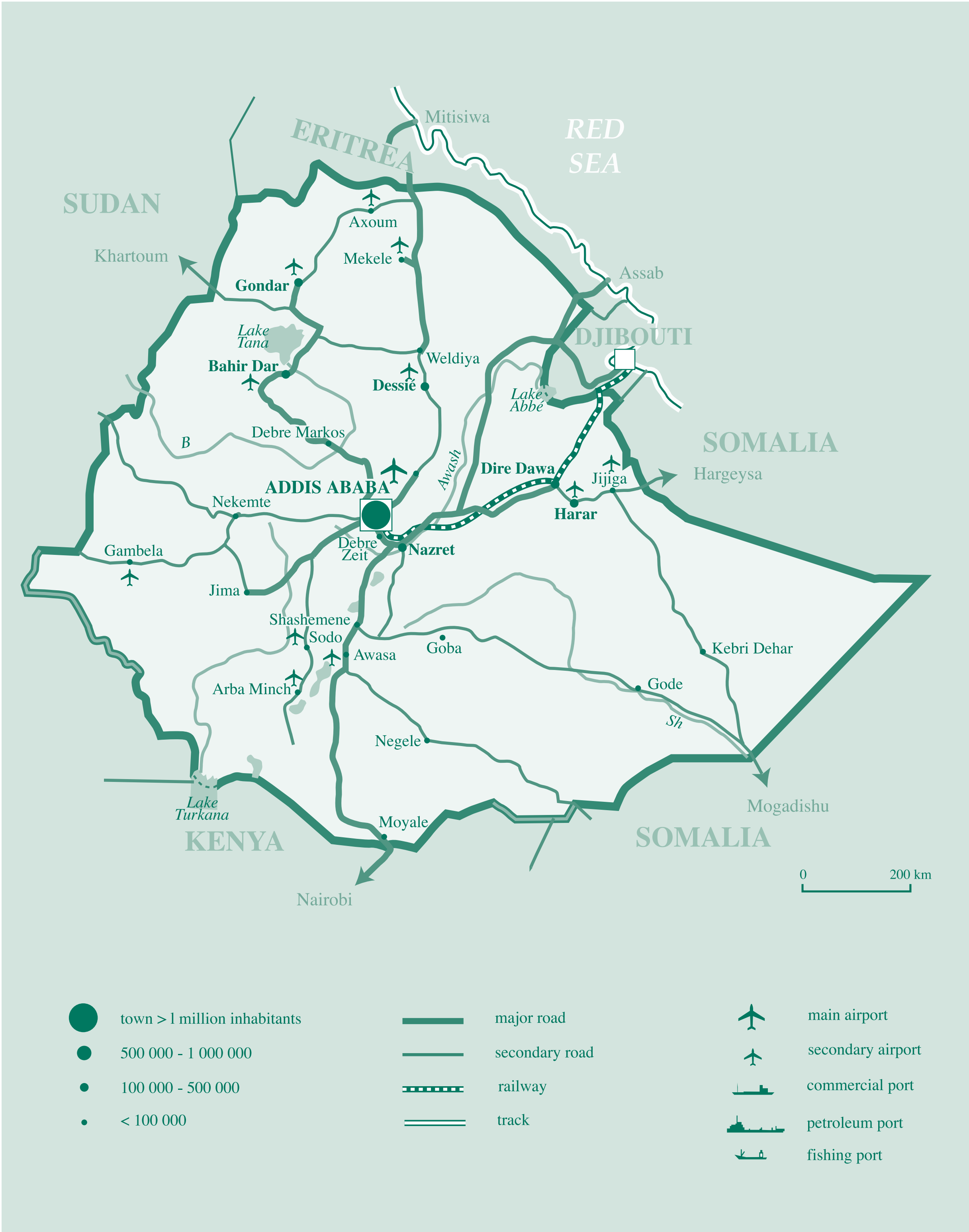
Ethiopia

key figures

• Land area, thousands of km^2	1 104
• Population, thousands (2005)	77 431
• GDP per capita, $ PPP valuation (2004/05)	1 021
• Life expectancy (2000-2005)	47.6
• Illiteracy rate (2005)	54.8

All tables and graphs in this section are available in Excel format at:
http://dx.doi.org/10.1787/312550270181

Ethiopia



Ethiopia

DESPITE FIVE YEARS OF RAPID economic growth based on sound economic policies and high levels of aid, Ethiopia remains one of the world's poorest countries, and the lingering effects of the severe drought in 2002/03 continue to be felt by many of Ethiopia's 73 million people, especially the poor. The economy is estimated to have grown at a rate of 6.8 per cent in real terms in 2004/05 and is approaching the 7 per cent growth rate needed to reach the Millennium Development Goals (MDGs). Ethiopia's successful economic policies had made it a favourite of donors. Many donors have recently suspended part of their budgetary support, however, in response to the suppression of political opposition following the May 2005 parliamentary election, viewed as rigged by supporters of the opposition.

