world's lowest. Funding for healthcare and education has increased but is still comparatively low. Rapid development in these sectors is essential to the achievement of long-term, sustainable growth and poverty reduction. This was also emphasised by the Ethiopian government in its recently submitted SDPRP, in which sector

programmes for health and education had been further developed as key areas for poverty reduction and sustainable development.

Poverty-targeted growth

Efforts must be made to step up the pace of economic growth if poverty in Ethiopia is to be eradicated. Support for macroeconomic management and stability, private sector development and economic diversification is therefore crucial. Roads must also be built to improve access to markets and reduce transport costs.

Agriculture continues to play a key role in the economy. Although its share of GDP fell from 65 % in 1960 to 52 % in 2001, the sector accounts for 85 % of total exports. It also employs 85 % of the country's workforce. Return on labour is lower than in other industrial sectors due to low agricultural productivity, rapid population growth, leading to overpopulation in many rural areas, and over-cultivation of land. The cultivation of steep slopes and drylands is causing soil degradation and destruction: the topsoil is eroded, it loses its moisture-holding capacity and fertility declines. Poor soils increase the likelihood of crop failure if rainfall is low.

There are still major obstacles to agricultural growth. There has been an increase in the use of improved production inputs, such as seed and fertilisers, but levels are still relatively low. Average yields for major grain crops have stagnated at about 1.1–1.2 tons per hectare. Appropriate soil and water conservation measures have not been applied extensively enough to prevent or mitigate these problems. The declining size of agricultural holdings, limited tenure rights and the prevalence of subsistence farming are structural obstacles that must be overcome if productivity is to be increased. Efforts must be made to boost prevailing low – or, in some cases, even declining – soil productivity if agricultural and economic growth are to be achieved. This calls for the introduction of improved methods of cultivation and animal husbandry and better access to financial services. Soil and water conservation measures and small-scale forestation are vital in this connection.

The participation of women in food production is essential; they make up an estimated 60–80 % of the total workforce in the agricultural sector in Africa as a whole. However, where agriculture has been reorganised and modern production and selling methods introduced, they have been increasingly marginalised. Where holdings are turned over to cash crops, women are compelled to rely on the least productive land available, and the most labour-intensive techniques, to feed their families, while the men specialise in the production of new crops for sale in the market.

The government regards the agricultural sector – and small-scale farming in particular – as the basis of economic growth, and a new rural development strategy was recently adopted. It emphasises the crucial importance of boosting agricultural yields, not only to stimulate real demand in the economy but also to achieve the government's food security targets, acquire foreign currency and generate more jobs. However, government support for agriculture must be improved substantially, particularly in regard to its advisory services and its ability to adapt funding for production to local conditions. Due to the division of farming land into ever smaller holdings, improved cultivation methods have not been extensively introduced, even in areas of surplus production.

Ethiopia's vulnerability is clearly apparent in its economic structure. Agriculture accounts for approximately 52 % of GDP, a figure which is on the increase. By contrast, only 11 % of the country's wealth derives from industrial production, of which manufacturing represents a mere 7 %, one of the lowest figures in the world. Both percentages are actually falling as the bulk of investment is currently focused on building works and services.

The non-agriculturally based private sector is crucial to job creation and economic growth in Ethiopia, and the government seems increasingly interested in a dialogue with the private sector.

One of the causes of poverty and food insecurity is the lack of a viable road network. About 75 % of the rural inhabitants live more than half a day's journey from the nearest all-weather road. It will therefore be necessary to relay and build new access roads in the countryside to stimulate the agricultural sector. The resulting drop in transport costs would facilitate the supply of production inputs to agriculture and access to markets. A national road development programme supported by the World Bank, the EU and other donors has significantly improved the trunk road network. Similar sector programmes are being developed to improve secondary country roads and water, sanitation and hydropower respectively.

Capacity and forms of government

Ethiopia is highly dependent on foreign development assistance. The revenues generated within the country account for approximately 64 % of the total domestic budget. The remainder is provided through development cooperation projects and programmes. Although Ethiopia is one of the largest recipients of external assistance in Africa, it receives less per capita than comparable countries. Some 30 % of total assistance is used for humanitarian purposes.

In an unprecedented move, the government gave notice of a new anti-poverty policy by doubling poverty-related allocations for the coming two years – albeit from a low initial level – in the 2002–2003 budget. Compared to other countries in the region, Ethiopia is highly competent at budgeting and accounting government expenditure. However, the government administration is less efficient when it comes to reporting outcomes, planning for the long term, producing regular welfare statistics, coordinating current and capital budgets and scrutinising and auditing accounts punctually.

Ethiopia's capacity to absorb development assistance varies from sector to sector and region to region. It is reasonably well, and widely, developed in the fields of accounting and financial reporting, but somewhat less so when it comes to economic planning, implementation and follow-up. However, the newly implemented decentralisation reforms have impaired Ethiopia's absorption capacity, at least in the short term.

Ethiopia is normally acknowledged as 'owning' its development processes to a greater extent than most other African countries. Government efforts to coordinate support from donors have succeeded best in the spheres of health, education and road-building, which happen to be the targets of the three major sector programmes now being carried out. However, owing to the war with neighbouring Eritrea, donor funds are often withheld. The sector programmes for health and education are currently being reorganised. The road-building programme continued

throughout the war with funding from the World Bank. Donor coordination is also well developed.

The government has given high priority to capacity building in accordance with the poverty strategy set out in the SDPRP. This was reflected in the establishment in October 2001 of a special ministry for capacity development. What role the ministry will play is not yet clear.

Development cooperation in Ethiopia

Although Ethiopia receives assistance from a large number of donors, it gets less aid per capita than many other comparable countries.

In the last five-year period, the largest aid donors have been the World Bank, the European Commission, the USA, the African Development Bank and Japan. Together, these have accounted for half the total assistance received. The EU Commission, which contributes 10–15 % of all external funding, is the second largest donor.

The majority of EU member states are also active in Ethiopia as bilateral donors. These include, in descending order of size, Germany, the Netherlands, Italy, Ireland and France. Germany has focused on four cooperation areas: economic and social reform, roads and water, agriculture and food security, including environmental protection, and education. The Netherlands has concentrated on rural development and healthcare. Italy's primary concerns are rural development and food security, education, infrastructure (roads) and health. Ireland provides funding for regional programmes in East Tigray, Sidama and Gurage, and education and health at federal level. France channels most of its investment aid via the African Development Bank. The UK is now launching development cooperation with Ethiopia, stressing budget support.

Though basically broad-based, World Bank programmes are gradually beginning to focus on economic reforms, food security, economic infrastructure and the social sectors. The African Development Bank is also active in a number of areas including healthcare, education, water and roads, but is placing increasing emphasis on economic reforms, food security and agriculture. UN system foundations, programmes and agencies are also active in the country in their respective areas of operation.

US aid, based on a strategy designed to function in both the short and long term, is mainly concerned with improving food security. Support aimed at boosting agricultural productivity is extended to rural households. Other cooperation areas include family health, compulsory education, good governance, civil society and the effects of natural disasters.

Ethiopia's capacity to absorb development assistance varies from sector to sector and region to region. The government is anxious to coordinate support from the various donors and stresses the country's responsibility for its own development policies.

