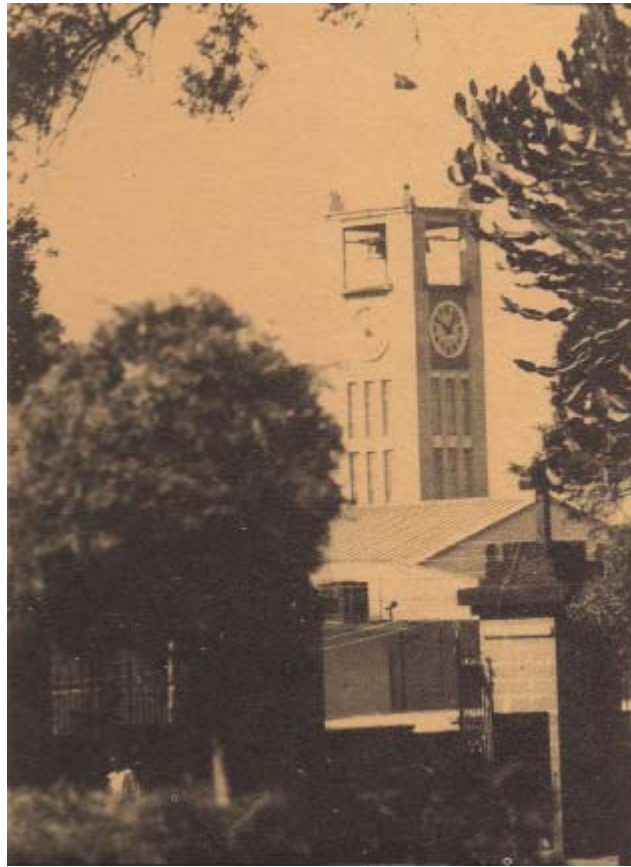


FORUM FOR SOCIAL STUDIES

POVERTY DIALOGUE FORUM

Consultation Papers on Poverty No. 6



Government, Donors and Poverty Reduction in Ethiopia

*Edited by
Meheret Ayenew*

**Addis Ababa
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The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of FSS or its Board of Advisors.

Table of Contents

Introduction	1
Meheret Ayenew <i>Coordinator, Poverty Dialogue Forum</i>	
Government and Poverty Reduction in Ethiopia	3
H.E. Ato Mekonnen Manyazewal Minister of State <i>Ministry of Finance and Economic Development</i>	
The World Bank and Poverty Reduction	7
Mr. William James Smith <i>The World Bank</i>	
Netherlands Development Cooperation and Poverty Reduction	10
Mr. Jeroen Verheul <i>The Royal Netherlands Embassy</i>	
Summary of Discussions	13

Introduction

This is the sixth and last issue of the *Consultation Papers Series* that FSS has published as part of its Poverty Dialogue Forum. The theme of the sixth public discussion is **Government, Donors and Poverty Reduction in Ethiopia**, and it is part of a program that FSS has been running on poverty and poverty reduction in Ethiopia for the past ten months. Each workshop provided an appropriate forum for a cross section of civil society to engage in meaningful dialogue on poverty and poverty reduction in this country.

The focus of discussion of FSS' Series of Poverty Dialogues has been the Interim Poverty Reduction Strategy Paper (I-PRSP), which the Government of Ethiopia had submitted to the World Bank and the IMF. The public discussions have provided appropriate forums for different stakeholders, including the government, the business community, donors and civil society organizations to conduct a meaningful dialogue on enhancing their participation in the PRSP process. Apart from sensitizing the Government of Ethiopia about the need for civil society participation, the public discussions have also generated constructive suggestions to improve the poverty reduction policy document.

This edition contains the three papers presented to the workshop held on 7 December 2001. A distinguished representative of panelists from the Government of Ethiopia, the World Bank and the Development Cooperation of the Royal Netherlands Embassy shared their views on the aims and objectives of the PRSP, and emphasized the need to encourage as much public participation as possible in the preparation and implementation process of the anti-poverty strategy program. They addressed the issue of poverty and poverty reduction in Ethiopia and no doubt that their views and experiences will provide fresh inputs for improving the PRSP of the Ethiopian Government

Poverty is one of the most serious challenges that threatens the very fabric of our society and nation. The problem of poverty has reached alarming proportions both in rural and urban Ethiopia and requires the combined efforts of the government, donors and civil society to reduce it. One of the critical requirements for a successful poverty

reduction policy is open public dialogue on the scope and magnitude of poverty and measures to alleviate the problem. FSS believes that Ethiopia's war on poverty should be guided by this conviction to involve broad and sustained public participation in the preparation and implementation of a national policy on poverty reduction.

The Forum for Social Studies (FSS) is the first independent civil society organization to initiate a national debate on the multi-faceted nature of poverty and poverty alleviation in this country. Towards this end, we have been running a program of public debates, consultations and research on the problems of poverty and poverty reduction in Ethiopia for nearly a year now. These workshops have brought together representatives from the government, the business community, bilateral and multi-lateral aid organizations, NGOs, trade unions, professional associations and the poor themselves, to address the issue of poverty and poverty reduction in Ethiopia. The panelists representing the different organizations shared their experiences on the problem of poverty and its eradication. The papers presented in the workshops and summaries of the general discussion have been published in the form of Consultation papers series. Up to now, we have published five consultation papers and disseminated them to government policy makers and all stakeholders engaged in fighting poverty. This is the final and six one. In addition, FSS will publish a consolidated summary of the discussions and debates on poverty and poverty eradication in Ethiopia and disseminate the same to all relevant stakeholders.