Recent political developments have cast a shadow on Ethiopia's otherwise good economic outlook.

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)

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

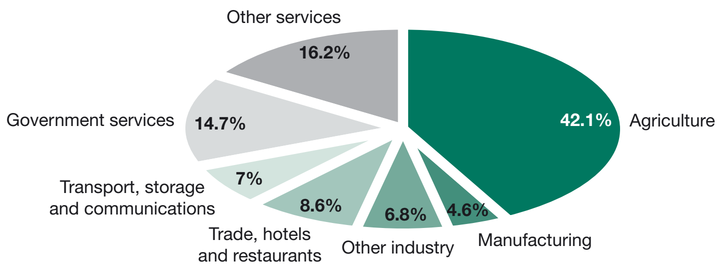
Ethiopia also faces rising tensions with Eritrea, and the risk of war is increasing. Ethiopia's economic outlook obviously hinges on a peaceful resolution of these internal and external conflicts.

Recent Economic Developments

Following unprecedented real GDP growth of 11.4 per cent in 2003/04, largely attributable to the strong recovery in agricultural production after the drought of 2002/03, Ethiopia recorded a more sustainable, though still high, growth rate of 6.8 per cent in 2004/05. This robust growth reinforced economic reform and poverty reduction efforts aimed at achieving the MDGs by 2015. The real GDP growth rate for 2005/06 is projected at 5.8 per cent, reflecting weather conditions and political uncertainties at the end of 2005. On the assumptions of favourable weather conditions and a return to political stability, Ethiopia appears to have put in place the economic policies that could enable it to achieve its objective of 7 per cent real GDP growth over the medium term.

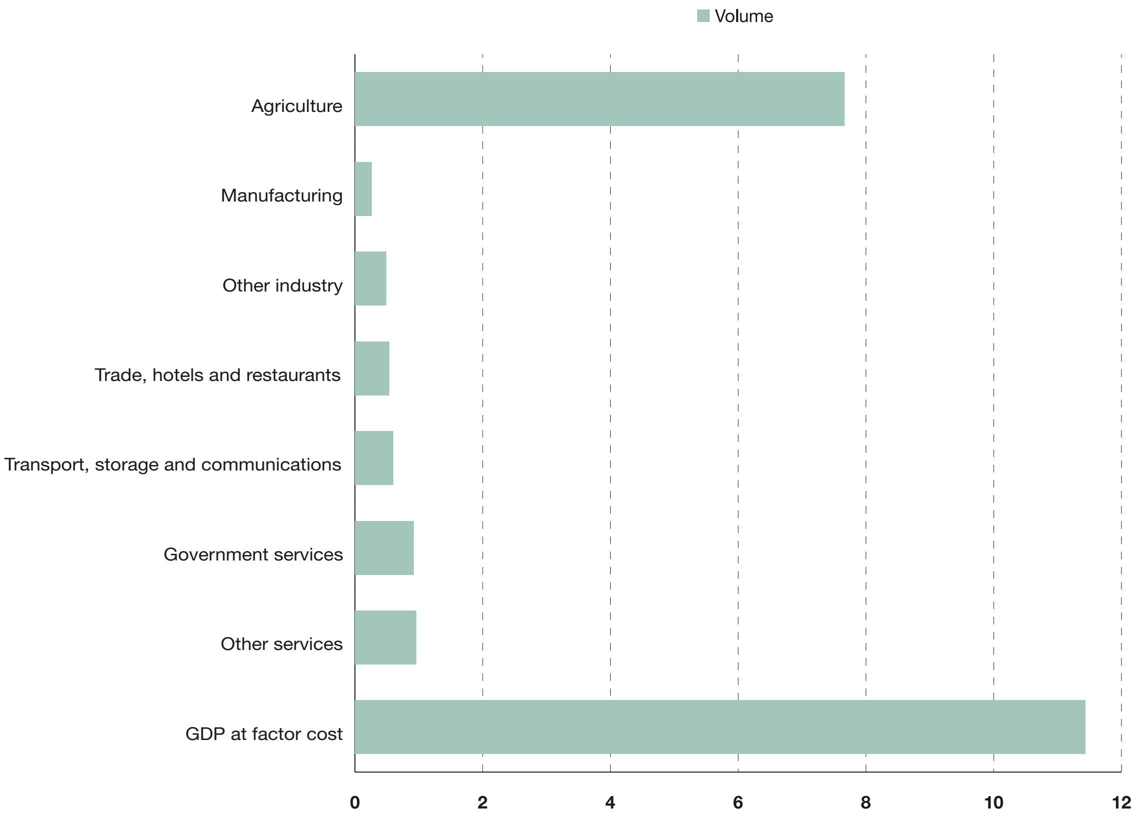
Agricultural output is estimated to have grown by 6.6 per cent in real terms in 2004/05, with the share

Figure 2 - **GDP by Sector in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

Figure 3 - **Sectoral Contribution to GDP Growth in 2004** (percentage)



