

The Federal Democratic Republic of Ethiopia: Joint Staff Advisory Note on the Growth and Transformation Plan 2010/11–2014/15

This joint staff advisory note on the poverty reduction strategy (The Growth and Transformation Plan 2010/11-2014/15) of the Federal Democratic Republic of Ethiopia was prepared jointly by staff teams of the International Monetary Fund and the World Bank. It is based on the information available at the time it was completed on August 15, 2011. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Ethiopia or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

**Joint Staff Advisory Note on
Growth and Transformation Plan (GTP)
(2010/11–2014/15)**

Prepared by
the Staffs of the International Development Association (IDA) and
International Monetary Fund (IMF)

Approved by
Obiageli Ezekwesili (IDA)

and

Michael Atingi-Ego and Jan Kees Martijn (IMF)

August 15, 2011

I. INTRODUCTION

1. **This Joint Staff Advisory Note (JSAN) reviews Ethiopia's Growth and Transformation Plan (GTP) for 2010/11–2014/15.** Preparation within Ethiopia took place for a year starting in September 2009 based on inputs from various government entities and a high-level Macro Economic Team in particular. Since September 2010, country-wide consultations led by senior officials were held at the regional and local levels, and those at the federal level were chaired by the prime minister. Consultative meetings also took place with private sector participants, higher education institutions, civil society organization (including professional, religious, women, and youth associations), and development partners. The consultations provided opportunities to comment on a well-informed draft, rather than a forum to rethink the parameters and architecture of the poverty reduction strategy. There was little opportunity to discuss the key goals, priorities, approaches, and financing options, but the government has indicated that the plan is subject to budget availability and it will discuss financing with the donor community. The GTP was finalized in November 2010, shortly after it had been first discussed with the Development Assistance Group on September 29, 2010. The GTP was officially circulated to donors in the spring of 2011, and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF).

2. **Building on the implementation of previous poverty reduction strategies—the Sustainable Development and Poverty Reduction Program for 2002/03–2004/5 and A Plan for Accelerated and Sustained Development to End Poverty for 2005/06–2009/10 (PASDEP)—the GTP aims to achieve the Millennium Development Goals in Ethiopia by 2015 and middle-income status for Ethiopia by 2020–23.** The GTP's objectives are to (i) attain high growth within a stable macroeconomic framework; (ii) achieve the MDGs in the social sector; and (iii) establish a stable democratic and developmental state. To accomplish these objectives, the GTP identifies the following strategic pillars: (i) sustain rapid growth; (ii) emphasize agriculture; (iii) promote industrialization; (iv) invest in infrastructure; (v) enhance social development; (vi) strengthen governance; and (vii) empower youth and women. These strategic goals are consistent with the Bank's Strategy in Africa to promote competitiveness and employment; reduce vulnerability; and enhance governance and public sector capacity.

3. **During the PASDEP period, Ethiopia enjoyed strong growth, reflecting government-led development investment, global commodity demand, and incentives for specific export sectors (e.g., floriculture).** GDP grew on average 11 percent per annum during 2004/5–2009/10, according to official estimates.¹ Initially having been led by agriculture, growth has become more broad-based, with a rising contribution from mining, services and manufacturing sectors. Although the growth performance has been encouraging, several key macro targets under the PASDEP (including exports and government revenues) were not met, and a surge in inflation and an emergence of external imbalances required policy adjustments during the period.

¹ Staffs have not been able to confirm these very high growth rates reported in the official statistics that appear to significantly overstate actual growth. Staff estimates suggest robust growth in the 7–8 percent range.