Threats to development

The HIV/AIDS pandemic in Ethiopia is spreading at an alarming rate. The country has the third largest number of HIV-infected people in the world – after India and South Africa. Some 250,000 are children under 5 years of age. A countrywide HIV/AIDS action plan was drawn

up in 1998 and a National Aids Council Secretariat, with branches in the regions and districts (*woredas*), set up in Addis Abeba. However, the programme lacks the capacity to deal effectively with the whole extent of the problem. Recently, church and mosque leaders have begun to talk more openly of the need to combat HIV/AIDS.

The disease has affected the entire social structure of Ethiopia, among other things by slowing up agricultural production and hindering investment. It is accelerating the process of land degradation as holdings are abandoned and people move to the cities, thus intensifying the strain on urban water supply and sanitation systems.

A number of poverty-linked factors have contributed significantly to the dire HIV/AIDS situation. These include high unemployment, growing prostitution and the weak position of women owing to their inferior status, and population movements driven by job shortages. Abduction of women, rape and female genital mutilation also play a significant part. The growing number of orphaned children and child HIV carriers are a serious cause for concern. Ethiopia's strongly patriarchal society, with its deep-rooted, male-oriented socio-cultural values, severely hamper efforts to combat HIV/AIDS and constitute a serious obstacle to development.

Yet another threat to Ethiopia's development is rapid population growth – estimated at 2.5–3 % per year with a fertility rate (TFR) of 5.9 – resulting in further land scarcity, soil degradation, declining food security and increasing strain on the already overburdened education and healthcare services.

In addition to the above factors, development may be hampered by a number of internal and external conflicts. There can be no doubt that the democratic deficit is a cause of political unrest, particularly at local election time. Developments in Somalia, Sudan and Eritrea can influence events and developments in Ethiopia. Peaceful relations between Ethiopia and its neighbours are a precondition of continued economic development and pro-poor growth. The international fight against terrorism could also affect stability in the Horn of Africa and Ethiopia.

All in all, Ethiopia faces a set of tasks and challenges, often interwoven, including the removal of structural obstacles to agricultural development, strengthening the judicial system, paving the way for women's rights, enhancing public participation and democracy and, not least, mobilising the resources necessary to economic growth.

Performance analysis – conclusions

Development cooperation between Ethiopia and Sweden declined abruptly after the outbreak of war between Eritrea and Ethiopia in 1998. In principle, only ongoing projects were pursued. The period between 1998 and the end of 2000 saw the continuation of humanitarian aid, support for cooperation with civil society and research institutions, support to the Wondo Genet College of Forestry (WGCF) and funding for the Sida-Amhara Regional Development Programme (SARDP). Assistance extended to the healthcare and education sectors was halted in 1997. Preparation work on new agreements was suspended in 1998, but resumed with limited financing in 2001.

The war led to a re-disposition of expenditure in the federal government budget from poverty-oriented programmes and projects to military undertakings. Expenditure on poverty reduction efforts also fell sharply in this period owing to a general decline in external development assistance. The situation was aggravated by drought, the HIV/AIDS pandemic and falling relative prices. These factors, which were a major cause of the significant increase in poverty in Ethiopia, have made it difficult to conduct a detailed assessment of the performance of Swedish development cooperation.

During the war between Ethiopia and Eritrea, no strategy for development cooperation with Ethiopia was formally adopted. Although this meant that no overall objectives could be laid down for the period, Swedish cooperation was guided by aims such as poverty reduction, capacity building and democratic development.

Scope for evaluating Sida's performance was limited mainly by the low level of activity during and after the war between Ethiopia and Eritrea. In some cases – the SARDP in particular – poorly designed follow-up mechanisms were an additional obstacle. Not enough consideration was given to the need for clearly defined indicators and systems for evaluating outcomes in the early planning stages of the programme. Although it is normally possible to determine what activities have been implemented on the basis of the information available, the absence of suitable outcome indicators in this case meant that attestable results were largely lacking. Baseline studies and effective procedures for implementing impact assessments were also lacking. The instruments normally required to measure outcome were neither considered nor incorporated into Phase I of the SARDP when it was originally proposed. The work of designing a system for following up and evaluating results was interrupted by the border conflict with Eritrea. As the programme was extended – after the conflict broke out – by a number of three- to six-month periods in 1999–2001, the planning horizon needed to develop a comprehensive follow-up system was also lacking.

Ethiopia's capacity to absorb development cooperation varies from sector to sector and from region to region. It is fairly well developed throughout the country, in the fields of accounting and financial reporting, but somewhat less so in the sphere of economic planning, implementation and follow-up. Decentralisation of political power to the next lowest administrative level – the *woreda* – has also affected development cooperation performance as the *woredas* currently

lack the capacity to handle the increased responsibility. However the Government is actively seeking to strengthen this capacity.

The outcome of support for the first phase of the **Sida-Amhara Regional Development Programme (SARDP)** was more vigorous leadership at *woreda* level and greater participation by community members in project implementation at local level. Many observers consider that Sida's decision to focus on direct budget support at *woreda* level is the most innovative aspect of the SARDP. Other donors, such as the World Bank, are considering copying the SARDP model.

However, the programme has many defects, as revealed in an evaluation carried out by Sida in 2002¹. The accompanying report criticised as unsatisfactory the quality of poverty assessment work and the concomitant strategy for tackling poverty, vulnerability and food insecurity. It expressed strong reservations about the quality of the methods used to promote participation in the programme, the amount and quality of the support generated in the private sector, the importance attached to gender equality promotion and the training measures adopted. It also criticised the programme's deficient cross-sectoral integration and failure to follow up implementation owing to the over-ambitious aims of its planners, who attempted to embrace too many areas. The report is useful and will be referred to in future reviews of the programme with a view to improving its quality and better fulfilling its aims and objectives.

An evaluation of Swedish support for training in forestry at the **Wondo Genet College of Forestry** showed that it had helped to promote awareness of the importance of forestry among the rural population. It also found that the theoretical and practical parts of the training programme were well adapted to Ethiopian conditions. Apart from the fact that Sida has helped train and instruct a substantial number of individuals employed at different levels in the forestry sector, its support has made a permanent contribution to the institutional development of the WGCF.

Sida funding for **research cooperation** has focused on capacity building in the fields of science, technology and medicine. According to an evaluation of the authority's support for postgraduate studies, cooperation has been of major benefit to Ethiopian institutions, in particular the University of Addis Abeba. The programme has also helped improve the institution's infrastructure by procuring equipment and literature to support postgraduate and future students in their work.

Support for **democracy and human rights** have been used to train judges and public prosecutors in human rights in the state of Amhara. Funding has also been extended to NGOs.

Humanitarian assistance was provided on an annual basis throughout the period. Sida financed local grain procurement in areas of surplus production. This was then distributed to areas where production could not meet demand. The projects were carried out by the Ethiopian

¹ ODI - *Final synthesis report, Evaluation of Sustainable Poverty Reduction through Area Development Projects*, June 2002.

Disaster Prevention and Preparedness Commission (DPPC). The outcome in both cases was favourable. The DPPC implemented the projects with skill and efficiency.

Assistance channelled via **Swedish NGOs** was primarily aimed at strengthening the social infrastructure and supporting social projects, with smaller inputs for projects aimed at promoting democracy and human rights. Most of these programmes included planned activities. However, there were numerous delays owing to inadequate administrative capacity in local organisations and changes in government policy and legislation on the construction, management and delivery of healthcare and educational establishments. This is a common problem in the development cooperation field. As a direct result of cooperation with a Swedish partner, many of these establishments have boosted their capacity with regard to organisation, administrative capacity, networking activities, lobbying and the ability to meet the needs of their target groups.

