

# Fiscal decentralization grant schemes to address geo-spatial inequality and poverty in rural African economies: the Ethiopian perspective

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## Abstract

Ethiopia adopts federal structure of administration following the lines of similarities and difference in settlement pattern, languages, and culture, which is termed as in literature as ethnic federalism. Following the decentralized political system, Ethiopia also has decentralized its fiscal system in which federal and state governments have their own legal revenue collection and power and pending responsibilities. Because of the vertical and horizontal equalization between the state and federal governments and among the state governments, Ethiopia has established regional block grant system to close the horizontal fiscal gap (among state governments) and the vertical fiscal gap (between federal and state governments)

The country has developed and implanted various policies and programs, among others, are (1) agricultural extension to promote market oriented agricultural production, (2) health extension service to provide mainly preventive health services, (3) productive safety net to help chronically food in-secured rural population and (4) education sector development program. The development of such policies coupled with the fiscal decentralization system enables state governments to ensure universal access to many of government utilities/services, and specifically close gender inequalities and reduce inter-ethnic difference in access to education in primary education and expand access to school at all levels of educations. This further has reduced intersecting inequalities such as gender, ethnic and rural/urban difference within state governments. At both federal and state levels, with the increased public spending on historically disadvantaged states (pastoral and remote regions) and on pro-poor sectors such as agriculture, education, and health, remarkable achievement has been obtained in agriculture and food security, education and health/nutrition in reducing intersecting inequalities.

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## **1. Introduction**

Ethiopia is one of the countries meeting already few of the MDG targets and expected to meet more in the coming two to three years. To raise few examples on this, Ethiopia has met ahead of the 20014/15 the MDG target of reducing poverty by half (World Bank, 2013). Gender disparities in primary education and reducing child mortality are among the targets to be met in the coming two to three years. Although the target of reducing maternal mortality is not going to be achieved, a lot of progress has been made already. Despite the remarkable performance in meeting MDG targets, the country is named as the fastest growing economy among non-oil producing countries in Africa.

Ethiopia adopts federal structure of administration following the lines of similarities and difference in settlement pattern, languages, and culture, which is termed as in literature as ethnic federalism. Various policies and programs have been developed and implemented including, among others, (1) agricultural extension to promote market oriented agricultural production, (2) health extension service to provide mainly preventive health services, (3) productive safety net to help chronically food in-secured rural population and (4) education sector development program to ensure universal access to, close gender inequalities and reduce inter-ethnic difference in access to education in primary education and expand access to school at all levels of education so as reduce intersecting inequalities such as gender, ethnic and rural/urban.

The main objective of this paper is therefore to examine and show the role of policies and programs in meeting the MDG targets of reducing extreme poverty by half, closing the gender gap in primary and secondary education and reducing child mortality. The paper also tries to show how fiscal federalism and decentralization helped reduce intersecting inequalities including ethnic gender, and rural urban.

The rest of the paper is organized as follows. The political system and fiscal federalism is explained in section two. Section three describes the main policies and programs implanted over the last two decades. Section 4 trends in intersecting inequalities in food security, nutrition/health and education. The role of the programs and policies are discussed in section five. Section six concludes.

## 2. The political system and fiscal decentralization

After the Ethiopian's Revolutionary Democratic Front – ERPDF- (the current ruling party) came to power in 1991, ERPDF is the dominant player in political, economic and social aspects of Ethiopia. After ERPDF assumed power, the Transitional Government of Ethiopia (TGE) was established and the TGE restructured the political and administrative structure of the country based on a series of proclamations (Proclamation No. 7/1992, 33/1992, and 41/1993) to layout the legal framework for administrative and fiscal decentralization. Proclamation No. 7/1992 identified the four sources of income for both federal and regional governments: revenue collected from taxes allocated to them, fiscal subsidy from federal to regional government, domestic borrowing, and other sources of income. The structure of political, administrative, and fiscal decentralization