4. **This JSAN provides staffs' analysis and advice for the implementation of GTP.** The JSAN's messages have been presented at various technical subgroup discussions on specific aspects of the GTP as well as during the consultations. The main concerns stem from heavy financing needs that have not been secured, insufficient prioritization, and the limited role envisaged for the private sector. High and rising inflation and entrenched negative real interest rates also threaten Ethiopia's macroeconomic stability. The GTP identifies financing needs and some options to meet those needs, but it does not consider the various benefits and costs or feasibility of these options. The GTP's ambitious spending plans may be outstripping the absorptive capacity of the economy, which is already stretched. The financing needs for the public sector will likely crowd out private sector credit on the domestic side and strain debt sustainability on the external side. Success will also hinge on reform measures to allow room for the private sector to thrive and on maintaining a low risk of debt distress. Staffs advise that a moderated strategy—with lower government spending and more space for private sector development—would generate more growth and financing and help government achieve its own goals.

II. POVERTY DIAGNOSIS

5. **The government's emphasis on pro-poor expenditure is paying off in improved education and healthcare services.** On the education side, primary school net enrollment rose from 77 percent in 2004/05 to 82 percent in 2009/10; the primary school (grade 8) completion rate increased from 42 percent to 48 percent during this period; secondary enrollment also improved, from 33 percent to 39 percent for grades 9 to 10, and from 4 percent to 7 percent for grades 11 to 12. On the health side, the proportion of fully immunized children rose from 20 percent in 2006 to 66 percent in 2010; the percentage of births attended by healthcare workers increased from 16 percent to 29 percent during this period.

6. **Consumption and income poverty information is still unavailable.** The Household Income, Consumption and Expenditure Survey (HICES) for 2010/11 and the Welfare Monitoring Survey for 2010/11 were completed in June 2011. Data processing for those surveys hopefully will be completed by end-2011. The most recent nationally representative poverty data came from the HICES for 2004/05, but the resulting poverty analyses were only published in 2008. The Bank will collaborate with the government to analyze the HICES for 2010/11 and to update the poverty trends.

III. PRIORITY ACTIONS AND CRITICAL AREAS FOR PRO-POOR GROWTH

A. Macroeconomic Framework

7. **The GTP's growth targets are very ambitious.** While emphasizing macroeconomic stability as the primary policy objective, the GTP's base case scenario projects an average annual growth rate of 11.2 percent, the same level as the reported growth rate under the previous 5-year plan, without accounting for likely sources of growth.² This is much above the potential growth which staffs estimate to be in the range of 6–8 percent, depending on macroeconomic and

² Projected growth under the high case scenario is 14.9 percent. Historically, few countries have achieved sustained growth at the levels envisaged even in the baseline.

structural policies. Staffs note that current policies—including central bank interventions in financial intermediation, which constrain private sector credit, stiffened licensing regulations, and rising financial repression—weigh on the short and medium-term growth outlook.

8. **High inflation is undermining poverty reduction efforts.** Ethiopia currently is experiencing acceleration of inflation close to 40 percent largely due to an inappropriate monetary policy, driven by heavy monetary financing by the public sector. Single-digit inflation projections in the GTP appear unrealistic as long as a loose monetary policy and a heavy dependence of the public sector financing on bank credit continues. Present policies are contrary to the stated policy intention in the GTP that “prudent monetary and fiscal policy ensures that inflation remains single digits.” High inflation is not only constraining growth, but also represents a heavy tax burden on the poor and is eroding the gains made under the donor-funded social protection and social safety net programs.

9. **A highly distorted monetary policy represents a severe drag on growth and is undermining macroeconomic stability.** The lack of a nominal money anchor, due to the heavy use of base money for fiscal purposes, together with nominal interest rates that are kept well below inflation (contrary to the stated goal in the GTP of maintaining positive real interest rates), is contributing to a misallocation of resources and use of inflation hedges such as real estate and commodities. This, combined with intervention by the monetary authority to direct credit to priority public sectors, is leading to a much weakened intermediation role of the financial sector. The deleterious effects of these distortions call for urgent reform.