There can be no doubt that the effectiveness of certain programmes financed by Sweden during the period – in particular the SARDP – was reduced by the failure to incorporate systematic, strategic follow-up and evaluation procedures along with clearly defined, verifiable indicators in the planning phase. When designing new programmes, consideration must be given to these crucial elements at an early stage if follow-up and detailed performance evaluations are to be possible. Moreover, decentralisation of federal government powers has made the task of following up cooperation projects and programmes more difficult in the initial stages.

An important conclusion to emerge from the performance analysis is that best results are always achieved when the interests of both parties are taken into account, reflecting a more sustainable, equitable partnership. Probably the best example of this is the support provided to the state of Amhara. Mutual interest, trust on both sides and acknowledgement of the principle that Ethiopia 'owns' its own development have encouraged Sida to experiment with new forms of support. The capacity of the state administrations is relatively good and corruption is not a major problem. Advantage should be taken of similar forms of partnership elsewhere, provided these can be found. If the revised sector programmes in the social sector are of good quality, successful cooperation on similar lines can hopefully be developed here. Special consideration should be given to issues of ownership when assessing the prospects for new cooperation programmes. If ownership is strong, conditions for successful cooperation are likely to be present.

Recent healthy macro-economic development and a relatively efficient public administration in Ethiopia have been important factors in the success of development cooperation. They have helped promote the gradual but steady development of local capacity for technological tasks, the strengthening of ownership, the decentralisation of federal government operations and the introduction of sectoral development programmes in a range of areas.

The number of active donors in Ethiopia is growing and the government is anxious to ensure that donors harmonise with and adapt to the country's methods, practices and procedures. At present, there is considerable scope for closer coordination of Swedish efforts with those of other donors.

Ethiopia's development policy

The Ethiopian government has laid down the main lines of its development strategy in its Sustainable Development and Poverty Reduction Program (SDPRP – PRSP). This document was approved by the governing boards of the World Bank and International Monetary Fund (IMF) in September 2002 as a basis for continued lending on favourable terms and for debt relief. The government has stressed the importance of a growth orientated policy and views the private sector as an important generator of economic growth. The SDPRP sets out policy and strategic guidelines for key sectors including agricultural and rural development, food security, cattle rearing, roads, water, education and healthcare. Broad programmes are being devised for areas such as the environment, gender equality, development of the private sector and urban areas, and HIV/AIDS.

As a part of the SDPRP process, the government initiated and carried out consultations with 117 *woredas*. These were followed by further talks at state and finally at federal level. Although the benefit of these consultations to the final poverty strategy has been debated, they probably represent a significant step towards giving poor people a bigger say in the processes which affect them. Hopefully, the procedure will lead to further discussions, involving a broad selection of interested parties, on the country's future development policy.

The SDPRP explicitly states that the government's "primary objective" is to eradicate poverty, and that economic growth is the "main, but not the only, means of achieving" it. As regards implementation, the document refers to ongoing (e.g. healthcare, education and roads) and planned (e.g. conservation of water resources) sector programmes. Several initiatives aimed at agriculture and food security are being planned. Also in the planning stage are general programmes for sectors such as the environment, gender equality, development of the private sector and urban areas, and HIV/AIDS.

The SDPRP does not address the fact that agricultural land is already scarce, while industry lacks the capacity to absorb the growing labour surplus in the countryside. Already 11 % of the rural population are landless and holdings in some parts of the country are far too small to support an average family. No mention is made of the fact that growth and scarcity of resources have contributed to mounting poverty in the countryside. The programme emphasises the need for efficient land use but fails to discuss current systems of land tenure, an omission censured by many observers. Nor does it propose ways of removing obstacles to the development of the private sector or attracting foreign direct investment (FDI) to Ethiopia. There is no detailed reference to spheres such as gender equality and environmental protection. Areas relating to good governance and human rights could also be further developed.

The SDPRP contains 4 programmes:

- The Agricultural Development Led Industrialisation strategy
- The Civil Service Reform and reform of the judiciary
- Decentralisation and empowerment, and
- Capacity building in the public and private sectors.

The overall aim of the Agricultural Development Led Industrialisation (ADLI) strategy is to stimulate food production and general economic growth. Its main objectives are to boost agricultural productivity and farmers' incomes. The most important components of the ADLI strategy are advisory services for farmers and pastoralists, agricultural credits, production inputs, including improved seed and fertiliser, and the extension of the rural road network. It is expected that as farmers' incomes rise so will the demand for locally manufactured commodities. Meanwhile the industrial sector will work up and further refine agricultural products. This policy has so far yielded mixed results. Agricultural productivity has risen and living standards improved correspondingly in areas accessible by road and where the climate is favourable for agriculture. At the same time, the programme has been criticised for being inflexible and supply-based, and for failing to meet people's needs in areas of agricultural shortfall.

No significant results of the programme's industrialisation strategies have so far been detected. Some critics have held that the government should introduce a special policy for industry featuring – for example – short-term protective tariffs and subsidies for certain promising sectors. Ethiopia's industrial sector is still little developed and only accounts for approximately 11 % of GDP. The sector suffers from complex investment rules, political interference and the government's ambivalent attitude to business activities. Foreign direct investment is lower in relative terms than in most other African countries and three quarters of all approved projects fail before they are completed due to bureaucratic obstruction. Investors are even frightened away from semi-public companies with links to the ruling party, despite the general perceptions that that they enjoy more favourable conditions than private companies.

A fundamental problem in connection with Ethiopia's development policy – one not mentioned in the ADLI strategy – is the inability of the industrial and agricultural sectors alike to absorb the growing labour surplus in the countryside. The central question of where jobs are to be found is evaded. With only about 15 % of the population living in the cities, the urban sector is still relatively insignificant in this context. The strategy says little about the extent to which the cities now springing up in the countryside should be strengthened as way of generating employment outside the agricultural sector.

The Civil Service Reform (CSR) is a highly ambitious programme. It was cut short during the war with Eritrea but is now in operation once again. In his speech to the Ethiopian parliament in October 2001, the Prime Minister described the CSR as one of the government's most important priorities. It has four major focus areas: (i) public expenditure management and control, reform of budget controls, long-term budgeting, public procurement and audits, (ii) human resource management, featuring transparent incentive and reward systems, a review of pay scales for lower-paid public employees and the feasibility of pay rises, development of personnel administration systems and procedures to ensure proper recruitment to top positions, and follow-up and assessment of the performance of senior civil servants, (iii) improved public service delivery in terms of execution and quality, including the introduction of a complaints procedure for members of the public, and (iv) the introduction of a code of conduct setting out citizens' rights and responsibilities in relation to public services.

The reform of the judiciary will involve a comprehensive review of often very old legislation – the penal code dates from the 1950s, for example – and bring it closer into line with the 1994 constitution. Judicial institutions will be reinforced as part of a commitment to strengthen civil liberties. Due to low capacity in the courts, people charged with crimes are often compelled to spend long periods in prison awaiting trial, itself a violation of human rights.