FSS took the first step towards promoting public debate on poverty and poverty reduction by distributing copies of the government's I-PRSP to a much wider audience that included government policy makers and all interested stakeholders. In addition, FSS has also been broadcasting a radio program of public discussions on poverty to further encourage the participation of a wide spectrum of civil society in the policy process on poverty and poverty alleviation. These different initiatives have created greater awareness about the need for civil society participation in public policy issues, including policy on poverty alleviation. Apart from sensitizing the government about the need for civil soci-

ety participation in the PRSP process, our endeavors so far have motivated many other civil society organizations to take up the cause of poverty and its alleviation as urgent matters of national concern.

In addition to the public discussions, FSS has also launched a research program to conduct an in-depth study of the causes and dimensions of poverty in rural and urban Ethiopia. A group of researchers has been designated to assess the impact of selected government policies in reducing poverty and provide policy inputs for a more effective strategy to mitigate its effects. The findings of the research on poverty management and their policy

implications will be presented to a one-day public symposium scheduled to be held in early March, 2002.

FSS would like to thank the Frederick Ebert Stiftung of Germany who have generously funded the six **Poverty Dialogue Workshops** and covered the cost of publication of our consultation papers series on poverty and poverty eradication.

Meheret Ayenew
Editor



Government and Poverty Reduction in Ethiopia

H.E. Ato Mekonnen Manyazewal

Minister of State

Ministry of Finance and Economic Development (MoFED)

Background

Ethiopia entered the 1990s with serious political and economic challenges. The collapse of the Derg regime entailed a challenging political transition to be worked out. The drawn-out and intensified internal conflict as well as the inappropriate socio-economic policies pursued in the 1980s produced one of the most acute socio-economic crises in the nation's history. Besides the loss of life, the war consumed huge resources which could have been used for socio-economic development and poverty reduction. The war destroyed social and economic infrastructure. People were displaced as a result of war and drought, which has become a recurring phenomenon. The economy faced serious macro-economy imbalances and balance of payment crisis, which affected utilization of existing production capacity especially in the manufacturing sector. In the process, the structural problem of the economy became severe.

Faced with this stark reality, the Transitional Government of Ethiopia had no option but to engineer an appropriate political and economic transition plan to deal with the challenges. Accordingly, economic rehabilitation and fundamental reform measures were taken from 1991/92. These reforms were aimed at:

- ò Jump-starting and stabilizing the economy through emergency economic reconstruction;
- ò Reorienting the command economy to market economy;
- ò Rationalizing the role of the state in the economy;
- ò Devolving power and empowering people for participatory development (i.e. federal system of government);
- ò Creating a legal, institutional and policy environment to enhance private sector investment.

The cumulative effect of the reform measures so far have contributed to stabilizing and reversing the stagnation in economic growth of the 1980s and has set the stage for broad-based economic growth and poverty reduction. Since fiscal year 1992/93, real GDP showed an annual average growth rate of

more than 5 per cent compared to close to 2 per cent in the 1980s. Prudent fiscal and monetary policy has helped to attain and maintain a stable macroeconomic environment. The exchange rate was stable and inflation was contained below 5 per cent. The rationalization of the role of the state and the prevalence of peace and stability have also helped to reorient public expenditure towards economic and social infrastructure development. As a result, progress has been noted in the social sectors. In fiscal year 1999/2000, primary school enrollment, girls school enrollment, health coverage and water supply have reached 51%, 35%, 52% and 28% respectively.

Here, it is important to note that the socio-economic development process that began to show positive results has come under pressure following the Eritrean aggression. The war caused an increase in defense spending and diverted the government's focus towards the war effort to defend the sovereignty of the country. The war also strained Ethiopia's cooperation with the donor community, though unfairly.

This problem was further compounded by two factors i.e. a three-year severe drought requiring the government's emergency management and the deterioration in Ethiopia's terms of trade, especially due to the collapse of coffee prices in the world market and a rise in the price of petroleum. Export earnings from coffee declined from 420 million US dollars in fiscal year 1997/98 to 175 million US dollars in fiscal year 2000/01. On the other hand, during the same period Ethiopia's import of oil rose from 143 million US dollars to 275 million US dollars. This has combined to produce pressure on the balance of payment situation of the country and threatened the hard won macroeconomic stability and hence conditions for sustained growth and poverty reduction.

The Challenge Ahead

Notwithstanding the positive socio-economic results of the last several years, ensuring food security, provision of health, education, water supply services and other basic needs still present daunting and challenging tasks for the Government and the

people of Ethiopia. Therefore, the government's primary development goal remains to be attaining sustained economic growth and poverty reduction. In comparison to many Sub-Saharan countries, Ethiopia is at the bottom of the scale in terms of many socio-economic indicators and this shows the enormity of the task.

The immediate task in the post-war period was that of facing the task of rehabilitating, reconstructing and strengthening the macroeconomic framework while continuing to address the overall development challenge of broad-based economic growth and poverty reduction. With respect to rehabilitation and reconstruction, the government has already prepared an emergency program that is under implementation. With respect to macroeconomic stability and increasing economic growth, the government has renewed its economic reform program with the IMF and the World Bank for the period 2000/01 - 2002/03. The government has also prepared an Interim Poverty Reduction Strategy Paper (I-PRSP). The I-PRSP is not viewed as a new initiative in the Ethiopian context, but rather as a broad continuation of the economic growth and poverty reduction strategy that Ethiopia has been pursuing in recent years.

The I-PRSP makes particular reference to the main pillars of poverty reduction in Ethiopia, including Agricultural-Development Led Industrialization (ADLI), judiciary and civil service reform, decentralization and empowerment, and capacity building. Key poverty-oriented development programs in agriculture, education, health (including HIV/AIDS), and roads are also included in the strategy paper.

Ethiopia's Overall Development Goal and the Poverty Reduction Strategy Paper (PRSP)

Ethiopia's development policies and strategies have from the outset been aimed at reducing poverty. Hence, there is no doubt about the government's commitment to poverty reduction.