The first was the first legal framework for federalism. Series of proclamations (Proclamation No. 7/1992, 33/1992, and 41/1993) were issued to strengthen the legal framework for administrative and fiscal decentralization. The Proclamation No. 7/1992 identified the four sources of income for both federal and regional governments: revenue collected from taxes allocated to them, fiscal subsidy from federal to regional government, domestic borrowing, and other sources of income. The structure of political, administrative, and fiscal decentralization was finally sketched in the Constitution of federal democratic republic of Ethiopia ratified in 8<sup>th</sup> December 1994, which became effective in 1995 (Proclamation No.1/1995).

Ethiopia adopted a constitution (Proclamation No.1/1995) that established the Federal Democratic Republic of Ethiopia (FDRE) in 1995 comprises of federal and regional governments (there is a third tier government – woreda- though is not clearly stated in the constitution). The federal government is responsible for national defence, foreign relations and general policy of common interest and benefits. The federal state comprises nine autonomous states vested with power for self-determination and two city administrations.

According to the constitution (which has been implanted up to now) the FDRE is structured along the lines of two house parliament: the House (council) of People's Representatives and the House of the Federation. The House of People's Representatives has 547 members, elected for five-year terms in single-seat constituencies, while the House of the Federation has 110 members, one for each nationality, and one additional representative for each one million of its population, designated by the regional councils, which may elect them themselves or through popular elections. The president and vice president of the Federal Supreme Court are recommended by the prime minister and appointed by the House of People's Representatives; for other federal judges, the prime minister submits candidates selected by the Federal Judicial Administrative Council to the House of People's Representatives for appointment.

According to the continuation, the government of Ethiopia is structured in the form of a federal parliamentary republic (a representative democratic system), whereby

the Prime Minister is the head of government. Executive power is exercised by the government while legislative power is vested in the Parliament. The Judiciary is more or less independent of the executive and the legislature. There are nine ethnically-defined Regions of Ethiopia and two city (self-governing) administrations; the country's capital Addis Ababa and Dire Dawa. The president of Ethiopia is elected by the House of People's Representatives for a six-year term. The prime minister is chosen by the parliament. The prime minister is designated by the party in power following legislative elections. The Council of Ministers, according to the 1995 constitution, is comprised by the Prime Minister, the Deputy Prime Ministers, various Ministers and other members as determined and approved by the House of People's Representatives. At the current time, this includes the 20 members of Council of Ministers.

### **Governance system and Fiscal Decentralization**

The establishment of Regional Transitional Governments by Proclamation No. 7, 1992 has brought a great change both in the local government and central government systems of the country, which was further strengthened by other proclamations such as Proclamation No. 33/1992b, Which defines the sharing of revenue between the central and regional governments and Proclamation No. 41/1993 which was issued to define duties and responsibilities of the central government and regional governments executive organs, which later amended by Ethiopian constitution (Proclamation No. 4/1995).

Its governance system of government consists of the Federal Government as the highest unit, while the Region/ State as intermediary unit and the Woreda as the basic or a lower unit, and Kebele as the lowest unit of administration. In some states, there also exist more level of administration higher than the Woreda and lower than regional level is zonal administration. in SNNP, Gambella and Amhara, where there are more diverse ethnic groups, there is a zonal level administration which has electorate that are represented in the regional governments, whereas in other regions they zonal administration is not represented in the regional political system. Over, the Ethiopia (FDRE) is made up of four tiers and sometime five-tier government namely: Federal Government, Regional Governments, Zonal Administrations, Woreda Administrations and Kebele Administrations.

The constitution by providing the federal and regional governments have their own expenditure responsibilities and revenue raising power, fiscal decentralized has been in place since 1995. The fiscal decentralization in Ethiopia is expressed by allowing regions to decide how to use their own revenue and regional subsidy provided by the federal governments.