Decentralisation is a key tenet of the federal constitution and the government is now pushing for further measures. According to the constitution, the country is divided into nine states and two self-governing cities (Addis Abeba and Dire Dawa). Each state enjoys extensive political and economic powers. In practice, however, the federal government exercises considerable control, through the federal budget, over political and economic development. Operating at the lowest administrative level is the *kebele*, a local body governed by an elected council and controlled by the ruling party. Each *kebele* is the instrument through which the federal government exercises political control at local level. Several *kebeles* make up a *woreda*, or ‘district council’.

In October 2001, the government announced that decentralisation would continue and that funds not already earmarked – known as block grants – would be allocated to the *woredas* to enable them to assume effective responsibility for local development. The decentralisation process made rapid progress in the first half of 2002. The structure and organisation of the federal government would be mirrored in every state and *woreda*, while the old zones would only retain a coordinating function and be reduced to a minimum. The changes were to be implemented in the four first states, Amhara, Tigray, Oromia and the State of the Southern Nationalities and Peoples by the end of fiscal 2002–2003.

The programme is highly ambitious. The pace of reform seems unrealistic and the government’s efficiency is likely to fall sharply in the first few years before the reform is completed. The *woredas* lack the necessary qualified personnel to operate effectively and many employees are unwilling to move out to the districts from the relative comfort of the regional capitals. The SARDP has already been seriously delayed by the reform. Substantial capacity building will be required to further develop the administrative machinery of the *woredas* to the point where it can perform its new tasks effectively. The responsibility of the *woreda* administrations *vis à vis* the electorate as well as opportunities for the latter to influence decision-making are serious problems.

Capacity building is a fundamental concept, central to all three reforms outlined above. As mentioned earlier in this report, a special ministry for capacity building has been set up. In addition, a comprehensive capacity building programme with substantial funding, mainly from the World Bank, has recently been launched.

Strategic considerations

With the war against Eritrea now at an end, the government has turned its attention to the country's immense development needs. The government's policies for poverty eradication, economic growth, reform of the public administration and judiciary and political and administrative decentralisation deserve recognition and support. However, repeated human rights violations have prompted criticism and given cause for concern. The government's strategy is contingent on its ability to maintain peace with its neighbours and preserve internal stability. If Ethiopia is drawn into armed conflict, the entire development cooperation programme must be reviewed. The strategy is further predicated on the government's determination to promote human rights. If development were to move in another direction, there would be grounds for reviewing the extent and direction of cooperation.

Ethiopia is one of the world's poorest countries and resource needs are immense at every level. Despite the fact that Ethiopia is the largest African recipient of development assistance from the World Bank and the EU, and that most bilateral donors are actively implementing major programmes, the volume of assistance received is small in relation to the country's population and level of poverty. Moreover, as mentioned earlier, a sizable proportion of this support has been set aside for humanitarian purposes, which means there is less left over for the promotion of long-term, sustainable development. From a historical perspective, development assistance levels are still low in the aftermath of the conflict with Eritrea. External assistance to Ethiopia corresponds to USD 13 per person, while the average for African countries south of the Sahara is USD 25. Thus there is ample scope for qualitative and quantitative improvements to development assistance to Ethiopia.

A real partnership has begun to emerge within the framework of Swedish development cooperation with Ethiopia. There is a strong sense of local ownership as donors cooperate on the financing of programmes coordinated by the federal government, often with the support of the World Bank. One result of this clearly articulated ownership of the development process is that negotiations with Ethiopian partners can be prolonged. At the same time, however, it also ensures that agreements entered into are actually observed and implemented in practice. This ownership must be respected. Sida is required to critically assess its operations with a view to identifying procedures and practices which promote – or are at variance with – Ethiopian ownership.

The Ethiopian government has attached increasing importance to sector programmes and budget support. Attempts are being made to develop common systems for donor activities such as reporting, auditing and procurement. Sida is required to take an active part in these efforts and promote cooperation on terms that will enable it to meet Ethiopia's wishes with regard to sector-based and budget support.

Ethiopia's poverty reduction strategy must serve as a basis for Swedish–Ethiopian development cooperation. Sida must establish whether sector-based support can be provided for the major programmes in this strategy: reform of the judiciary, capacity building, and decentralisation and empowerment (the latter through the SARDP). Support is already being extended in these

spheres. Sweden can identify areas where the SDPRP is deemed to be inadequate and in need of complementing in the course of dialogue with Ethiopia. These could include good governance and human rights, development of the private sector and gender equality. Although it is generally agreed that the impetus for poverty reduction and economic growth must come from the agricultural sector and that industrialisation must be promoted, the ADLI strategy's supply-side orientation and present systems of land tenure will be the subjects of further dialogue.

Ethiopia is a strongly politicised, patriarchal and non-pluralistic society. Despite a measure of progress in recent years, there is limited scope for individual initiative and genuine discussion of the government's policies, particularly at lower levels of the public administration and in the countryside.

The Ethiopian government did not give its backing to donor proposals to focus on selected regions and to divide up task areas between them. Sweden nevertheless found it more effective – after consultation with the Ethiopian government – to concentrate a large proportion of Swedish development funds on the Amhara region. A number of donors tend to support federal sector programmes, which, as was pointed out earlier, is also Sweden's intention. The advantages of joining forces with the government and other donors on sector programmes will in the long run outweigh the benefits of regional approaches. For the present, Sweden will continue to provide assistance to the Amhara region on a level comparable to that established for ongoing support to the SARDP.

The largest donors in Ethiopia in the last five-year period have been the World Bank, the European Commission, the USA, the African Development Bank and Japan. Together they account for half the total assistance received by Ethiopia. Several EU member states are also active in the country as bilateral donors. It was disclosed at a Consultative Group (CG) meeting in Addis Abeba on 7–8 December 2002 that a large number of donors were planning to step up assistance.

Donor coordination in Ethiopia is effective. Harmonisation talks are far advanced and several donors are presently considering moving over to sector programme and/or budget support. The World Bank and UNDP, the joint heads of the local development assistance coordination group, are cooperating constructively. Sweden will take an active part in coordination work in an effort to induce donors to assist Ethiopia by coordinating and planning development cooperation. Future agreements should be designed to run for longer periods than at present and, where possible, financial commitments should be transparent and extend over several years. Donors should also try to coordinate support for sector programmes using coordinated reporting mechanisms.

The low levels of assistance, the clear prioritisation of poverty reduction in the SDPRP, the relative efficiency of the public sector and the existence of acceptable follow-up and monitoring systems are strong arguments for strengthening Swedish development cooperation with Ethiopia, where volumes of assistance have increased substantially from the levels which prevailed during the war with Eritrea. Such a course would be predicated on fulfilment of the conditions in regard to peace, stability and human rights set out above.

Key dialogue issues

Ethiopia's strong sense of ownership of the development process provides the conditions for a dynamic political dialogue with Sweden. Thus, development cooperation should be used as a platform for continued political dialogue about issues of vital importance to the achievement of development cooperation objectives. These matters should be addressed in consultation with the Ethiopian government and where possible with other like-minded donors. Many of these issues are also central to the EU–Ethiopia dialogue in which Sweden plays an active part. A number of issues likely to be of importance in Sweden's dialogue with the Ethiopian government are set out below. Issues which the latter may want to add to the agenda may of course also be included.

Democratisation and governance

- The need for continued progress on democratisation, including greater transparency to facilitate public participation in political decision-making.
- The importance of creating a favourable climate for the growth of civil society, in which individual citizens, grassroots organisations and advocacy groups can carry on a dialogue with those in power.
- The continued decentralisation process.