The level of poverty in rural areas is higher than urban areas. Available statistics show that 47 per cent of the people who live in rural areas are poor while the figure is 33 per cent for urban areas. Thus, the Agricultural Development Led Industrialization (ADLI) strategy and the sector development programs being implemented in education, health, road, water, etc. since 1997/98 have been adopted with the overriding objective of sustained

economic growth and poverty reduction and its ultimate eradication. Concurrent efforts have also been taken in areas of civil service reform, capacity building, and decentralization and empowerment. The PRSP, which has come about in the midst of these on-going positive developments, would help further strengthen our implementation capacity of strategies and programs that are already in place.

Poverty reduction has been and still is at the core of the overall development agenda in Ethiopia. The Ethiopian poverty reduction strategy has been embedded in development strategies / programs and reform measures that have already been in place, including ADLI, the second five-year Development Program, judiciary and civil service reform, decentralization and empowerment, and capacity building both in the private and public sectors. Hence, one should not see the overall development strategy and the poverty reduction strategy paper as two separate programs. The poverty reduction strategy initiated by the IMF and the World Bank has only created the opportunity to reinforce our strategy and program focus and resource mobilization efforts of the past years in the fight against poverty.

PRSP: Content and the Consultation Process Currently Underway in Ethiopia.

Content

Two elements are considered critical in preparing the PRSP---- the content of the strategy and the formulation process. The formulation (preparation) process has had a direct bearing on the content of the strategy. As far as content is concerned, the full PRSP rests upon the Second Five Year Development Program (SFYDP), the Agricultural Development Led Industrialization (ADLI) Strategy; the ongoing poverty-oriented sector development programs in education, health, road, food security and similar programs recently initiated in the water and power sectors. The Government's strategy has already given priority to developing the rural economy as indicated in the Government's long-term Agricultural Development Led Industrialization (ADLI) strategy. It is important to note that all these have also been implemented in a highly decentralized setting, which has helped facilitate the provision of such basic public services to the people at the grass roots.

A macroeconomic framework accompanied by an assessment of the impacts of on-going strate-

gies /programs on poverty are expected to feature in the strategy document. The macroeconomic framework is also expected to provide the resource envelope, including disbursement plans for domestic resources as well as forthcoming HIPC funds to poverty-oriented sectors. This will serve as a background to the component of the report that logically follows: the part that describes the state of poverty and its trends.

The Welfare Monitoring Unit (WMU) of the Ministry of Finance and Economic Development (MOFED) is currently finalizing a report on the Poverty Profile of Ethiopia based on the 1999/00 Household Income Consumption Expenditure (HHICE) and Welfare Monitoring (WM) surveys conducted by the Central Statistical Authority (CSA). The former is intended to derive the traditional indicators of income poverty while the latter is intended to provide non-income dimensions of poverty. These two surveys are expected to enrich the content of the full PRSP.

The Ongoing Consultation Process

Regarding the preparatory process of the full PRSP, the active participation of all stakeholders, including the private sector, civil society organizations, NGOs and other development partners, is of paramount importance. As per the commitment indicated in the I-PRSP, the Government of Ethiopia has already launched the process for the preparation of the full PRSP since June 2001.

The consultation process that is currently underway in 116 woredas across the country is one testimony for the commitment to addressing these issues in the forthcoming strategy paper. Area-specific socio-economic problems and opportunities will be articulated during consultations with a cross-section of the society at woreda level. In addition, there is a Steering Committee, a Secretariat of the Steering Committee, and a Technical Committee to facilitate the preparation of the full PRSP. The Technical Committee is responsible for the overall preparation of the PRSP, including the execution of the consultation process. The Ministry of Finance and Economic Development serves as a secretariat and chair of the committee.

The consultation process takes place within the context of the existing federal set up that includes federal, regional and woreda levels of administration. The various stakeholders are expected to participate in the consultations at all levels of govern-

ment. The consultation process starts at woreda level. Regional Technical Committee members and conveners of woreda level consultations have been given training to facilitate the consultation process.

At present, training for regional Technical Committee members in all the 11 regions has been completed. Training of conveners has also been conducted in almost all regions of the country (excluding Afar and Somalia Regions) including the two city administrations of Addis Ababa and Dire Dawa. Consultations have also been already completed in selected woredas of the SNNPR, Amhara, Gambella, Benshanguel-Gumuz and Harari regional states as well as in Dire Dawa and Addis Ababa City Administrations. Tigray regional state is expected to launch its consultation process followed by Afar and Somale regions. In line with the country's federal structure, woreda level consultations will be followed by regional and federal level consultations, and outcomes of woreda level consultations will serve as inputs for regional level consultations, which in turn will be inputs for federal level consultations. The insights gained through this whole consultation process coupled with the outcomes of the analysis of the 1999/00 HHICE and results of Welfare Monitoring (WM) survey will serve as critical inputs in the preparation of the final poverty reduction strategy paper (PRSP) for Ethiopia.

Concluding Remarks

As briefly outlined above, the development objective for the coming years shall continue to be the commitment to the realization of broad-based and sustainable growth for poverty reduction. The preparation of the PRSP is a challenge as well as an opportunity to better coordinate state and non-state actors so that we can address the issue of sustained economic growth and poverty reduction effectively. The following are the significant considerations and implications in the process of preparing PRSP in Ethiopia.

- a) On the domestic front, a positive implication of PRSP preparation is that of facilitating and sharpening our focus on opportunities and constraints that are believed to have hindered strategy and program implementation in the past. In this regard, the feedback from the consultation process will provide perspectives to relieve constraints and strengthen opportunities.