Source: Author's estimates based on domestic authorities' data.

of agriculture in GDP remaining at about 42 per cent. Subject to favourable weather conditions, agricultural production is forecast to grow at an average of about 7.4 per cent in 2005/06 and 2006/07. Owing to shallow agricultural markets (partly related to the lack of roads) and Ethiopia's chronic food shortages, however, some 5 million people will continue to depend on food aid even with favourable weather conditions. At the end of December 2005, after the rains failed, it became clear that more than 1 million cattle herders in Ethiopia's eastern Somali region were facing extreme food shortages. The National Food Security Programme launched in June 2003 provides assistance to farmers in the form of seeds and extension services, small-scale irrigation and water harvesting schemes, and voluntary resettlement out of drought-prone areas. This reinforces a safety net programme already in place, which includes employment in public works and the free distribution of food to orphans, the elderly, the disabled and others who cannot work.

The government has also sought to address the insecurity of property rights and pressures on land due to population growth. The number of farming households covered by extension services rose from 4 million in 2003/04 to over 6 million in 2004/05. In addition, the Participatory Demonstration and Extension Training System (PADETS) and technical and vocational education and training (TVET) programmes were expanded. During the 2002-04 period, TVET and other programmes made it possible to train some 24 000 skilled development agents and to establish over 5 000 training centres for farmers. The government has also issued over 4 million land certificates to increase farmers' security of tenure, and has started to extend its special programmes into the pastoral areas of various regions.

In 2004/05, both industrial output and services grew by about 7 per cent in real terms, giving industry a GDP share of 11 per cent and services a 47 per cent share. Within the industrial sector, construction was the fastest-growing sub-sector, with an estimated growth rate in real terms of 9 per cent in 2004/5, mainly as a result of increased demand for private sector construction from households and businesses. It is projected that this growth rate will be slightly lower in 2005/06. Mining and quarrying activities are expected to continue to be the second major source of growth in the industrial sector, expanding at an estimated 7.8 per cent in 2004/05 and a projected 8.4 per cent in 2005/06.

As in the previous year, growth in the services sector was led by the education and health sub-sectors, which expanded by 12 per cent and 8.5 per cent respectively. The estimated growth rate of the transportation and communications sub-sector in 2004/05 was a strong 7.4 per cent, down slightly from the previous year's 8.9 per cent.

These sectoral developments reflected solid growth of private consumption in 2004/05, with the GDP share of private consumption increasing from 80.7 per cent in 2003/04 to 80.9 per cent in 2004/05. Overall consumption decreased slightly as a percentage of GDP

Table 1 - **Demand Composition**[a] (percentage of GDP)

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Gross capital formation	**19.1**	**23.5**	**22.7**	**21.3**	**23.3**	**24.7**	**24.6**
Public	6.4	7.4	8.4	7.7	8.0	8.6	8.5
Private	12.7	16.1	14.4	13.6	15.2	16.1	16.1
Consumption	**87.8**	**91.9**	**92.5**	**95.1**	**95.0**	**94.3**	**93.6**
Public	8.2	16.5	19.3	14.3	14.0	13.7	13.1
Private	79.6	75.4	73.2	80.7	80.9	80.6	80.5
External sector	**-6.9**	**-15.4**	**-15.2**	**-16.3**	**-18.2**	**-19.0**	**-18.2**
Exports	12.0	12.8	14.3	13.9	13.4	13.4	13.7
Imports	-18.8	-28.2	-29.5	-30.2	-31.6	-32.4	-31.9

a. Fiscal year begins 1 July.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

from 95.1 per cent in 2003/04 to an estimated 95 per cent in 2004/05, reflecting the slower growth rate of public consumption. The share of gross capital formation in GDP increased significantly from 21.3 per cent in 2003/04 to an estimated 23.3 per cent in 2004/05, reflecting increasing GDP shares of both private and public investment. Preliminary estimates also indicate that gross domestic savings increased from 2.3 per cent of GDP in 2003/04 to 3.4 per cent in 2004/05.

Macroeconomic Policies

Fiscal Policy

Estimates as of December 2005 indicate that recurrent and capital expenditures for 2004/05 were broadly in line with budgetary allocations. The share of total expenditure in GDP was estimated to have decreased slightly from 25.8 per cent in 2003/04 to

25 per cent in 2004/05, due to a substantial fall in the GDP share of recurrent expenditures from 15 per cent in 2003/04 to an estimated 13.9 per cent in 2004/05. Capital expenditure, however, increased from 10 per cent of GDP to an estimated 10.4 per cent during the same period. The share of total public spending allocated to poverty-oriented sectors increased from 50.3 per cent in 2003/04 to 56.8 per cent in 2004/05. These favourable trends could be reversed by higher defence expenditures, especially if the border conflict between Eritrea and Ethiopia remains unresolved and the internal political unrest continues. In 2004/05, however, the growth rate of defence spending actually slowed to 5 per cent from 6.5 per cent in 2003/04.