Gender equality

- The need for measures to improve the status of and conditions for women.
- The importance of women's rights and non-discrimination as part of the fight against poverty.
- The benefits of gender-disaggregated statistics and the challenges involved in producing relevant data.
- Progress with regard to female genital mutilation and other harmful local customs.
- The role of education in strengthening the participation of women in the community.

Human rights and reform of the judiciary

- The promotion and protection of human rights as part of the fight against poverty and efforts to step up development. Measures aimed at strengthening respect for civil and political rights.
- The importance of the rule of law and reform of the judiciary as a government priority.

HIV/AIDS

- The alarming spread of the HIV/AIDS epidemic and actions being taken to halt this development.
- HIV/AIDS-related issues concern many sectors and should be highlighted from within individual development cooperation areas as well as from outside.

Land ownership and security of tenure

- The significance of land ownership and security of tenure in relation to efforts to promote economic growth by boosting productivity in the agricultural sector. The importance of security of tenure as a means of curbing further fragmentation of agricultural holdings.

- The question of land tenure is not only an economic or ecological issue, but also has implications for democracy. The role of the government in controlling land tenure and use is open to abuse; it could be used to hold back political opposition, for example.
- The supply-side orientation of the Ethiopian government's agricultural policy. ADLI is another important area of dialogue.
- The potential advantages of sustainable use of the country's natural resource base and environmental protection measures.

Favourable climate for the private sector

- The need to strengthen institutions at federal level and their role in enabling the business sector to contribute to Ethiopia's economic growth. There are obstacles to efficiently functioning, competitive markets in the judiciary, the financial markets, etc.
- The need to improve the climate of development for the private sector, and rules governing ownership, trade, land mortgaging and land use, buildings and building construction and persona property. How companies are started and wound up (level playing field) in the Ethiopian economy.
- The priority measures in the SDPRP should serve as a basis for dialogue in this sector.

Aims and objectives of Swedish development cooperation

The overall aim of development cooperation with Ethiopia is to contribute to the reduction of poverty in the country by helping to remove the factors that create or perpetuate poverty. To that end, development cooperation on the basis of the newly launched Ethiopian SDPRP will be focused on three main, mutually reinforcing areas.

- Democratic development and respect for human rights
- Social development
- Economic growth

Special consideration will be given to gender equality and environmental concerns in all programmes.

A government bill on Swedish global development policy is expected in the spring of 2003. Sweden's development cooperation aims, as set out in the bill, will of course also apply to cooperation with Ethiopia. New guidelines for budget support are also expected during the year. Implementation of the country strategy should gradually be brought into line with the policies set out in the bill and with any new guidelines.

Cooperation areas

• Democratic development and respect for human rights

Continued democratic development and full respect for human rights is a key element of Swedish development cooperation with Ethiopia.

An interesting development in Ethiopia in this connection is the ongoing devolution of federal powers to lower levels of government, the *woreda*. Sida is closely involved in this process through the Sida-Amhara Regional Development Programme (SARDP), and the importance of promoting democracy by empowering local communities will be further emphasised in the current phase of the programme.

Democracy, good governance and human rights

Sweden has actively promoted democracy, good governance and human rights through its support to the Ethiopian government and NGOs working in the region. Part of this support must continue in the form of 'government-to-government' cooperation. Important institutions to which support should be extended include the parliament, the Commission on Human Rights and the Office of the Ombudsman for Human Rights. Funding for capacity building in areas such as election procedures should also be provided in the run-up to the 2005 election.

Sector programme for the reform of the judiciary

Extensive reform of the judicial sector is now being planned under the SDPRP as part of ongoing democratisation work and efforts to create a more favourable business climate. Swedish development assistance together with that of other donors could play an important role by supporting this renewal of the legal system. It is therefore proposed that resources be set aside for Swedish participation in broader support for the judiciary in close cooperation with other donors and on the basis of the government's reform proposals. Continued close consultation with other donors such as France, Ireland, Canada and the European Commission are vital, as is Sweden's active participation in the donor group headed by UNDP, which has regular meetings with the Ethiopian minister for capacity building.

Having regard to the deficiencies of the judicial system and their effect on respect for human rights, support has been extended to the Raoul Wallenberg Institute (RWI) in Lund and to a local Ethiopian NGO to provide judges and public prosecutors in the Amhara region with training in human rights. Although the project has been running since 1998 with the participation of 3,700 judges and public prosecutors, it must be regarded as a relatively limited operation. Through the years, Sweden has repeatedly discussed human rights violations with the Ethiopian government. To date, however, significant funds have not been allocated to courts for resource building or education aimed at countering the human rights violations which take place there. Links with and opportunities to contribute to the above sector programme should be actively sought.

Peace building and conflict management

Sustainable development in Ethiopia is predicated on peaceful conditions, both inside the country and in the region as a whole. Possible direct peace support operations at regional, national and local level include the promotion or creation of conditions conducive to dialogue, negotiation and the de-escalation of ongoing conflicts, efforts to provide groups and individuals affected by armed conflict or insecure conditions with a greater measure of security, and efforts to tackle basic structures and causes of armed conflict such as political and socio-economic injustices and inequalities, weak government structures, human rights violations, discrimination on grounds of gender or ethnic background, environmental degradation and scarcity of common resources, illegal trade in commodities such as arms and drugs and access to handguns.

Thus perspective on armed conflict also be considered and incorporated into other cooperation areas. Direct measures in the area should mainly take the form of humanitarian assistance and support to Swedish and local NGOs.

Cooperation with civil society

In the past, Swedish support to civil society organisations (CSOs) has mainly been channelled through Swedish NGOs. Local NGOs have also received assistance from funds reserved for support for human rights/democratic development at the disposal of the Swedish embassy. Following the SDPRP process and recognition of the part played by CSOs in poverty reduction, and of their experience of working with poor people and vulnerable communities, priority should now be given to seeking direct contact and closer working relations with these organisations. In view of the experience some CSOs have of gender-related, HIV/AIDS and

human rights issues, which are closely related to Swedish development cooperation goals, increased resources should be directed at cooperation with CSOs in Ethiopia.

Swedish support to human rights organisations such as the Ethiopian Women Lawyers Association (EWLA), the Ethiopian Human Rights Council (EHRCO) and Action Professionals' Association for the People (APAP) has had a positive impact on progress in the sphere of human rights, democracy and gender equality. Although amounts have not been large by comparison with other sectors, effective use has been made of the funds allocated. Evaluation studies show that the NGOs concerned not only command a great deal of respect in the community but have also achieved a number of stated goals. Such support should continue to play a crucial role.

Swedish NGOs have found through studies and evaluations that there is still room for improvement in Ethiopian civil society as regards networking, but that the number of organisations in the country is rising dramatically. The general climate for civil society is improving and government authorities are growing better at cooperating with actors from the civil society.

Funding for programmes that strengthen follow-up and reporting mechanisms in connection with violations of children's rights is vital to efforts aimed at protecting these rights. Equally important are efforts to improve the capacity of decision-makers to take full account of child rights. Sweden should also assist the government and CSOs in their endeavours to promote access to reliable healthcare, education and good quality social services for children. In particular, priority should be given to programmes aimed at children who are denied basic schooling, who suffer from HIV/AIDS, and who are sexually abused and economically exploited, as well as at child and young offenders in the charge of the judicial and penal system for dealing with juvenile crime.