- b) Another implication of the formulation of the PRSP is that it helps coordinate the financial support of the international development community. Since generating economic growth and poverty reduction are long-term processes, PRSP requires donors to make long-term commitment thus improving predictability and continuity in external resource flows to effectively implement development programs. In addition, the PRSP may help also to coordinate domestic budget planning with donors' disbursement schedule and encourage movement towards budget and program support rather than current project based support. This is a challenge which the donor community will welcome.
- c) As Ethiopia is eligible as a beneficiary of the Heavily Indebted Poor Countries (HIPC) initiative, this new initiative could provide a basis for ensuring a strong link between debt relief and poverty reduction. Recently, the Executive Boards of the IMF and World Bank have made decisions that will enable Ethiopia to benefit from the HIPC initiative.
- d) Stakeholders at all levels will have a chance to enrich the forthcoming strategy paper. In this regard, NGOs under the Christian Relief and Development Association (CRDA) and representatives of the private business sector like the Chamber of Commerce have already set up committees to provide their feedback in an organized manner in the course of preparing the national strategy document. The Forum for Social Studies (FSS) has created a Poverty Dialogue Forum to contribute to the preparation of the strategy. The Ethiopian Government commends and supports such institutionalized dialogue and contribution towards the full PRSP Preparation in Ethiopia.
- e) The recent and renewed focus by the Government on woredas as centers of socio-economic development is a clear indication of its commitment to do its level best for the successful implementation of poverty-oriented programs, primary education, primary healthcare, rural water supply, rural roads and agricultural extension. The devolution to woredas, including planning and finance, is expected to provide an enabling environment for meaningful participation by the people in the planning and implementation of local development programs. The establishment of new federal executive organs charged with the responsibility for rural development, economic infrastructure, and capacity building are all testimonies to the firm commitment by the government towards attacking poverty on all fronts.
- f) The PRSP is not a one shot exercise. PRSPs are normally prepared for a three-year period. By the same token, Ethiopia's PRSP will be updated every three years to accommodate unforeseen circumstances. It is like a rolling plan. Such an iterative process always helps accommodate not only unforeseen circumstances but also changing circumstances.
- g) As it stands now, external finance is critical in our developmental endeavor in financing development. However, as reflected in the level and trend of per capita aid received, Ethiopia has still been the least beneficiary of aid compared to other sub-Saharan African (SSA) countries. For instance, according the World Bank's World Development Report of 2002, per capita ODA receipt for Ethiopia in 1999 was only US\$10. This has been very low even by the sub-Saharan Africa average, which stood at US\$20 during the same period. It can be clearly seen that per capita external resource inflow to Ethiopia is not commensurate with the level of poverty in Ethiopia. This indicates the need for further strengthening the on-going effort to mobilize external resources and attract foreign direct investment into our country.

Parallel with mobilizing external resources, the utmost effort should be made to mobilize domestic resources by encouraging private saving and bolstering public funds through improving tax administration and transparency. Our positive track record in macroeconomic management coupled with the on-going Civil Service Reform (CSR) and the various tax reforms underway are promising steps towards realizing the resource mobilization objective on the domestic front. Given the ever-changing international political and socio-economic landscape, external support should be seen as a supplement to our developmental effort. Thus, the only real change is expected to come from within the country and our people themselves. The government has recently renewed its commitment to create a conducive environment to fully and effectively utilize public and non-public development forces and generate economic growth so as to re-



The World Bank and Poverty Reduction

Mr. William James Smith

The World Bank

Introduction

Let me start by saying what PRSP is really all about. Let me start with its history and how it did come about so that we can have a common base to start from.

Two years ago, at the annual meeting of the Boards of the World Bank and the IMF there was increasing concern about a number of issues. The first one was that there was too much focus on the programs of World Bank and IMF and on the advice giving bureau of the country concerned with Macro-Economic stability alone. This concern was that the shareholders, all the countries of the world and the donor community should be engaged in the business of reducing poverty and should recognize the need for a broad framework within which all of them can operate more explicitly. Second, there was also a concern that forty or fifty years of providing large amount of aid have had very disappointing results in many cases.

Furthermore, there was the concern too that there has been insufficient attention to the impact of that aid or programs of supporting it. An additional concern was that the Policy Framework Papers (PFPs), which were the basis for IMF support, were made in Washington, written by World Bank and IMF type of people and, more importantly, the reforms that were agreed upon with governments were principles alone that have not really been debated and owned by the country. As a result, when these were implemented, they had limited impact on the development of the country concerned.

An additional concern was that the World Bank and the IMF were talking to the government too much. There was the need not only to talk to the government alone but also to a wide range of society, and shifting the focus from exclusively dealing with officials and friends in the finance ministry and other central ministries of development to non-government actors concerned with development. The Board started to look for a new vehicle that

would set a broad framework for goals of growth and poverty reduction beyond macro-stability while still accepting macro-stability as the central part of that formula but will not be an objective in itself. This was to be drafted entirely within the country but had more focus on output and outcomes; and the impact of the program reflected not only the views of governments but had been debated more widely in the countries, including with organizations like trade union movements, civil-society organizations and opposition groups.

What are the Fundamental Characteristics of the PRSP?

Usually, a PRSP has a three-year time horizon but should be a part of a longer framework. It generally includes the following:

- a quantitative poverty analysis, assessment of the conditions of poverty in the country at the moment, the distribution of the poor, sources of income, etc.;
- the discussions of the country's programs, i.e. both the overall strategy and the key sectoral programs of development aimed at reducing poverty;
- the macro-economic framework that is agreed upon for the coming years;
- some monitorable targets or indicators for outputs and this has to involve some consultative process;
- some costing of those programs to ensure that they are realistic and affordable.

In addition, a good PRSP should also have a more dynamic discussion of the causes of poverty and needs to examine how well have existing programs and policies been work/not working. What impact has there been and what needs to be done differently to have more impact on poverty in the future? That is a very rich but not an unrealistic agenda on poverty analysis that has to be met at the minimum.