The share of tax revenue in GDP increased slightly to 12.5 per cent in 2004/05 from 12.3 per cent in 2003/04. It is expected that tax revenue will increase further in 2005/06, primarily as a result of increased efficiency in the tax collection system and increased receipts from import taxes, reflecting the growing share of imports in GDP. Revenue from income, profit and indirect taxes is also expected to increase significantly in 2005/06 and moderately in the medium term.

Table 2 - **Public Finances**[a] (percentage of GDP)

	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Total revenue and grants[b]	**16.7**	**20.4**	**23.0**	**22.0**	**20.2**	**20.5**	**19.8**
Tax revenue	9.5	12.6	12.1	12.3	12.5	12.7	12.6
Grants	2.7	3.9	6.7	6.5	4.6	4.7	4.0
Total expenditure and net lending[b]	**17.8**	**28.1**	**30.1**	**25.8**	**25.0**	**25.2**	**24.2**
Current expenditure	10.2	16.8	19.8	15.0	13.9	13.4	12.7
Excluding interest	*8.6*	*15.2*	*18.1*	*13.3*	*12.9*	*12.6*	*12.1*
Wages and salaries	3.8	6.0	5.9	5.0	4.7	4.5	4.3
Interest	1.6	1.6	1.8	1.8	1.0	0.8	0.6
Capital expenditure	7.6	9.7	9.3	10.0	10.4	11.1	11.0
Primary balance	**0.5**	**-6.1**	**-5.2**	**-2.1**	**-3.8**	**-3.9**	**-3.9**
Overall balance	**-1.2**	**-7.7**	**-7.0**	**-3.8**	**-4.8**	**-4.6**	**-4.5**

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

Excluding grants, the overall fiscal deficit expressed as a share of GDP decreased from 10.3 per cent in 2003/04 to about 9.4 per cent in 2004/05. When grants are included, however, the deficit increased to 4.8 per cent in 2004/05, although this is still below previous levels. Ethiopia currently receives about $1.9 billion of aid per year, including about $700 million in emergency assistance. Aid accounts for up to one-third of government revenue. Official estimates for 2005/06 and beyond project expenditure to increase at higher rates than revenue, but the overall deficit including grants is projected to narrow owing to an increase in grants. This optimistic scenario depends, however, on the current review of aid programmes by major donors, a positive outcome of which is contingent on the resolution of the political conflicts noted above.

Monetary Policy

Ethiopia's monetary policy continues to focus on ensuring price and exchange-rate stability while maintaining a macroeconomic environment conducive to economic growth. The drought of 2002/03 led to a spike in the inflation rate to 15.1 per cent. Inflation declined to 8.6 per cent in 2003/04 and 6.8 per cent in 2004/05, as favourable weather conditions reduced pressure on food prices. In keeping with the objective of moderating inflation, the broad money supply was allowed to grow at 19.6 per cent in 2004/05, leading to growth in liquidity of 14.7 per cent. Over the medium term, the inflation rate is expected to stabilise at about 5 per cent, assuming continued prudent fiscal and monetary policies and normal weather conditions.

The National Bank of Ethiopia (NBE), Ethiopia's central bank, maintained its minimum interest rate on savings deposits at 3 per cent and its minimum lending rate at 7 per cent. Public and private commercial banks have much higher differentials between savings and lending rates, suggesting a lack of competition in the financial market.

The restructuring of the Commercial Bank of Ethiopia has improved service delivery and reduced the share of non-performing loans from about 35 per cent in June 2004 to 27.2 per cent by the end of June 2005. The NBE plans to increase credit to both the government and the private sector in 2005/06. Although balance-sheet problems persist in the financial sector, the role of private banks has been increasing in the last three years. The share of private banks in the deposits, new loans and outstanding credit of the total banking system reached 25, 48 and 32 per cent respectively at the end of 2004/05. About 86 per cent of the new loans were extended to the private sector. Increased financing of agricultural co-operatives has been a particularly encouraging trend. The successful repayment by three co-operatives of loans provided through a pilot programme for importing fertilisers in bulk enabled the government to extend the programme to include nine co-operatives in 2005/06. More private banks are showing interest in becoming involved in such ventures.

External Position

Ethiopia's current account deficit (excluding imports of aircraft) doubled during 2004/05, largely as a result of higher import prices, in particular for oil and steel. The share of the trade deficit in GDP is estimated to have increased from 20.4 per cent in 2003/04 to 21.8 per cent in 2004/05, mainly due to import price increases. Although the value of exports – principally coffee, pulses and oilseeds – increased significantly, the share of merchandise exports in GDP is estimated to have remained stable at 6.2 per cent.

Inflows of foreign direct investment (FDI) inflows decreased marginally in 2004 to 32.7 per cent of gross fixed capital formation, following the sharp increase from 20.5 per cent in 2002 to 34.2 per cent in 2003. As a result of these relatively large inflows, the stock of FDI increased from 15.5 per cent of GDP in 2000 to 31 per cent in 2004, which is above the 27.8 per cent average for Africa as a whole.