10. **The external position continues to be vulnerable.** Despite a strong trade performance in recent months, in part reflecting the impact of credit restrictions on imports, progress in export diversification has been limited. It will be a challenge to achieve the rate of expansion of agricultural, manufacturing, and service (particularly electricity) exports envisaged in the GTP without reforms to improve private sector access to credit and foreign exchange and a more favorable business environment. Undertaking the ambitious public investment in the GTP will likely lead to a surge in imports of capital and intermediate goods. Ethiopia is subject to terms of trade shocks from international food and fuel prices and to large domestic weather-related shocks, as the current East Africa drought demonstrates. Maintaining a competitive exchange rate is a challenge in the presence of high inflation and greater market-based flexibility in the nominal exchange rate would be desirable.

11. **Fiscal policy appropriately focuses on strengthening domestic revenue mobilization and increasing pro-poor spending.** However, achieving the revenue targets (increasing the revenue-to-GDP ratio by about 3 percentage points) will require further reform efforts to broaden the tax base and phase out exemptions. While fiscal deficits at the general government level are contained at broadly sustainable levels, the off-budget spending and deficit financing needs of the public sector are very large and crowd out the credit needs of the private sector.

12. **The mobilization of much higher domestic savings needed to finance the GTP is not likely.** Unless nominal interest rates are allowed to rise and monetary policy is freed from public sector dominance, public sector financing needs are likely to overwhelm the ability of the financial system and the economy in general to supply savings, especially in an environment of highly negative real interest rates.

13. **Financing the GTP through external nonconcessional borrowing would significantly increase the risk of debt distress, working against the need to attract financing on the best possible terms.** External borrowing levels that are consistent with maintaining a low risk of distress rating would be significantly lower than envisaged in the GTP. Disbursements of external borrowing are projected to average US\$2.3 billion (7½ percent of GDP) annually over the GTP period, of which about US\$500 million would be nonconcessional over the next three years and US\$585 million on average over the medium-term. Efforts to privatize public sector non-core businesses, and lower operating deficits, would offer much needed alternative financing, as would public-private partnerships in infrastructure.

14. **Staffs advise a more cautious implementation of the GTP and greater structural reform.** In the current overheated environment and with much of the financing yet to be identified, the government could achieve more of its objectives by slowing the pace of public investment, rebalancing of the growth drivers in favor of the private sector, and focusing on steps to improve the investment climate, and deregulate trade and the foreign exchange regime. Financial sector development, anchored by sound fiscal and monetary policies, is also essential to improve competitiveness durably and sustain growth. Creating more room for private sector activity would leverage the growth impact of the large public investment outlays on infrastructure.

B. Structural Reforms and Sectoral Policies

15. **The GTP's vision for private sector development could be articulated in more detailed, concrete steps.** While expansion of telecommunications and power sector infrastructure have improved the business environment, and the recent growth in construction and floriculture led by the private sector is encouraging, public enterprises still dominate economic activity. The bulk of the private sector contribution is in the services and informal sectors (including agriculture). Ethiopia's modest private sector activities suggest an untapped potential for broader-based growth. Staffs suggest reforms to improve further the business environment, including registration simplification, regulatory easing, strengthening the public private dialogue forum, liberalization of the trade and exchange regimes, and upgrading tax administration.

16. **Ethiopia's approach to industrial development is largely ineffective given the extremely low level of manufacturing and industrial development, low productivity levels, and persistent trade deficit.** Staffs advise rethinking the industrial policy as a process of collaboration and problem-solving with the private sector, and not as a collection of priorities and incentives. Policy success should be measured not just in terms of the number of incentives or the volume of exports generated, but also through the quality of the interaction fostered with the private sector and the removal of obstacles.

17. **GTP's transport infrastructure investment plan is ambitious with limited information on its implementation strategy.** For instance, the classified road network is planned to increase by 32 percent with an additional 71,500 km of *kebele* (local) roads and 2,400 km of railway. However, the authorities will face challenges in mobilizing the necessary resources and inputs (manpower and capital goods). Current projects are already experiencing delays due to shortages of key material inputs such as cement. Unless the supply chains are

eased, ramping up infrastructure construction will cause additional bottlenecks. The sector faces similar constraints regarding the supply of construction materials. New quarries and borrow area will be required, necessitating enhanced environmental safeguard controls.