In-depth cooperation should be targeted at areas such as HIV/AIDS (which should be financed under the HIV/AIDS budget), access to social services, democracy and human rights, including child rights, promoting awareness of and combating female genital mutilation, and small environmental projects. Cooperation procedures must be developed so that the embassy is not over-burdened. A proposal which should be considered concerns the setting up of a fund to manage an annual sum of capital, possibly as a donor-coordinated project. The fund would be administered by a board composed of representatives of the donors involved, civil society and the government. It would have the authority to approve applications by organisations in civil society in accordance with previously adopted guidelines and follow-up procedures. The purpose of such a fund would be to ensure greater strategic support to civil society.

- **Social development**

Investment in social development is crucial to the welfare of the people of Ethiopia, poverty reduction and the emergence of a more socially equal, productive, democratic and pluralistic society. This also presupposes the creation of a society capable of embracing women and men and their respective needs, experience and potential. The rights of children and young people, including the chance to share in this development must also be strengthened.

Important links and networks have already been established between sub-sectors within the social sector. Wherever possible, these must be carefully considered in all planning, follow-up and evaluation work. Education is one of the most important health factors and only healthy children can attend school and receive instruction. Cultural activities can be an important resource in education and an effective way of disseminating information about health matters. This applies particularly to the fight against HIV/AIDS.

Sector programme for education

The Ethiopian government has drawn up a general programme, the Education Sector Development Programme (ESDP), aimed at expanding and developing the education sector. It covers the development of all aspects and levels of education, from pre-schools to vocational training schools and other institutions of higher education. Particular emphasis has been placed on teacher training at all levels of the education system. Despite shortcomings, the programme is likely to prove the most important instrument for supporting the development of better educational opportunities in Ethiopia. Improvements in the quality of education, and instruction in democracy and human rights – which should be based on the UN Convention on the Rights of the Child – are issues which must be addressed during the dialogue on ESDP. The programme discusses different ways of improving the capacity of the education system, such as engaging NGOs to run schools in remote rural areas and strengthening vocational training.

Sweden will consider the possibility of supporting this comprehensive endeavour to develop the education sector. If the programme is found to be robust, support for this process will be provided following consultation with other donors. Important criteria here will be the extent to which girls have access to schooling and the quality of education from a gender equality standpoint.

In addition, Sweden will seek to promote greater donor coordination in the sector as a whole.

Sector programme for healthcare

The Ethiopian government is currently drawing up a sector programme for the healthcare sector, the Health Sector Development Programme (HSDP) aimed at strengthening the sector as a whole, improving access to services and enhancing their quality and management. Sweden has contributed to and supported the HSDP since work began in 1998. Certain mechanisms such as follow-up and reporting procedures must be incorporated before full support can be extended to the programme. Swedish funding should be provided in two stages during 2003–2005. In the short term, and on the basis of recommendations set out in available evaluations, resources may be allocated for special projects such as necessary drug provision and capacity building in the field of reproductive health care. It should be practicable to incorporate these projects into the HSDP at a later stage. The programme should focus particular attention on women's health.

Sweden belongs to a small group of like-minded donors (other countries are the Netherlands, Belgium, Norway and Ireland) that have come together to consider common, non-earmarked funding for the HSDP when the programme is ready for full-scale financing. Sweden should also continue pressing for this group's active contribution to donor coordination in this sector.

HIV/AIDS

The fight against HIV/AIDS is a crucial part of the war on poverty in Ethiopia and must be given priority in all support areas. HIV/AIDS must be treated as a blanket issue and efforts must be made to find points of contact between the various sectors in order to fight the epidemic effectively.

The point of departure for dialogue with Ethiopia should be the country's HIV/AIDS action plan, drawn up in 1998. Another source of guidance is the Swedish strategy for HIV/AIDS, Investing for Future Generations, which stresses the importance of tackling the disease both in the long and short term. Among the issues calling for attention is the low status of women in society and the family, which prevents them from exercising control over their own reproduction. The importance of safe sex should be highlighted. Also needed are preventive measures such as information on sexuality, legal rights and the importance of taking precautions in the event of infection. The dialogue should cover the tasks of the church and other organisations in civil society as well as the potential role of the private business sector. More traditional activities, such as financial support to NGOs and counsellor training programmes are also important. HIV testing equipment must also be supplied and condoms be made more readily available. Finally, measures aimed at strengthening political involvement in Ethiopia are essential; the experience of other countries in the region show that political involvement at the highest levels can make a considerable difference when it comes to enhancing public awareness of the disease and its risks.

Sweden should actively promote closer donor coordination in this area. The sector programmes for healthcare and education are potentially important components of the fight against HIV/AIDS. Another key element should be support to NGOs. Efforts should be made to promote local and international networks to facilitate the exchange of experience and information and help organisations work more efficiently and effectively. Special consideration should be given to efforts to combat HIV/AIDS by multilateral bodies such as the Global Fund to Fight AIDS, Tuberculosis & Malaria and the World Bank as part of Swedish support. Consultations should be held between the embassy and those responsible for Swedish funding for these bodies.

Research cooperation and higher education

The ability to conduct its own research and access to higher education are essential to a society's development. The increase over the last three years in the number of educational institutions mainly intended for higher education reflects the priority given to these areas by the Ethiopian government. Despite this, conditions for qualitative research of significance for national development are inadequate to the task of meeting the wide-ranging scientific challenges.

Funding for research should focus on capacity building and ensure the coordinated provision of a range of research components such as education, cooperation partners, equipment, etc. The current cooperation partners, Addis Abeba University (AAU) and Alemaya University (AU), are at present the only national universities engaged in research and the education of doctoral students. This is in line with the government's wish to concentrate postgraduate education at these universities.

As there are so few women in the academic world or in senior positions in society, special consideration should be given to measures to facilitate access by women students to masters programmes and postgraduate education.

In accordance with stated capacity building objectives, funding for individual research projects at AAU and AU should be accompanied by funding for research management and administration at university and department level. In addition, efforts should be made to improve conditions for national research coordination and develop a national policy for research. Support should accordingly be targeted directly at the national research council, the Ethiopian Science and Technology Commission (ESTC). Support must also be extended to research institutes outside the universities. In the medical sphere, Norway and Sweden jointly support the Armauer Hansen Research Institute, a biomedical research institute specialising in modern immunology.

Research cooperation is expected to remain at its present levels throughout the strategy period. Although funding for the Wondo Genet College of Forestry will be wound down it is unlikely to have ceased completely by the end of the period. The continued development of the sector programme for education should supply the parameters for a possible phasing out of the other educational components of this programme.

Culture

Cultural activity is crucial to democratic and human development. Sweden is prepared to support efforts to enhance cultural policies and the country's institutional infrastructure, in particular initiatives designed to influence and enhance freedom of expression and cultural debate. Special consideration should be given to initiatives aimed at fostering the ability of children and young people to participate, express themselves and learn. Consideration should be given to the feasibility of linking support to existing programmes and to regional and international networks.

• Economic growth

Proposed Swedish measures aimed at enhancing economic growth in Ethiopia comprise rural development programmes in the Amhara region, efforts to develop infrastructure and the private sector, and budget support.

The urbanisation process currently under way in Ethiopia involves benefits as well as risks. Among the latter are the lack of adequate social and economic infrastructure for people moving to urban centres, which can lead to unemployment, deep poverty and a high crime rate. Sweden should therefore consider the possibility of extending limited assistance to the urbanisation process, on the basis of the principles laid down in the SDPRP. However, new infrastructure initiatives and support for the urbanisation process should form part of the current programme of assistance to the Amhara region and not be provided at federal level.