Table 3 - **Current Account**[a] (percentage of GDP)

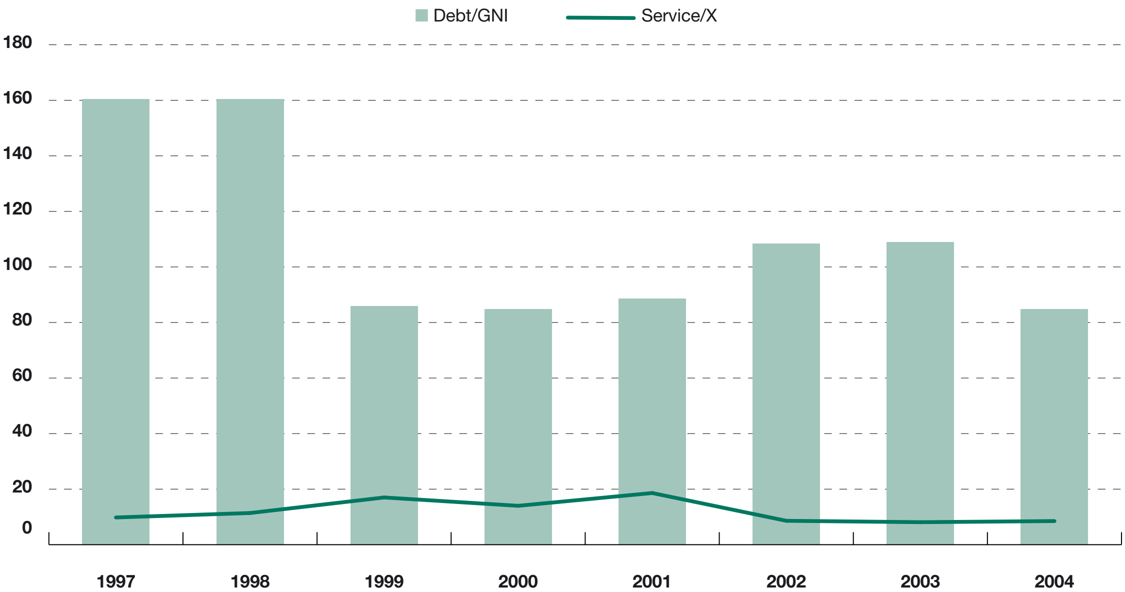
	1996/97	2001/02	2002/03	2003/04	2004/05(e)	2005/06(p)	2006/07(p)
Trade balance	-8.2	-16.8	-17.3	-20.4	-21.8	-22.5	-22.0
Exports of goods (f.o.b.)	6.9	6.1	6.1	6.2	6.2	6.2	6.3
Imports of goods (f.o.b.)	-15.1	-22.9	-23.4	-26.6	-28.0	-28.7	-28.3
Services	1.2	2.1	2.1	3.2			
Factor income	-0.4	-0.7	-0.3	-0.7			
Current transfers	5.6	10.6	13.8	12.7			
Current account balance	**-1.8**	**-4.8**	**-1.7**	**-5.1**			

a. Fiscal year begins 1 July.
Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

In 2004/05, Ethiopia obtained debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, amounting to $84.3 million, or 1.1 per cent of its GDP. Following the Group of Eight (G8) agreement on multilateral debt relief in 2005, Ethiopia's external debt is expected to decline further. Its high aid dependency remains a concern, and the severe shift in the country's overall balance of payments from a surplus of $226.5 million in 2003/04 to an estimated deficit of $101.7 million in 2004/05, due mainly to the sharp increase in oil prices, poses a significant financing challenge.

Ethiopia's official exchange rate continues to be determined through daily wholesale inter-bank foreign exchange auctions. The birr depreciated slightly by 3.6 per cent in 2004/05. The average difference between the official and parallel market rates has remained stable

Figure 4 - **Stock of Total External Debt** (percentage of GNI) **and Debt Service** (percentage of exports of goods and services)



Source: IMF and World Bank.

at about 1 per cent. Strict foreign exchange controls limit exchange-rate movements. The NBE's holdings of international reserves rose by $17 million, remaining equivalent to almost four months of imports of goods and services.

Structural Issues

Recent Developments

Ethiopia has been implementing various legal and regulatory reforms in nearly all sectors, including a reduction in the time required to clear customs, and a reduction in the time required to obtain a business licence, which have been accompanied by an increase in domestic and foreign private investment (including by overseas Ethiopians). The World Bank report *Doing Business in 2006* ranks Ethiopia 101st out of a total of 155 countries and 10th among the 36 sub-Saharan African countries covered. All nine higher-ranked sub-Saharan African countries have significantly higher GDP per capita levels than Ethiopia. Of the ten areas covered in the report, Ethiopia ranks lowest in those related to property registration, investor protection and international trade.