18. Road maintenance financing continues to be a major challenge as Road Fund revenue remains low compared to what is required. Revenue collection arrangements remain outdated. The current arrangement was formulated in 1997, when the total road network was only 26,500 km, while the road network has almost doubled since. The situation will be more challenging with the development of the 71,500 km of Universal Rural Roads Access Program, since there is no provision for maintenance funding of those roads in the GTP. The Bank is financing a Road Maintenance Financing Study which is looking at maintenance needs and the diversification of sources of revenue for road maintenance.

19. The staffs support GTP's focus on the agriculture sector. The GTP continues the government's long-standing focus on smallholder farming and promotes stronger private sector involvement. This emphasis and strategy is appropriate given the structure of the sector and its importance for the economy, especially employment, poverty reduction and food security. Achieving the targets for agricultural development (including food security)—which should be interpreted as providing direction rather than political mandates—requires political will as well as pragmatism and flexibility.³ World Bank staff is committed to support the government in its efforts. Two considerations are crucial for success in this regard:

- The role of the private sector in agriculture is central. The GTP emphasizes private sector involvement in (primary) agriculture, in particular through attracting commercial (larger) investors.⁴ The strategy should be broadened in two directions: (i) private investments are also very important for smallholder agriculture and need to be promoted through an enabling environment including transparent input and output markets, land tenure security and effective land transactions, and also access to financial services, possibly strengthened through the ability to collateralize land use rights; and (ii) the focus on private sector involvement in primary agriculture should be matched with the same focus for the sectors supporting the inputs to and outputs from agriculture, including suppliers and traders of seeds, fertilizer and other inputs; extension and information services; and marketing, processing and trade, and agricultural produce. The strengthening of agribusiness linkages needs to focus on agricultural commodity value chains.
- The capacity of the public sector in agriculture needs to be strengthened. This holds for all key functions but the regulatory role is particularly crucial to ensure private agricultural investment and growth. The current capacity to regulate and stimulate markets and trade is limited. Also important is the capacity to provide public services and investments such as

³ For instance, the GTP plans a four-fold increase in spending on agriculture, including for food security. As expenditures for food security are currently more than half of the total and are expected to decline sharply, the planned increase in spending on core agriculture, including irrigation but excluding food security, is much more pronounced. Such a large increase in public investments is unlikely to translate into the transformation and expected growth of the sector. Given limitations to capacity, returns on these public investments would be relatively low. Lastly, large public investments in agriculture risk limiting rather than leveraging private investments.

⁴ The social and environmental risks associated with this strategy are significant and need to be managed carefully. This requires the government to strengthen its regulatory capacity.

research and extension including animal health and breeding services, soil fertility services, land administration and wider land management services, and services related to irrigation and other rural infrastructure.⁵ Monitoring and evaluation as well as planning need to be significantly strengthened in order to develop and implement the best regulatory policies and to ensure efficient and effective provision of public services and investments. The Agriculture Transformation Agency, newly established with an assistance of development partners, can play an important role in this regard.

20. **Provision of infrastructure for water supply is seriously affected by limitations in skills, technology, and implementation capacity.** For example, the development of ground water sources for multiple purposes requires high technical skills that are not readily available amongst private drillers. During the five year PASDEP period, about 4,146 wells were drilled; in contrast, GTP has stipulated about 3,000 wells per year (excluding irrigation). The authorities need to articulate a strategy for strengthening the drilling industry's capacity as well as expanding capacity to absorb the proposed increase in resources. The challenge will be exacerbated by an incomplete harmonization effort in which requirements vary across multiple financiers of the sector.

21. **The planning, designing, and executing of water, sanitation and hygiene (WASH) service delivery lacks integration or synchronization, leading to possible inefficiencies.** The GTP separates water supply from hygiene and sanitation, with the latter being couched in the health framework. An example of inefficiencies from the lack of integration is that many Ethiopian schools are equipped with toilets without a water supply. The GTP should require the integration of WASH service delivery. Staffs recommend a recommitment to the multi-sector WASH Memorandum of Understanding and the establishment of effective WASH structures at woreda and regional levels.