In sum, it is necessary to have the costing of the program or a broad macro-economic framework and some monitorable indicators that generally focus on key sectors, including health, agriculture, employment, and education. Clearly, no country can turn around all its programs overnight and what is generally recommended to countries is to pick two or three key sectors and issues to focus in the first round of the PRSP. The focus should as well be on poverty impact rather than the whole program because many other issues that are critically important for the country, such as private sector development, water supply or civil service reform, may not be addressed all at once. At a minimum, however, all the other issues must be described and the government must recognize what the problems are, describe the current status, identify the next steps and predict what needs to be done in the next year to get a better grip on the problems and come up with programs that will address all of them.

It is very important to remember that PRSPs are not one-shot affairs but that the preparation is a process that needs to be updated every year. They need to be re-done every three or four years like the policy framework papers. This provides lots of opportunities to do and approach things in stages. This is much more realistic because it has to be recognized that that not everything has to be handled in the PRSP. It is not the only vehicle because there is also the whole sector dialogue and sector planning apparatus for handling the education strategy, or the water supply strategy or anti-corruption strategy. All these must proceed in parallel and the PRSP should focus only on the poverty aspect and the extent to which those programs help improve the lives of the poor or increase income and reduce poverty in the long run.

The Experience To date with the PRSPs

So far, between 20-24 PRSPs have been done. Many countries have completed their own I-PRSPs and are now working on the final draft of the PRSPs. Ethiopia finds itself in the latter situation. Two other African countries--- Uganda and Tanzania--- in fact have gone through the four years of first implementation and are producing their first annual progress reports. The process of PRSP preparation has been conducted in a fairly typical pattern of reactions that include the following:

w The first has been initial skepticism on the part of governments. Generally, it has been viewed

as an additional task the country has to do to satisfy those guys in Washington.

w The second has been countries quite legitimately saying that they already have a strategy, programs, policies and national development plans in place to address poverty. Governments insist that PRSPs are only attempts to re-state these current policies and programs. However, the experience of five and six countries shows that as the process evolves governments and the Bank Boards show a growing seriousness with the PRSPs because they see them as the opportunity to revisit some policies and programs. The quality of most PRSPs has been pretty mixed because a lot of them were rushed particularly because of the links made with the HIPC resources. However, the bar has been gradually raised on the expectations of what is an acceptable PRSP and is higher now than it was a year ago.

In the end, the Board of the World Bank really wants to see something that addresses long-run poverty strategy instead of a pro-forma statement that satisfies the process. But, it is also naive to expect everything in the PRSP. Through time clear benefits are already emerging in the countries where the process has been going on for sometime. Some of these are listed as follows:

w One is an increasing sense of participation in the consultative process. In a lot of countries including countries, where the political apparatus was not particularly attuned to the idea of having a lot of debate, it has really been quite embraced and found to be extremely useful by governments. In other countries, particularly those which are now in the 2nd year, people continue to see a real growing sense of expectations and assumptions through the process. This in turn has generated a lot of interest in the right to participate in discussions of policy making on the part of civil society, which has been really quite dramatic in a number of countries. In this instance, Tanzania can be named as the most recent example.

w Clear movement forward in areas where otherwise would not have taken place. In this instance, one can think of countries where an education strategy has been formulated and accelerated because of the commitment into the PRSP, poverty monitoring system or

changes in the compositions of expenditure. These changes have been quite dramatic because in the view of people both inside the country and outsiders these changes would not have otherwise taken place without the sort of added impetus in the PRSP.

- w More awareness on poverty impact of policies/programs. The PRSP process has led in some countries to focus on the poverty impact of programs and a greater tendency in governments in debating programs and thinking about how these policies really impact incomes of the poor. The other benefit is that if it is well done in concert with the donors, it can provide a framework for mobilizing more substantial aid for the country.

Finally, a few points have to be made regarding the issue of PRSP and the link with the donor community. The PRSP process is increasingly being taken very seriously by the donor community generally and many donors are increasingly seeing it as the central organizing framework for their discussion with aid receiving countries about their programs. It obviously provides a tremendous opportunity to have a more comprehensive discussion of the overall framework to get agreement on broad sector programs. Further, it also provides an opportunity for a collective discussion within the context of the country's own programs and policies with all

the donors rather than dealing with each of them separately. Obviously, this facilitates a substantive discussion of strategies and objectives targeted to be important by all sides. The best models that have worked with relative success have been a joint working group or committee that has agreed on the work program or time table on preparation followed by a common fund where the donors put money in to support the process and to extend external support to the government when it needs it.

To further support the process, working groups join the government and donors working groups in each of sectors like health, education, roads where they work on the issues together. The benefit of this approach is that it helps to avoid the donors falling over each other to provide assistance. It also avoids the problem of different donors giving different advice or having different sort of separate bilateral discussions. It needs to be realized that it is entirely up to the country to determine how much they want to talk with donors in the preparation of the PRSP. What is important at the end of the day is not whether or not there is a nice document that keeps the Bank's Board or the donors happy. What is of paramount importance is the process in terms of strategy and implementation, and the impact on the lives and income of the poor.

Thanks!



Netherlands Development Cooperation and Poverty Reduction

Mr. Jeroen Verheul

Royal Netherlands Embassy

Background

Poverty reduction has always been the overarching objective driving the Netherlands' development co-operation policy. In 1996, a merge of development co-operation and foreign policy was initiated. This merge coincided with far-reaching devolution of implementation responsibility to Embassies. The Netherlands' Government budget for 2002 identifies "poverty reduction" as one of the 5 main objectives of Dutch foreign policy.

The OECD-DAC recently concluded a peer review of Dutch development co-operation policy. It concluded that poverty reduction is rightly identified as the overarching goal. It observes that the Netherlands has since 1998 put more emphasis on issues such as ownership, sector approaches, co-ordination and coherence. It also notes that in the Dutch policy ownership is more broadly defined than government ownership. The policy shift after the appointment of Mrs. Herfkens as Minister for Development Co-operation entailed a drastic geographical (twenty something countries) and sectoral concentration (3-4 sectors per concentration country). In the Netherlands' policy, PRSP's are key for defining the priorities in bilateral development co-operation. It also notes that coherence (trade, agriculture etc.), a relatively new issue on the political agenda, is being addressed in the Netherlands policy. A key for sustainable development co-operation can be found in the consistently strong public support for Government's policy and expenditures in this field. The ODA-level 2001 amounts to 3.4 billion US dollars (approximately equivalent to 30 billion Eth. Birr), or almost twice the Ethiopian government budget for fiscal year 2001/2002.) The Netherlands aims at achieving an annual ODA performance equal to 0.8% of GDP.