With funding support from donors, the government supports the development of small and medium-sized enterprises through capacity building, industrial zoning and development of micro-finance institutions (MFIs). The number of recipients of MFI loans increased from 461 326 in 2001 to about 1.2 million in 2004/05, and the value of outstanding loans rose from about $37 million to over $170 million over the same period.

The government has privatised a total of 221 units[1] since 1994, and 19 of these operations were completed in 2004/05. Two additional enterprises have been leased and another has been placed under a management contract. Nevertheless, as of June 2005, 146 enterprises remain in the public sector. The government has also established a comprehensive competition policy. The greater availability of affordable land for businesses

1. Some large enterprises were split up (at the request of buyers) to make them more affordable and hence easier to market; as a result, the number of enterprises sold may not tally with the number of units.

through competitive lease auctions has also contributed to private sector growth. Horticulture is one of Ethiopia's private sector successes. It has attracted $300 million in foreign investment and created employment in rural areas as well as generating additional export earnings, valued at $4 million in 2003/04.

There has also been progress in power generation, the provision of clean water and the expansion of telecommunications. The generation of hydro-electricity is increasing after a significant decline due to the lack of rainfall in 2002/03. Power output grew by 7.1 per cent in 2003/04 and 6.5 per cent in 2004/05. Currently, hydro-electricity accounts for about 98 per cent of total power production. Although Ethiopia is endowed with a large potential for electric power generation from hydropower, solar power and wind power, per capita energy consumption remains among the lowest in sub-Saharan Africa. Hence, Ethiopia needs to continue with its recent efforts to expand hydropower, especially on the Gilgel Give and Tekeze rivers.

The period from mid-2002 to mid-2005 saw a major expansion of urban and rural water supplies, including the construction and rehabilitation of water facilities in 83 towns with a combined population of 1.6 million and the construction of about 160 000 wells and rural water schemes serving about 5 million people. The number of people with access to clean water increased from about 20 million in mid-2002 to about 26.6 million by mid-2005. Telephone coverage has also expanded sharply, from about 400 000 lines in mid-2002 to over 1 million by mid-2005. During the same period, the Ethiopian Telecommunications Corporation (ETC) has sought to expand access to telecommunications services in rural areas, where about 300 towns and 3 000 villages have been connected in recent years. Prospects for 2005/06 and beyond are favourable for further expansion of telecommunications access through structural reform in the sector.

Transport Infrastructure

Ethiopia's road network expanded from 24 970 km in 1997 to 36 496 km in 2004, for an average annual growth rate of close to 6 per cent. Road density has increased from 24.1 km per 1 000 sq km in 1997 to 33.2 km per 1 000 sq km in 2004.

The railway system consists of a 781-km single-track corridor from Addis Ababa to Djibouti, of which 709 km are in Ethiopia. Rail transport operations are carried out by the Chemin de Fer Djibouti-Ethiopien (CDE), which is jointly owned by the governments of the two countries under a 1981 treaty. The rail corridor, which dates from 1917, has lost competitiveness, especially since Ethiopia has begun to improve its road network. The railway's freight volume fell from a high of 336 000 tonnes in 1986 to a low of 207 000 tonnes in 2002, and the number of passengers fell from 1 million in 1986 to 501 000 in 2002.

Although a land-locked country, Ethiopia has a state-owned maritime transport company, Ethiopian Shipping Lines (ESL), which provides shipping services to various European ports, as well as to ports in Northern Africa, East Africa, the Middle East and the Far East. ESL owns 12 ships in all; 10 of these are operational, with a cargo capacity of 112 834 gross registered tonnes. The government of Ethiopia liberalised its freight forwarding and shipping services in 1997, and today there are about 36 companies involved, including the state-owned Maritime and Transit Services Enterprise (MTSE).

Ethiopia has a well-established, internationally recognised state-owned airline in Ethiopian Airlines, which serves 22 domestic destinations, 24 destinations in 23 other African countries and 17 destinations in 14 non-African countries in Asia, Europe and North America. Another 62 international destinations are served via partnership agreements with other airlines. In addition to various African hubs, Ethiopian Airlines has three non-African hubs (Rome, New Delhi and Bangkok) for onward international connections. Ethiopian Cargo, which started operating in 1962, provides an all-cargo service from Addis Ababa to nine international destinations: Brussels, Djibouti, Dubai, Entebbe, Jeddah, Johannesburg, Mumbai, Nairobi and Rome. In addition to Ethiopian Airlines, there are ten international airlines operating regional and international flights to and from Addis Ababa. The airport in Addis Ababa is regularly upgraded and serves as a major regional hub for a variety of airlines. It has a new runway, new taxiways, a modern terminal and upgraded communications and safety facilities. The international airport in Dire Dawa is also used by some international airlines. With a view to attracting more tourists, the government has recently upgraded domestic airports by building terminals and runways in five tourist destination towns.

Roads are the primary mode of transport in Ethiopia, carrying about 90 per cent of total traffic. About 65 per cent of the road network is in good to fair condition. In rural areas only 17 per cent of the population lives within two km of an all-weather road. The density and quality of the transport network in Ethiopia remain largely inadequate to support economic development, especially given the importance of agriculture.