22. **In the energy sector, government had some important achievements during the PASDEP period, but the goals in the GTP are ambitious in their financial capital requirements, and challenging for operational and utility management.** From 2004/05 to 2009/10, Ethiopia has increased power generation capacity from 714 MW to about 2,000 MW, and the number of consumers almost doubled to about 2 million. During this period, some of the power plants took longer than expected to come on stream, and supply was outpaced by demand. As a result, the economy has suffered from blackouts and disruptions to production. In the GTP, the government plans to increase power generation capacity to about 10,000 MW and increase the number of consumers to 4 million. It also plans to provide electricity to about 75 percent of villages. To attain these targets, the government would have to invest about US\$2.2 billion a year. Most of this investment is planned to take place under the supervision of the state-run, Ethiopia Electric Power Corporation (EPPCO) while EPPCO is already facing institutional challenges: a number of operational areas need to be improved and upgraded, including their management information system, billing system (particularly for collection of revenue from dispersed rural villages), and accounting system. EPPCO also needs improved financial reporting to instill confidence in financiers about their ability as an implementing agency.

⁵ Capacity limitations for irrigation investments seem particularly stark given the limited number of skilled professionals in areas of irrigation engineering, water resource management, irrigated agriculture, etc.

Discussions are ongoing about restructuring of the sector, possibly with support from the Bank who could assist in an improved management of EEPKO's growing asset base.

23. **The staffs support the GTP's emphasis on good urban governance and strengthening the performance of urban administrations in participatory planning, financial management, and procurement.** These measures are critical to executing infrastructure projects and achieving sustainable delivery of urban services. Ethiopia's urban areas are among the fastest growing in Africa, with urban populations rising at about 4 percent a year. The staffs concur that job creation is critical, especially for women, youth, and the disadvantaged, but it is unclear without a rigorous evaluation that the strategy of pursuing labor-intensive infrastructure projects actually creates jobs.

C. Human Development

24. **The GTP makes social service delivery a top priority.** Expansion of access to basic amenities and social services has been significant in the last five years. Decentralization has played a key role; efforts to build local capacity should be continued as decentralization further unfolds. Besides enrollment expansion, indicators of education quality also suggest progress: the student-teacher ratio fell from 69 to 1 in 2004 to 62 to 1 in 2010 for primary education, and the ratio for secondary education fell from 78 to 1 to 68 to 1. Progress in schooling outcomes, however, is less definitive. The number of health posts increased from 4,211 in 2005 to 14,416 in 2010, and the number of public hospitals rose from 79 to 111 during the same period. Prenatal service coverage expanded from 46 percent to 63 percent. Maternal mortality rates fell from 871 (per 100,000) in 2005 to 590 in 2010, whilst under-5 mortality rates decreased from 123 (per 1,000) to 101 during the same period.

25. **The GTP's commitment to concurrently address the issues of equitable access to education as well as its quality is encouraging.** The government has backed up this commitment by planning to allocate a relatively high share of public expenditures to the education sector (22.5 percent). It aims at attaining the MDG goals of universal primary education by increasing the net enrolment rate of primary education from 82.1 percent to 100 percent.⁶ Similarly, it targets an increase in the gross enrolment rate for general secondary education from 39.7 percent to 62 percent, and undergraduate enrolment in public higher education institutions from 185,788 to 467,445. Given the slow pace of growth of enrolment in primary and general secondary education, a financing gap of around 20 percent in the GTP and equivalent Education Sector Development Plan (ESDP) IV, and the decrease in the share of primary education in the education budget from 48.1 percent in ESDP III to 37.0 percent in ESDP IV, there is a risk that the goal of universal primary education will not be met. To mitigate this risk measures should be taken not only to ensure that primary education is not further squeezed because of the existing financing gap, but also to increase its share by suitably modifying the financing policy within the education sector.