The regional governments (states) are responsible for the provision of basic services such as primary and secondary education (including TVET), health services, rural road, agricultural extension services which are basically included in the millennium

development goals. On the other hand, the federal government expenditure responsibilities lie on services that have nation-wide implication such as defense, highways, railways, higher education, foreign affairs, printing and currency etc.

When we look at the revenue sharing arrangements, most of the revenue raising power is given to the Federal state on the ground that of efficiency in which some taxes can be easily collected by federal state. Accordingly, the import and export duties, and 70% of the VAT, and all income of tax of enterprises governed by the federal government, and payroll tax of federal employees, income from air, railway, and sea transports. The regional government revenue raising power is given to income tax of enterprises working in their territories and employees of regional government etc.

Given the assignment of revenue and expenditure, the revenue collected by regional governments has not been sufficient to cover their expenditure responsibilities. Therefore, regional states has been dependent on federal subsidy provided to regions. For example, in 2010, except few regions such as Tigray, Oromia and Dire Dawa, more than 80% of the regional states expenditure has been covered by regional subsidy provided by the federal government.

The fiscal decentralization in Ethiopia can be categorized as giving two waves. The first wave of decentralisation covered from 1995 to 2002 ( 1995-2002) and the second wave covers the time period since 2002, a year the first generation of PRSP starts to be implemented. From 1995 to 2002, federal government provided block grant to regional states enabling the regional government to exercise their power and decide on how much to allocate the block grant and their own revenue for each sectors by themselves. During this phase, lower level of government did not have any power on how much allocate the budget across sectors leaving the power of allocation totally to regional government. Therefore, the level of decentralisation was very weak and was not translated into practice up to woreda level government.

Understanding this weak fiscal decentralization, the federal government pushed further the fiscal decentralization to woreda government. Subsequently, regional governments revised their constitution since 2001 and paved the way for the second generation of fiscal decentralization; devolution of regional fiscal power to woreda administration.

The revised constitutions of the regional states clarify the responsibility/duty and provided fiscal power to woreda government. Moreover, , after the country align it policies with millennium development goals during the start of implementation of first generation of poverty reduction strategy paper (SDPRP) in 2002, regional states started to provide block grant to woreda level government enabling local government to allocate the block grant among different sectors. As a result of deeper decentralisation and implementation of PRSP, it is evident that public services delivery in education, health, road and others sectors have improved substantially.

In the same fashion with even much stronger emphasis at local government, the second generation of PRSP known as PASDEP recognized decentralization as central to the country's strategy for ending poverty and effective service delivery. PASDEP in addition to consolidating the SDPRP gains further envisages deepening the second generation of decentralization, strengthening the woreda administrations in every aspect to enable them to manage and deliver local services.

In cognizant of the critical challenges faced by regional states and woreda administrations in discharging their assignments, the government has introduced a multifaceted effort to strengthen the capacities of public institutions at regional and lower levels of government including District Level Decentralization Program. These include developing National Capacity Building Strategy (NCBS), Capacity Building for Decentralized Service Delivery (CBDSD) and Public Sector Capacity Building Program (PSCAP). PSCAP was envisaged to resolve the nation-wide prevalence of capacity problems in the public sector, and to that end it was designed in an integrated manner through the involvement of relevant federal and regional institutions, donor communities, and consultants. Regional States office, communication infrastructure up to kebele level (telephone and internet) were built. Trainings were given in leadership and communication to regional, woreda and kebel levels public servants.