Prior to Eritrea's independence in 1993, Ethiopia had two major ports, Assab and Mitsiwa, on the Red Sea coast, which accounted for about 93 per cent of its international trade. The port of Djibouti, which operated as a free port, handled the remaining 7 per cent. Since the 1998-2000 border war with Eritrea, the bulk of Ethiopia's imports and exports have been shipped through Djibouti and, to a lesser extent, Kenya and Sudan.

Ethiopia reorganised government oversight of the transport sector in 2005. The responsibilities of the former Ministry of Infrastructure Development have been split among seven ministries and authorities: *a)* the new Ministry for Transport and Communication; *b)* the previously existing Ministry of Urban Development and Works, which was charged with oversight of electric power and road construction; *c)* the Transport Authority, which now includes the previously independent Urban Transport Authority; *d)* the Railway Regulatory Authority; *e)* the Aviation Authority; *f)* the Airport Administration Authority; and *g)* the Maritime Regulatory Authority. These central ministries and authorities are responsible for planning, implementing and co-ordinating their respective statutory activities with their respective regional offices. In addition, regional road authorities are responsible for rural roads, while municipalities are responsible for urban roads.

With the ultimate aim of privatising road transport services (trucks, buses etc.), the government recently opened the market to private operators, who were granted tax exemptions, credits and other investment incentives to increase capacity. However, government agency vehicle fleets, public bus companies and a variety of other parastatal transport service providers still dominate the road transport sector. The railroad, airline and maritime shipping lines continue to be operated by government monopolies.

The Ethiopian government formulated a ten-year Road Sector Development Programme (RSDP) in 1997, which was implemented with substantial donor support. The first phase of the RSDP, covering 1997-2002, focused on the rehabilitation of essential highways and on major policy and institutional reforms. The second phase (2002-07) aims at expanding the road network, with a view in particular to connecting rural areas.

Other important components of the second phase of the RSDP include: *a)* establishing a commercially oriented road authority at national level; *b)* strengthening the capacity of rural road authorities and districts (*woredas*) in order to enhance decentralised service delivery for rural travel and transport; *c)* commercialising and decentralising district maintenance organisations; *d)* increasing the role of private construction companies in road contracts; and *e)* increasing funding for road construction and maintenance. The goal of greater participation by domestic construction firms is constrained by the limited capacity of such firms, especially when it comes to large-scale projects.

Government funding for investment in and maintenance of the transport network in general, and roads in particular, is inadequate. It has been estimated that actual maintenance expenditure meets only 53 per cent of requirements. The transport sector accounts for 11 per cent of public spending, and total expenditure on roads for only 9.5 per cent. Taxation provided about 31 per cent of total public spending on transport in 2004.

Investment in Ethiopia's transport infrastructure is funded mostly by donors, especially the African Development Fund (ADF), the Arab Bank for Economic Development in Africa (BADEA), the European Commission (EC), Germany, the International Development Association (IDA), Ireland, Italy, Japan, the Nordic Development Fund (NDF) and the United Kingdom. The maintenance costs of transport networks, in contrast, are largely covered by domestic resources (84 per cent), mostly raised at the local level, with a growing role for user charges. In 2003/04, user charges generated about 50 per cent of the total financing in this regard. Municipal governments, Addis Ababa in particular, have borne an increasing share of road maintenance costs. Where railroad and airport operations are concerned, in 2003/04 subsidies covered respectively 80 per cent and 53 per cent of the costs.

Political and Social Context

The peace agreement signed with Eritrea in December 2000 never fully resolved the tensions between the two countries. The April 2002 ruling of the independent Boundary Commission has yet to be implemented, and the border issue is now threatening to ignite another war. In November 2005, Eritrean President Isaias Afwerki restricted helicopter flights by United Nations (UN) monitors along the border, and in December 2005 he expelled 180 UN peacekeepers. There are clear signs of a new build-up of armed forces in freshly dug trenches along both sides of the 915-km border. As of end-December 2005, 130 000 soldiers on the Ethiopian side and 250 000 soldiers on the Eritrean side were massed at the border[2].

The events that followed the national parliamentary elections of May 2005 threaten to reverse the considerable progress made towards democratisation. The achievements to date include decentralisation of authority from the regional to the *woreda* (district) level and noteworthy strengthening of the judicial and court systems, mainly through training of judges and creation of new and improved courts. Elections have featured increasing civic participation and provided opposition parties and political commentators with ample opportunity to disseminate their political positions and views effectively through the public and privately controlled media. As a result, participation in the May 2005 elections exceeded 95 per cent of registered voters.