Other prerequisites for economic growth, such as the fight against HIV/AIDS and improvements in health and education, are also being considered, but in the context of other cooperation areas.

Rural development in the Amhara region

Ethiopia's development strategy, as outlined in the SDPRP, is designed to stimulate economic growth while ensuring a fair distribution of resources. The strategy focuses on rural development, on the build-up of physical and human capital and on increased decentralisation as a means of empowering people, enabling them to exercise greater freedom of choice and thus greater control over their lives. There are obvious links between the SARDP programme in the Amhara region and the SDPRP. The emphasis on methods designed to encourage greater participation is perhaps the most distinctive feature of the SARDP as well as of the direction that the government has begun to move in. The SARDP has served as a source of inspiration to the government in its insistence that power must be delegated to *woreda* level. Experience of successful SARDP methods aimed at boosting participation in planning, implementation and follow-up may be copied to other areas in the future. In this respect, SARDP can play an important part as an example of good practices at the national level.

In 2002, the Government instructed Sida to prepare and enter into agreements on support for the four-star SARDP II programme. In March 2002 the two sides signed an agreement worth SEK 200m for the first two years.

Swedish assistance can be instrumental in furthering small farmers' sustainable production of cereals and livestock in a variety of ways. Such measures include supporting more efficient agricultural research and advisory activities, boosting water resources through the collection of rain and flood water, and encouraging the development of small-scale irrigation systems. In addition, financial systems should be strengthened so that farmers, women and young people in rural areas can obtain improved production inputs and develop alternative means of support. Product diversification on small and medium-sized farms should also be encouraged through the distribution of better seed strains and livestock breeds, while the rural road network should be improved to make transportation of goods and services more efficient. These are some of the areas in which Swedish support can help boost both income and the supply of food in the region.

The overall aim of the SARDP is to improve the rural population's ability to support itself by generating a sustainable increase in agricultural productivity, proper management of natural resources, and economic diversification, and by encouraging good governance and equitable development. The SARDP seeks to support development at *woreda* level by enhancing capacity for development planning and project implementation and execution, and by improving district services. Sweden must actively seek to mainstream a gender perspective into the implementation process. Close attention must also be paid to the environmental aspects, particularly to ways of reducing soil erosion and encouraging efficient water management.

The 'block grants' the government plans to provide at regional level will also affect the SARDP II programme. Swedish support should aim to bolster the government's own efforts in this sphere.

The SARDP also has many points of contact with the national strategy for food security and can help improve the general food situation in the country. As regards the SARDP, Sida should also

take part in the dialogue currently under way on issues concerning security of tenure, gender equality and other policy issues in the rural development sphere.

Further Swedish support to the SARDP will be contingent on the results achieved. Future efforts in this field will also hinge on whether programmes can be properly followed up and whether adequate evaluation mechanisms can be established.

Besides Sweden, Italy, the Netherlands (partly in Amhara), the US (partly in Amhara but chiefly in the food security field) and Ireland are all active in the rural development sphere via what are termed area base programmes. In consultation with Netherlands and Ireland in particular, Sweden will press for further donor coordination in the rural development field at federal level. In addition, the coordination issue should be discussed with the regional government in Amhara, and a first step should be to increase the exchange of information at regional level.

Infrastructure

The repair, maintenance and construction of rural roads is an important part of the SARDP. Further Swedish support for the road sector is justified in light of the importance of infrastructure for poverty reduction and food security. Sida is to continue preparing measures in support of the development programme for the road sector by co-financing a road project designed to link an area of food surplus, East Gojjam, with a deficit area, South Wollo in the Amhara region. The SARDP is active in both areas. The proposed project is an extensive one with a total cost of USD 120m, due to the difficult terrain and the fact that several bridges will have to be built, including one over the Blue Nile. The project will have a major impact on food security, economic development and trade. Other donors are Italy and the EU. Each is expected to finance around a third of the cost of the project, which is scheduled to run until to 2010.

Development of the private sector

Both the promotion of economic diversification and development of the private sector, including support for an expansion of the micro credit system, already form an integral part of Sida aid to the Amhara region. However, studies of the business environment and investment climate suggest that misguided national policies and weak institutions at the federal level represent the most important constraints on the development of efficient and competitive markets which could contribute to growth and poverty reduction. However, the Ethiopian government seems more interested in consulting with representatives of the private sector than in the past – and not solely with state-owned or party-controlled enterprises – and in implementing reforms aimed at developing this sector.

In light of Sida's experience in Tanzania and Uganda, Sweden should agree to provide technical assistance for institution-building in Ethiopia. Sida should also step up its efforts to encourage trade between Ethiopia and Sweden, for instance by following up plans for the export of Ethiopian textiles. A more exhaustive dialogue must also be conducted on issues such as the need for a better development climate for the private sector, ownership rules, trade, land mortgaging and use, buildings and personal property. Another important concern is how enterprises are started and wound up (the level playing field) in the Ethiopian economy.

The informal business sector is of vital importance to the Ethiopian economy. Bearing in mind the urgent need to absorb the huge labour surplus in the agricultural sector, Sida, possibly in cooperation with other donors such as the GTZ and ILO, should become involved in programmes capable of speeding up the expansion and development of businesses in this sector. In addition to measures associated with capacity building and financing, there are plans to support urban development projects that will supplement the establishment of markets and business opportunities for informal entrepreneurs.

Development of the private sector is also a cross-sectoral matter. When planning and developing aid programmes for healthcare, education, road-building, road maintenance and food security, efforts will be made to boost competitiveness and efficiency by involving non-governmental players in the supply of goods and services.

Budget support

Since the present government took power in 1991, Ethiopia has enjoyed remarkable economic stability. New research shows that – thanks to sound macro economic management – growth has helped reduce poverty. Continued Swedish assistance aimed at balancing the government's budget and avoiding macro economic instability is therefore warranted.

Budget support should be an integral part of Swedish development cooperation. Particular attention is focused on the country's capacity for drawing up budgets and accounting for government expenditure, and on how well it has managed to carry out reform programmes supported by the IMF and the World Bank. A relatively good basis exists for Swedish development cooperation with Ethiopia and for the provision of budget support.

The question of budget support is to be governed by the criteria set out in 'Guidelines for support for economic reforms and debt relief' (UD1999/1275/IC) or in revised versions thereof. Such support may be augmented by funds from the Appropriation Item for Africa but must be subject to consultation between Sida and the Government Offices. Budget support is to be provided in the form of assistance for the implementation of the SDPRP.

To the extent permitted by general and support-related conditions, Swedish support should be based on multiyear agreements so that the Ethiopian government can incorporate donor funding into its planning. Coordination with other donors and harmonisation with Ethiopia's administrative processes and procedures should be sought. A precondition for budget support is that the requisite systems for budget follow-up and financial control, whether in the form of public expenditure reviews (PER) or of country financial accountability assessments (CFAA) are in place.

Other projects and programmes

Staff and Consultancy Fund

The Staff and Consultancy Fund is a much-appreciated resource for short-term consultancy work aimed at strengthening the civil administration's capacity to plan and carry out development programmes. Travel costs in connection with training courses organised by Sida are financed out of this fund. The Staff and Consultancy Fund, however, should be used more strategically during the strategy period and focus on current development programmes in order to supplement efforts already under way.