PRSP - - - Process and Content

The functions of a PRSP could be summarised as follows:

- § A trigger to release (multilateral) development assistance (e.g. HIPC debt relief)
- § A forum for dialogue on (effectiveness of) public action on poverty reduction
- § A mechanism to create consensus on a devel-

opment strategy

- § A tool to co-ordinate government action in different sectors and at different levels.

It appears that in Ethiopia the focus of the Government so far seems to be on the first and second function, i.e. on releasing assistance and promoting dialogue. My question is: How about the other two? Could these functions be promoted through the ongoing PRSP-process? Another observation is that the focus in the discussion up till now lies mainly on the process, a.o. role of civil society. My question here would be: How about the content? In other words: what are the substantive elements for a strategy that would be most appropriate to eradicate poverty in Ethiopia?

The Netherlands' Perspective on PRSP

The Netherlands government has strongly supported the move by the Bretton Woods Institutions (BWIs) in general and the World Bank in particular to introduce PRSPs. The motive behind this support is that central Netherlands' policy issues, such as ownership, SWAPs, donor co-ordination and coherence are expected to better be addressed through or accommodated in PRSPs. Let me emphasise once again that in the Dutch interpretation, ownership is more broadly defined than just Government-ownership. Participation by and of parliament, civil society, academia and donors will greatly enhance the support for and the feasibility of any development strategy.

A review of PRSPs endorsed so far shows that major gaps lie in addressing issues, such as gender equity, environmental protection, private sector development, the definition of a pro-poor growth strategy for the economy and the national "translation" of the internationally agreed development targets: the Millennium Development Goals. The Netherlands' position on this observation is that acquiring broad ownership is more important than achieving the highest quality in the document, i.e. process is more important than content. Quality issues can be addressed later and during implementation.

An agreed upon PRSP for Ethiopia will be the most important point of departure for Netherlands'

development interventions (strategy) and policy dialogue (certainly if questions remain on quality). In conclusion, a good PRSP is important for the Netherlands development co-operation, but we should not overemphasise high expectations here. In case questions remain on the quality of the strategy, follow up processes should be envisaged. Certainly, follow-up will be ensured through the annual PRSP implementation reviews and the subsequent revision of the strategy.

Discussion Points: Process

Observing the PRSP process in Ethiopia, from the perspective of a bilateral donor several questions remain open for further discussion, such as:

- 2 What role could or should civil society play in PRSP formulation and implementation? Please, see table 1 for a tentative framework to answer these questions.
- 2 Is there sufficient time to complete the whole consultation and formulation process as envisaged by May 2002?
- 2 What are the next steps after completion of the PRSP?
- 2 Is there sufficient space to adapt the PRSP based on further analysis and implementation experience?
- 2 Could the expectations engendered by the ongoing Woreda PRSP consultations be usefully linked with Government plans to promote further fiscal devolution to Woredas?
- 2 Regarding Government-donor dialogue, will this process provide an opportunity to move beyond monologue, briefings and questions and answer sessions?
- 2 Is it possible to achieve a shift in perspective on the benefits of Government-donor-civil society dialogue? To me, it appears that the Government considers this at present as a **zero sum game**, i.e. it means that enhancing the role of civil society would go at the expense of the role of Government, both in terms of control and financial resources. My question is: could we shift this perspective

into a **positive sum game**, i.e. that all sides gain by intensified dialogue and co-operation.

Discussion Points: Content

The World Bank World Development Report, 2000/2001 identifies 3 pillars for effective poverty reduction:

1. **Empowerment** --- make state institutions pro-poor and remove social barriers.
2. **Security** --- protection against negative shocks, i.e. safety nets.
3. **Opportunity** --- increase access for the poor to physical and human capital, asset creation, land reform, rural infrastructure and basic social services.