26. **Health sector achievements, strategic options, targets and implementation strategies outlined in the GTP are consistent with the new health sector strategic plan—Health Sector Development Plan IV (HSDP IV).** HSDP IV has been jointly assessed by all stakeholders.

⁶ Based on Educational Statistics Annual Abstract, 2009/10.

Ethiopia is the first country in Africa to use the International Health Partnership (IHP+) tool and process for Joint Assessment of National Strategy to develop and assess its health sector strategy – HSDP IV. The main concern is the funding gap in the health sector. HSDP IV has identified a large financial gap, US\$3,717 million (62,297 million birr), for the most conservative scenario to reach health-related MDGs (taking into account both government and donor funding). Yet, the government budget for the health sector is relatively small (47,098 million birr for five years).

27. **It is encouraging that overall health expenditure rose from US\$7.14 per capita in 2004/05 to US\$16.09 in 2009/10.**⁷ However, the increase came primarily from external aid and out-of-pocket payments. Only 21 percent of overall health spending during the past 4 years was from the government, in contrast to 37 percent from out-of-pocket payments and 39 percent from donors. This requires attention as (i) out-of-pocket payment will impose financial barriers on essential health services; and (ii) donor funding should not substitute government financing particularly when there is a significant financial gap for achieving MDGs.

28. **Staffs agree on the importance of the continued focus in the GTP on addressing food insecurity in moisture deficit areas.** Staffs welcome the strategic importance the GTP places on the implementation of the Productive Safety Net Program (PSNP) and Household Asset Building Program. The strategy rightly emphasizes the need to make investments in asset building, at both household and community levels, in order to build resilience against shocks. There are concerns, however, that the proposed target to reduce the beneficiary number to 1.3 million by 2014/2015 is not realistic, based on the joint analysis completed for the current phase of the PSNP (which started in 2010). This analysis, completed over a period of 18 months, led to the conclusion that the highest level of evidence-based graduation would be around 80 percent of the current public works caseload in cropping areas and that no graduation would take place in pastoral areas. However, the GTP suggests that graduation of 80 percent of the entire PSNP caseload (cropping and pastoral) would be technically feasible and sustainable. It is more likely that, as outlined in the design documentation, the PSNP will have 3.4 million clients by 2015 instead of the 1.3 million mentioned in the GTP. Likewise, there is very little analysis of what social protection instruments the balance of the PSNP caseload would be able to access.

29. **There is little reference in the GTP to principles of disaster risk management (DRM).** Commitments to promote and mainstream DRM within national development efforts are noteworthy, but no mention is made of the importance of DRM related investments to meeting the threats of drought and flood. As a result, the DRM principles are generic to the sector and not specific to Ethiopia. To ensure adequate levels of support to vulnerable households after 2015, attention should be given to the role of the PSNP and the household asset building program within the ongoing discussions related to the investment framework for DRM activities and the social protection policy.

30. **Inclusion of social protection issues in the GTP is fragmented and weak.** Rather, it focuses on traditional social welfare schemes for the elderly and disabled. The lack of a more proactive strategy for social protection is a missed opportunity to address vulnerability and poverty in a way that promotes inclusive growth. Under the PASDEP, an impressive array of social protection activities was introduced and implemented. Social protection was supported

⁷ Based on the most recently National Health Account data.

through programs such as the PSNP and the health extension worker program, and elements of social protection have been included in the management of social sector emergency responses and in small scale support to vulnerable children, disabled and elderly persons. PSNP is the largest social safety net program in Africa and transfers food and cash to more than 7.5 million individuals in food insecure households. In addition to contributing to improved food security, it also combines elements of DRM and climate adaptability and has a tremendous potential to be developed into a sustained safety net and form part of a comprehensive social protection policy for Ethiopia. Staffs recommend that a combined approach to climate change adaptation, disaster risk reduction and social protection inform the social protection and DRM policies of Ethiopia.