The aftermath of the election, however, has been disastrous. The victory of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) has been rejected by the opposition as fraudulent. According to the official results, the opposition carried 175 of 547 seats in Parliament – a substantial increase over the previous figure of 14 seats – and gained control of the Addis Ababa city administration, but this was judged to be far below what they had actually won. In November 2005, supporters of the opposition party filled the streets of Addis Ababa to protest against these results. Dozens of people, including women and children, were killed when security forces fired into the crowds. In subsequent weeks, the police jailed at least 15 000 protesters and 130 senior opposition figures. Following this brutal crackdown, western development officials announced at the end of December 2005 that they would withhold $375 million (about 10 per cent of total government revenue) in direct budgetary support to the Ethiopian government.

These events are jeopardising the progress achieved in economic development and poverty reduction under Ethiopia's first Sustainable Development and Poverty Reduction Programme (SDPRP) from 2002/03 to 2004/05, and undermining prospects for the new Plan for Accelerated Sustainable Development to End Poverty (PASDEP). The PASDEP is intended to be a five-year programme, covering the 2006-10 period. It was carefully formulated, with two rounds of consultations with civil society and development partners, and took into account the results of: *a)* the recent household income, expenditure and consumption survey; *b)* a number of background papers and studies prepared by various government ministries and independent

2. See *The Seattle Times*, 28 December 2005.

Ethiopian experts; and *c)* several major recent studies, including the Millennium Development Goals Needs Assessment for Ethiopia.

Even if the recent political strife is resolved peacefully, Ethiopia will still have a long way to go in reducing poverty. Although some social indicators have improved, especially with regard to health and education, the latest available data seem to indicate that poverty has actually increased recently in Ethiopia, probably reflecting the aftermath of the severe drought in 2002/03. Ethiopia ranked 170th out of 177 countries in the UNDP's 2005 human development index (HDI), even though its HDI rating had improved significantly from 0.29 in 1985 to 0.37 in 2003. Ethiopia also scored poorly on the UNDP gender-related development index (GDI) for 2005, ranking 134th out of 140 countries. Women's earnings amount to only 52 per cent of men's. The government launched a National Action Plan for Gender in 2004/05, but more energetic efforts to redress gender inequalities will be needed.

Following the completion of the first Health Sector Development Programme (HSDP-I) in 2002 and the second (HSDP-II) in 2005, the recently formulated HSDP-III is aimed at achieving the health-related MDGs. The strategy adopted is to improve health delivery, especially in rural communities, with particular attention to malaria, tuberculosis and HIV/AIDS as well as infant and maternal care and reproductive health services. Per capita daily government expenditure on health increased from about $1.4 in 2001/02 to about $2.2 in 2004/05. Some important progress has been achieved as a result of these efforts. In 2004/05, overall health coverage was estimated at 64 per cent, a significant increase from the 45 per cent and 57 per cent coverage observed in 1997 and 2002 respectively. The per capita utilisation rate increased from 27 per cent in 2000 to 36 per cent in 2004/05. Immunisation of children has increased from 27 to 60 per cent, pre-natal coverage from 29 to 41 per cent and the use of contraceptives from 13 to 23 per cent among married women 15-49 years of age. Tuberculosis prevention and control coverage among married women rose from 20 per cent in 2001/02 to 76 per cent in 2004/05.

With a rate of adult HIV/AIDS prevalence at a national average of 4.4 per cent (as of 2003), the incidence of HIV/AIDS is relatively low in Ethiopia compared to other East African countries, but it is considerably higher in urban areas, where the prevalence rate among pregnant women has averaged an alarming 12-13 per cent since the mid-1990s. The adult prevalence rate rose from 1.9 per cent in 2000 to 2.6 per cent in 2003 in rural areas, where some 85 per cent of the population lives. With about 1.5 million people living with HIV, Ethiopia faces a considerable task if it is to provide adequate treatment, care and support to them and their families. As of mid-2005, fewer than 10 per cent of people in need of antiretroviral treatment had received it, despite the government's policy aimed at increasing availability. Ethiopia has improved its HIV/AIDS tracking, measurement and prevention programmes. It has also launched programmes to control mother-to-child transmission of HIV/AIDS, ensure blood safety and combat other sexually transmitted diseases.

Provision of adequate health services in relation to communicable diseases faces a number of obstacles: *a)* poor retention and deployment of inefficient medical staff; *b)* weak co-ordination and communication; *c)* a shortage of medical supplies; *d)* a greater share of the health budget spent for tertiary curative services; and *e)* a lack of a common implementation procedure among donors and the government.

The Education Sector Development Programme (ESDP) aims to achieve universal primary education by 2015 with a strategy based on decentralised management, cost-sharing mechanisms at the secondary and tertiary levels, and private-sector involvement. In 2003/04, the overall primary school enrolment rate was 68.4 per cent, while that of girls was 59.1 per cent. Encouraging signs are the participation rates of girls in both secondary (47.5 per cent) and higher education (23 per cent). Although the overall literacy rate of the population remains a dismal 36 per cent (national sources), Ethiopia is on track to reach the education-related MDGs by 2015. Continued progress will depend on whether the country can address major obstacles such as the shortage of qualified teachers and the high student/teacher ratio.