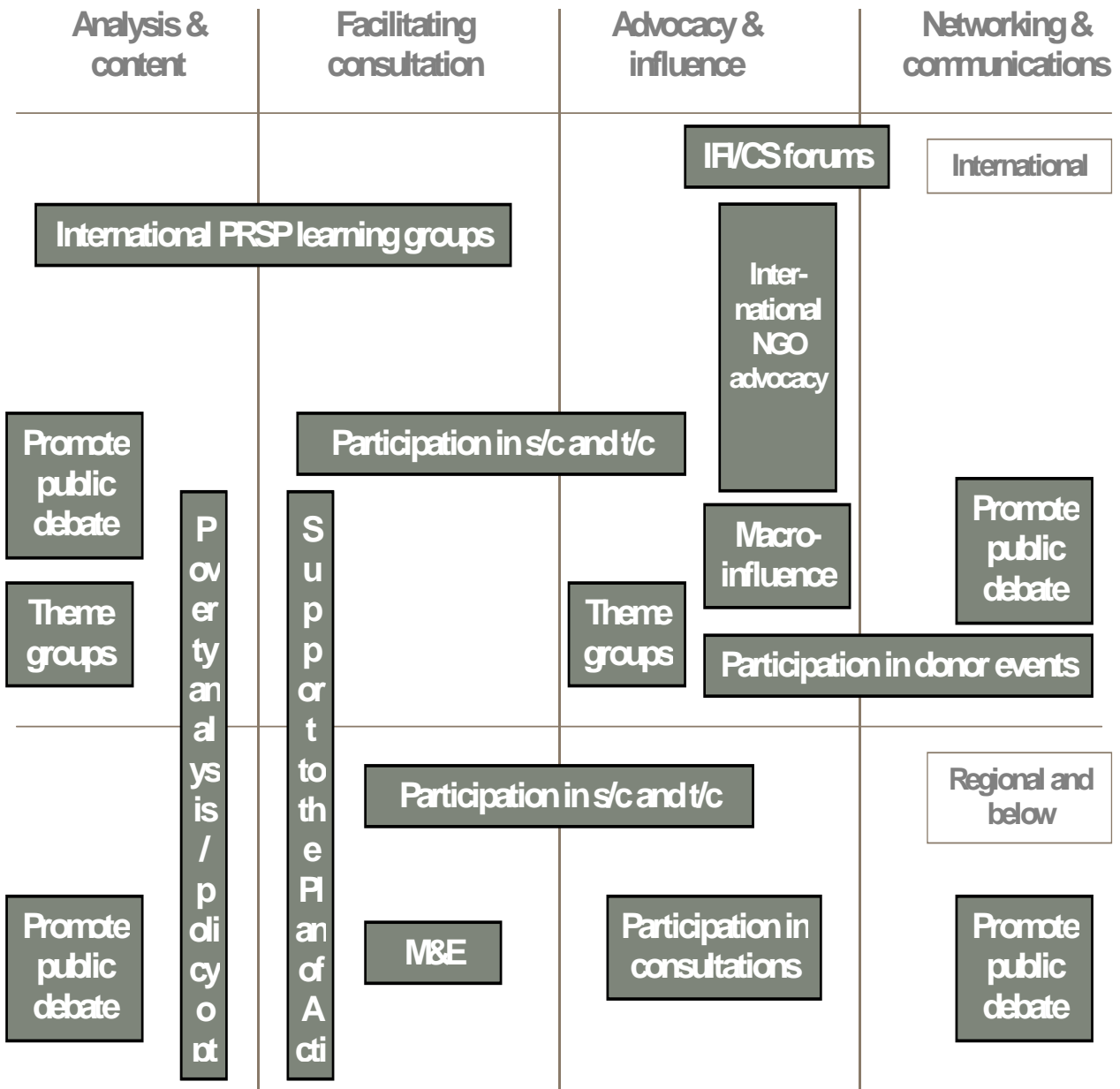
In analysing that report in the Ethiopian context, questions such as the following occur:

- v How do current Ethiopian Poverty Reduction measures score against these three pillars? As an initial assessment, I would say that Ethiopian policies are strong on the vulnerability dimension, albeit heavily dependent on external food aid. I expect they score weaker on the opportunities, for example, the role of the private sector, and on the empowerment dimensions. The DAG-CG (donor core group) will work on a framework to enable the donors to assess the content of the full PRSP after it has been submitted to the Boards of the World Bank and the IMF. It would be good to share this framework with the Government and civil society.
- v Another question is whether the full PRSP will ensure an adequate framework for pro-poor growth? Will it provide an effective growth strategy and address issues such as urban-rural linkages, market infrastructure, division of economic growth over the different sectors, distribution aspects, export orientation, internal market, etc.

For a bilateral donor, these are exciting times to be active in development co-operation. I certainly look forward to contributing my share to addressing the challenges posed by the PRSP process in Ethiopia.



Annex



Summary of the Discussions

The theme of FSS' sixth Poverty Dialogue Forum was 'Government, Donors and Poverty Reduction in Ethiopia'. Presentations were made by H.E. Ato Mekonnen Manyazewal, Minister of State in the Ministry of Finance and Economic Planning; Mr. William James Smith, Senior Economist, World Bank; and Mr. Jeroen Verheul, Head of Development Cooperation, Royal Netherlands Embassy. Each of the three panelists talked about the broad aims of PRSP and what needs to be done to make it a successful strategy for poverty alleviation. They underscored the need for participation by a cross section of civil society in the formulation and implementation of the PRSP as an essential precondition for success in ameliorating the poverty problem. Following the presentations, workshop participants had an active discussion and exchange of ideas on the depth and magnitude of poverty and its alleviation. Below is a summary of the discussion, comments and questions raised at the Sixth Poverty Dialogue Forum.

The need to include the adoption of appropriate technology in the PRSP was raised. It was pointed out that poverty was not only about lack of resources but it was also caused by inability to use appropriate technology and equipment to utilize available resources. This was said to be critical for Ethiopia where agricultural productivity is very low because of limited agricultural research catering to the needs of the small farmer and lack of appropriate agricultural technology to increase output and farmers' income. In many places in Ethiopia, resources in rural communities are left idle for lack of appropriate technology to harness and fully utilize the same. Enhancing the capacity of educational and research institutions for generating new policies and innovating new technologies to help in poverty alleviation was pointed out as a priority area.

There was the observation that the PRSP document does not adequately address environmental issues. Specifically, it was queried as to how the views of environmental organizations and other segments of civil society concerned with the environment can be transmitted to the technical committee of the PRSP. Guarantees were given that the environmental concern and other issues that were not adequately addressed in the original I-PRSP, which was formulated in 1997, will be incorporated

in the final PRSP following further consultations and public discussions among all relevant stakeholders at federal, regional and woreda government levels.

A question was raised as to what the role of political parties can be in the PRSP process and how they can participate in its preparation. The point was made that the Government of Ethiopia encourages multi-stakeholder participation and has not prepared a segmented forum for different actors. At each level of government, including, federal, regional and woreda, the intention is to encourage a cross section of stakeholders, including NGOs, political parties, etc., to fully participate in the PRSP so that different perspectives and views are reflected as a basis for a broad consensus on different aspects of the poverty reduction strategy paper. Following the consultations, the Government of Ethiopia has a plan to submit the draft PRSP to a national workshop for further discussion and refinement by all stakeholders. This forum will give all stakeholders ample opportunity to examine how much of their concerns and contributions have been incorporated into the final PRSP. Finally, it was underscored that the PRSP is a not merely a technical document but also involves a lot of political process, which would mean that all political actors, including the parliament and different political parties, should debate it before it is submitted to the international community.