D. Governance and Gender

31. **The GTP articulates three strategic directions in strengthening governance, but major concerns facing public services remain.** These directions include strengthening implementation capacity; ensuring transparency and combating corruption; and ensuring participation. The GTP details how performance management will be made stronger, and recognizes challenges in improving service delivery. It also sets out plans to tackle corruption and inculcate a ‘zero tolerance’ culture. However, it does not address concerns about how to incentivize and retain public sector staff. While participation is given prominence, the GTP also does not elaborate on how the capacities of communities to hold their administrations and governments to account might be built, by stimulating demand for good governance. It is still a challenge to involve a wide range of civil society organizations in making government more accountable and service delivery more responsive. It’s important to encourage public debates of policies and promote greater openness and space for citizens to discuss and debate government’s actions.

32. **The GTP does not address issues relating to public financial management (PFM), with the exception of strengthening financial audit.** While the government has plans to continue reform processes in budget formulation and execution with the ongoing technical assistance of development partners, they do not form a part of the GTP. PFM reform should be one of the underpinnings of good governance and accountability rather than a purely technical set of reforms.

33. **The results indicators for governance can be improved.** Where progress can be difficult to measure in the area of governance, there are now opportunities for development partners and government to work together to make future monitoring frameworks more robust, and to reflect international norms and standards while incorporating the Ethiopia context and challenges.

34. **The GTP displays a strong commitment to promote gender equality but lacks an analysis of gender challenges and the role of men and boys in change.** Women are still described as a vulnerable group that needs assistance and not as a resource that could substantially contribute to Ethiopia’s development and growth. The focus tends to be on the participation of women and girls rather than on an understanding of and response to the barriers to gender parity. The specific chapter on gender equality gives only a brief view of the situation of women and girls but lacks an analysis of gender challenges and the role of men and boys in change. In terms of measuring progress, the targets outlined in the chapter narrative do not match

the stated indicators in the accompanying policy matrix. The GTP indicator matrix is not fully gender disaggregated, which will limit the information on progress.

IV. IMPLEMENTATION FRAMEWORK, MONITORING AND EVALUATION

35. **The GTP lays out in each sub-sector its strategic directions, objectives, major operational targets, and priority actions, but in many instances, the linkages between the targets and priority actions are not clear.** The staffs recommend that the strategy be complemented with a phased implementation plan which would present costed sectoral programs to drive prioritized public investments. For tracking and reporting on implementation, a focused monitoring and evaluation action plan with realistic and measurable indicators needs to be established. The envisaged GTP monitoring and evaluation action plan should define institutional responsibilities, a survey calendar, a calendar of planning, budgeting and reporting, and a funding mechanism.

36. **Poor supervision and inadequate training in survey data collection negatively impacts the data quality which forms the bedrock of an effective monitoring and evaluation strategy.** Capacity is weak systemically from field work and enumeration, to data processing and analyses. Data quality is often questionable as discrepancies between sources tend to be large and irreconcilable. For instance, the survey by World Food Program and FAO indicated a production decline of 4.5 percent in 2009/10 whereas the government's Agricultural Sample Survey showed a growth of 7 percent. Official GDP growth rates imply productivity increases that appear implausible, casting doubts on some aspects of the national accounts compilation. These shortcomings not only cloud the proper assessment of economic activity, but also introduce some uncertainties about sectoral performance. The staffs welcome ongoing efforts to strengthen the national accounts statistics and encourage the authorities to move rapidly in implementing its national accounts action plan. Staffs are committed to continuing to assist the authorities in these areas.

37. **Efficient implementation of the strategy will require continued improvements in public expenditure management.** Spending efficiency will need to be increased, particularly regarding recurrent spending. At the sectoral level, the alignment of GTP targets, the medium term expenditure and financing framework, and annual budget allocations has improved in recent years. Predictability and control in the budget at the federal level has also progressed. More effort is needed to improve cash management and to introduce program budgeting.