Humanitarian assistance

In view of the extent and complexity of the food security problem, long-term and comprehensive initiatives are required if the situation is to improve. These relate to such areas as increased agricultural production and sales, greater opportunity for earning non-agricultural income, support for urban development and for the private sector aimed at creating more jobs for the growing labour force, and capacity building in terms of institutional and human resources. The SARDP addresses several of these development needs.

It is unlikely, however, that Ethiopia will become self-sufficient in food in the foreseeable future. The country will continue to need food aid either *in natura* or in cash, and, as in the past, Sweden must be prepared to help in the task of meeting urgent humanitarian needs. Such aid is best provided either by financing local grain purchasing or by funding wages so that people in need can buy food, an approach in line with the SDPRP. For the purpose of alleviating the effects of armed conflict and natural disasters, humanitarian assistance can be channelled via the DPPC, Swedish/international NGOs or UN bodies. Humanitarian aid must be provided in such a way that it does not undermine long-term development of the agricultural sector.

In March 2002, Ethiopia adopted a strategy for food security, drawn up in cooperation with the EU and other donors. The aim of the strategy is to ensure food security at the household level while the ADLI focuses on creating the conditions for national self-sufficiency in food. Although the strategy has been criticised for the way it has been implemented, Sweden can improve its effectiveness by emphasising the implementation stage in its dialogue with the government and by stressing the importance of complying with the strategy when the Swedish-sponsored project for food security is carried out with the help of various players. One of the key features of the new strategy, however, is the special budget sum of Birr 50m allocated by the government, which reflects a clear commitment on its part to tackle the issue of food insecurity and not simply rely on donor programmes. Possible Swedish funding for the implementation of the new strategy should also be considered.

Financial planning

The proposed programme is based on preliminary planning data supplied by Sida. If operations proceed according to plan, support may be increased, bringing the total estimated cost for development cooperation with Ethiopia during the first three years of the strategy period to SEK 1,500m, of which SEK 200m will be channelled to NGOs. If however, execution of the new sector programme, for example, is delayed, or other obstacles to its implementation emerge, more limited support will be extended. A development cooperation agreement must be negotiated on the basis of this preliminary amount. The remaining funds can be used for cooperation with civil society, or go towards embassy staff or programme development.

A preliminary, indicative financial plan is set out below. The figures quoted are in SEK millions. Transferring resources between sectors in order to implement a programme of this magnitude requires considerable flexibility.

Goal	Sector	2003	2004	2005
Democracy and respect for human rights				
	Democracy and human rights through the government	5	6	6
	Sectoral programme: reform of the judiciary	10	25	30
	Civil society including democracy and human rights	10	30	30
Social development				
	Sectoral programme: education	30	70	70
	Sectoral programme: healthcare	15	40	40
	HIV/AIDS	10	30	30
	Research cooperation	35	30	30
	Forestry training	20	15	5
Economic growth				
	Rural development in the Amhara region	100	110	120
	Infrastructure		45	80
	Industrial development	3	10	10
	Budget support	80	100	120

Other				
Staff and Consultancy Fund		2	2	5
Humanitarian assistance		25	25	25
Embassy staff, programme development		10	10	10
TOTAL		345	548	611
of which budget support		80	100	120

Implementation and follow-up

This country strategy is to be implemented in continuous dialogue with the Ethiopian government. Moreover, in setting its priorities for the period, Sweden must be guided by the decisions and actions taken in connection with the implementation of the country's SDPRP. Ethiopian ownership in the cooperation process is to be welcomed and Swedish practices and procedures adjusted accordingly.

The potential for harmonising government and donor processes with one another behind the SDPRP is excellent. Swedish development cooperation should be designed to support SDPRP priorities, and the instruments and procedures used by Sweden should be brought into line with government planning and budget periods. Efforts should also be made to ensure that the donor community acts in a cohesive and coordinated manner.

Follow-up activities must be coordinated with the annual review of Ethiopia's SDPRP in order to avoid duplication of work and ensure that cooperation is truly adapted to the SDPRP. As far as possible, Swedish reporting and auditing standards should eventually be based on Ethiopia's own follow-up and audit systems. Along with other donors Sweden must take an active part in designing the review so that opportunities to adapt the annual follow-up of the country strategy to this process can be actively investigated. This would also mean less need for bilateral consultations on Swedish assistance, which could then be replaced by joint dialogues involving other donors.

Sweden must continue to be proactive in enhancing donor coordination and harmonisation, and the work of the local donor coordination groups should be given high priority. Bilateral projects must also be examined in the light of multilateral support financed by Sweden through the World Bank or UNDP. Strategic links and points of contact should be identified and utilised wherever possible. If Sweden can act as a 'silent partner' in a given sector through cooperation with a like-minded donor country, e.g. Norway, this possibility should be examined.

Non-tied budget support should be extended where possible and in accordance with currently applicable criteria. Its provision should be linked to established follow-up systems so that the performance and outcome of planned projects can be assessed.

Cooperation with the business sector and measures to promote Swedish exports to and imports from Ethiopia should be considered in relation the priorities set out in the SDPRP and the country strategy. Support to local and international NGOs active in Ethiopia will continue to be an important *modus operandi*. Special follow-up and evaluation mechanisms will be needed for this activity.

Follow-up and evaluation must be central to the country strategy's implementation. Special emphasis should be placed on developing methods for gathering information on the outcome of projects and programmes and on their long-term effects.

The country strategy for Ethiopia extends over five years and its successful execution will hinge on developments in Ethiopia, not least in the political sphere. Sida is required to provide the Swedish Ministry for Foreign Affairs with advance information on projected annual volumes of assistance and major programmes and projects, and to consult with the ministry before taking decisions involving important matters of principle. The volume of assistance for 2003 is estimated at SEK 215m, excluding proposed budget support.

Administrative resources

The following development cooperation personnel are based at the Swedish embassy in Addis Abeba: a Counsellor for Development Cooperation, two Swedish and two Ethiopian administrative officers and a programme controller engaged on a full-time basis. Matters relating to support for democratic development and human rights take up approximately half the Counsellor's time. The Ambassador is also occupied to a large extent with assistance matters.

The embassy and Sida's head office have been directly involved in drawing up, implementing and following up the programme. The embassy will be authorised to disburse funds as soon as the strategy has been formally launched.

Follow-up and evaluation of performance and outcome must be strengthened during the strategy period. The latter must be carefully scrutinised, in connection with new as well as ongoing projects and programmes. Greater emphasis must be given to the design of follow-up and evaluation systems than in the past. It may be necessary to redefine some of the assistance being provided during the strategy period.

Road sector and private sector development projects will be extended during the period. These are new sectors for the embassy. Cooperation with civil society will also be intensified, while the fight against HIV/AIDS must form an integral part of all programmes. Greater priority must also be given to measures to promote democracy and human rights. These tasks will place a very considerable burden on the embassy.

Two new foreign posts were created in 2002, one for a socio-economic advisor and the other a two-year trainee post tied to the SARDP. Certain organisational changes were implemented in the autumn of 2002 in an effort to make more efficient use of available personnel. In addition, Sida will need to send out a further administrative officer to deal with some of these new/enhanced areas, which will in turn necessitate the phasing out of one of the above posts – presumably the two-year trainee appointment.



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