One critical element that was not given adequate attention in the PRSP was said to be the gender issue. The official Ethiopian Government assertion that the gender issue has been fully integrated into the PRSP process since its inception was not fully endorsed, to say the least. Many participants lamented the fact that the PRSP does not have sufficient focus on the gender dimension to poverty alleviation. No anti-poverty strategy would succeed if it excludes a substantial segment of the population from its consideration. The gender issue is an enormous challenge in poverty reduction and should be addressed properly not because of donor pressure but out of a conviction that it is important for development and growth. Further, there is a basic rationale to address the gender issue properly because there have been several studies that prove economic growth in a country will be bigger and benefit the poor more if the gender issue is incor-

porated into the program for poverty alleviation and economic growth.

It was noted that women constitute more than 50 per cent of the Ethiopian population and most are deprived of education, decent shelter and adequate health care. Available data point to the fact that the vast majority of women in Ethiopia are victims of extreme poverty and deprivation. The PRSP must adopt strategies to ease the disproportionate burden of poverty on women by guaranteeing them access to resources and decision-making processes at both national and local levels. Official policy pronouncements and formal constitutional declarations will not be enough by themselves to overcome gender based inequities and poverty. What are needed are concrete plans of action and genuine political commitment to overcome obstacles that exacerbate the poverty and deprivation of women in rural and urban Ethiopia.

Some participants aired skepticism about the possible positive outcome of PRSP although the World Bank and the IMF have hailed the same as a feasible strategy to alleviate poverty. The World Bank representative partly agreed with the expressions of skepticism but reiterated the need to try and do things better and move forward rather than get deadlocked over past shortcomings. The skepticism or outright dismissal about the positive outcome of the PRSP was said to have a strong empirical base and a historical perspective because in the last 50 years or so, the various interventions of these two institutions in the development of Africa have not always produced success stories. While there was some merit in arguing that there was economic failure in many African countries over the past 30 years, it was unfair and difficult to conclude that it was caused by World Bank and IMF policies alone. There were a number of inter-related problems that contributed to lack of progress in achieving poverty reduction. For example, bad economic policies and bad political governance by African governments, which these two multi-lateral institutions can do very little about, are also factors that contributed to dismal economic performance and little progress in poverty reduction in many African countries.

As to the question whether there was any ground for optimism that the currently fashionable PRSP can yield better results than other World Bank and IMF programs in the past, the reaction was a cautious yes. A number of reasons were given for this sense of optimism. First, enough

learning has taken place from mistakes in the past in order that current programs and policies will be designed to benefit more the target group rather than impose priorities as perceived to be beneficial by donors. Second, there is a growing recognition that reforms have to be reversed or adjusted if they have negative impacts and this holds true for the PRSP as well. Third, the end of the 'cold-war' has made it necessary to place more focus on the poverty impact of policies rather than concentrate on aid policies and programs that reflect geo-political concerns. Fourth, it was noted that there was an ideological shift in the World Bank and the IMF in the direction of giving aid recipient countries more say in formulating aid policies and making them owners of such programs and policies if the same are to produce better positive impact than in the past.

The politics of multi-lateral aid and the PRSP process generated a number of questions and answers. In particular, how the PRSP should fit into the overall economic policy of a nation was raised as a discussion issue. Further, it was queried as to how the PRSP would be made to focus on poverty issues while the other sectoral programs, such as education and health, could contribute to and be run side by side with a poverty-alleviation strategy. The need for clarifying how PRSPs relate to overall development activities in a country, especially whether PRSP should be envisaged as an umbrella framework under which all development intervention should come or whether it should simply be considered as an add-on to existing programs was emphasized.

A question was also raised as to what distinguishes a good PRSP from a poorly formulated one. What are the yardsticks for evaluating a good PRSP? Can the need for participation and broad-based ownership be enough to characterize a PRSP as a good one? How can a good PRSP strike a balance between being pro-poor and at the same time contribute to economic stability? In the ensuing discussion, it was made clear that the World Bank insists the PRSP should follow a credible consultative process. How that process works is left very much to the country concerned because in the final analysis the PRSP is the document of that country's government. The World Bank does not have any desire to dictate to a particular country on how it should run its consultative process. The presence of different circumstances and political and cultural peculiarities unique to each will make it practically

difficult to prescribe a uniform approach that can work to all countries.

In terms of substantive policy to reduce poverty, it was emphasized that there should be a link between macro-economic stability and pro-poor growth. They are neither mutually exclusive nor there is a trade-off between the two goals. Indeed, It was pointed out that macro-economic stability was a precondition to have pro-poor growth. A serious assessment as to what strategies are working in reducing poverty and what positive impact they are having on the poor both in the short run and long run can be undertaken when there is a link between macro-economic stability and poverty reduction. In this instance, Malawi was cited as a success story which has achieved both macro-economic stability and pro-poor economic growth at the same time. On the other hand, Argentina was mentioned as a sordid example, which continues to suffer from macro-economic instability,

massive inflation and balance of payments problems.

The development of human capital in poverty alleviation was said to be critically important. It was said to be not only an important aspect of poverty reduction but also economic growth. In a labor-intensive economy, such as Ethiopia's, human capital development assumes a special significance. There is no better alternative to developing human capital in the health area, education and the social services sector as a sub-component of any anti-poverty program. In other words, training adequate number of health professionals, teachers and other professional people, who would work in the rural and urban areas of the country is of paramount importance. It is not enough only to consider how and why it is produced but the way it is managed and utilized is also important. In other words, equally important is the need to change the currently poor incentive structure that does not motivate professionals to say in government/public ser-



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(Continued from previous page)

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