38. **Weak institutional and human capacity poses a major implementation risk.** Turnover rates are high in all sectors, resulting in limited institutional memory. The inadequate stock of skilled and experienced personnel at the federal, state, and local levels will slow the pace of execution, and jeopardize its efficacy. The use of public-private partnerships (PPPs) would be an important means not only to close financing gaps, but also to bring in needed expertise. Adopting PPPs could also provide some practical experience, from which the authorities could review and strengthen the legal and fiscal framework for such partnerships before markedly expanding their use, particularly for large projects.

V. CONCLUSIONS AND ISSUES FOR DISCUSSION

39. **GTP's goals are ambitious, but reflect the challenges Ethiopia faces.** Large uncovered financing needs, inadequate supporting structural reform, and lack of prioritization do however threaten the GTP's goals. Ethiopia's endeavors to improve service delivery, building on the socio-economic progress, and broad-based growth in the past few years are encouraging. Staffs caution on trying to do too much, notably on the highly ambitious public investment and growth objectives. In this regard, less could be more, particularly in the current overheating environment and with much of the financing yet to be identified. Staffs urge the authorities to consider a slower pace of public investment and a rebalancing in favor of the private sector.

40. **Ethiopia's high growth objectives would be best supported by prioritization and selectivity of its programs, a reduced public sector borrowing requirement, a reform of monetary policy, and a comprehensive structural reform agenda that deregulates trade and promotes business activity.** Specifically, staffs recommend the following actions:

- **Prioritize public sector investment based on rigorous cost-benefit analysis.** Constraints to capacity for such large spending increases will likely result in under-execution or potential losses in spending efficiency. The government should complete a realistic implementation and monitoring plan for better prioritization that would enhance the quality and success rate of implementation. There should be contingency planning in case the resource envelope is significantly smaller than envisaged;
- **Improve data quality.** Capacity is weak systemically from field work and enumeration, to data processing and analyses. Data quality is often questionable as discrepancies between sources tend to be large and irreconcilable. Training in survey data collection and supervision need to be enhanced to improve data quality which forms the bedrock of an effective monitoring and evaluation strategy.
- **Enhance implementation capacity.** Institutional and human capacities are weak. Turnover rates are high, resulting in limited institutional memory. The inadequate stock of skilled and experienced personnel at all levels will slow the pace of execution, and jeopardize its efficacy. A greater use of public private partnerships would help close financing gaps, and also bring in needed expertise.
- **Maintain fiscal prudence and continue tax reform efforts.** Tax administration reform has yielded rising levels of formal, on-budget revenue and spending has also been contained. However, financing of the budget has been overly dependent on money creation. Ambitious spending plans are in place which will likely be financed by the central bank and large quasi-fiscal operations by public enterprises are crowding out private sector credit, especially in the context of negative real interest rates;
- **Contain inflation and promote monetization.** Monetary laxness is imposing high costs on the economy through persistent negative real interest rates. The inflation tax weighs heavily on the poor, undermining progress in social protection. Low base money growth will be needed over an extended period to sustain low inflation and reduce the punitive levels of implicit taxation of financial intermediation. Financial policy correction would need to include allowing interest rates on government securities to rise, introducing market-based exchange rate flexibility, and scaling back the government's involvement in the financial system;

- **Promote competition.** It is encouraging that Ethiopia has resumed its WTO accession process. Other measures that will lower the costs of doing business, improve the investment climate, and create greater room for private sector activity to leverage the impact on growth, employment, and tax revenue include (i) removing discretionary measures such as price controls and restrictive regulatory requirements (e.g., commercial registration and business licensing proclamation); (ii) reforming public enterprise operations; and (iii) liberalizing trade licensing and the foreign exchange regime.

41. **In considering the GTP and associated JSAN, Executive Directors may wish to focus on the following issues:**

- Do Executive Directors agree with the areas identified by staffs as key implementation risks?
- Do Executive Directors agree with the areas identified by staffs as priorities for strengthening implementation?
- Do Executive Directors agree with the areas the staffs have identified as needing further analysis or adjustments?