**Box 1. Assignment of expenditure (power sharing) (source: Proclamation No.1/1995)**

Central government	Regional government
Defence	All with the Exception of listed under central government
foreign affair	borrow from domestic sources and levy duty and taxes
Economic policy (macro)	Issue and implement laws and rules related to public services which do not conflict with the relevant policy of the central government
Conferring citizenship	Establish, direct, and supervise social and economic development establishment of enterprise
declaring state of emergency	prepare, approve, and implement their own budget
deployment of army when goes beyond regional government's capacity	administer, develop and protect their natural resources
Printing currency	employ and administer their own personnel
establishment and administering major development establishments	Establish and direct security and police forces in accordance with the policy and directives of federal government
Building and administering major communication network and the like	Establish judicial organs
	own properties of the region acquire ownership of property and transfer property



**Box 2. Article 96 provided the Federal power of taxation:**

1. custom duties, taxes and other charges on imports and exports.
2. income tax on employees of the Federal Government and international organizations.
3. income, profit, sales and excise taxes on enterprises owned by the Federal Government.
4. Taxes on winnings of national lotteries and other games of chance.
5. taxes on the income of air, rail and sea transport services.
6. taxes on income of houses and properties owned by the Federal Government.
7. Fees and charges relating to licenses issued and services rendered by organs of the Federal Government.
8. taxes on monopolies.
9. Federal stamp duties.

**Box 3: Article 97 State/Regional Powers of Taxation:**

1. income taxes on employees of the Regional and of private enterprises.
2. fees for land usufructuary rights.
3. taxes on incomes of private farmers and farmers incorporated in cooperative associations.
4. profit and sales taxes on individual traders carrying out a business within their territory.
5. Taxes on income from transport services rendered on water within their territory.
6. taxes on income derived from private houses and other properties within the Region/State. Rents on houses and other properties they own.
7. profit, sales, excise and personal income taxes on income of enterprises owned by the States/Regions.
8. taxes on income derived from mining operations, and royalties and rentals on such operations consistent with the provisions of sub-Article 3 of Article 98.
9. fees and charges relating to licenses issued and services rendered by State organs.
10. royalty for use of forest resources.

### **3. Development policies and approaches**

The policies and programs implemented from 1995 to 2010/11 are rooted in the policies of the Transitional Government of Ethiopia developed after the downfall of the dictator Mengistu Hailemarain, who ruled Ethiopia for 17 years under the Derge regime. The transitional government of Ethiopian made strategic shift from the Marxism to free market and allowed private ownership of enterprises and people to have more than one occupation. Since the current ruling party came in power and start with transition government, farmers were given user right, although land remains to be the property of the government.

The Ethiopian government after the establishment of the Federal Democratic Republic of Ethiopia developed a policy/program known as Agricultural Development Led Industrialization (ADLI) and make more resource flow to rural areas where more than 83 per cent of the population resides. While ADLI is the main framework of the government policy, the Ethiopian government developed sector developments programs namely rural sector development program I,

education sector development program I and health sectors development program I that worked until 2002.

Following the initiatives of millennium development goals and PRSP (poverty reduction strategy paper), Ethiopia developed country owned PRSP known as SDPRP in 2002 and aligned and contextualized its targets to MDG. Selecting agriculture and food security, education and health as pro-poor sectors, Ethiopia substantiated the sector development programs into second phase and put them together into Sustainable Development and Poverty Reduction Programs (SDPRP). While providing more emphasis on agricultural sectors was the main policy of SDPRP, expansion of primary education and basic health services in both rural and urban areas were the key to achieving MDGs. Capacity building programs including district level decentralization programs led to the implementation of the second wave decentralization during the SDPRP period. Since 2002, woreda level governments started to receive block grant and capacity building training and support from regional and federal governments.

SDPRP served for about five years and was replaced by the second generation of PRSP known as Programs for Accelerated and Sustained Development to End Poverty, which was popularly known as PASDEP. PASDEP was designed to serve for another five years spanning from 2005/06 to 2009/10. In PASDEP, the pro-poor sectors were given fresh emphasis, and micro and small scale enterprises development was also included as pro-poor sector.

After the current ruling party lost vote in the 2005 election, government started to provide attention to urban areas. Consequently, urban development was identified as one key area for development for the country while ADLI remained to be the main component of the PASDEP. Commercialization of agriculture was provided due emphasis so as for the agricultural sector to have substantial contribution for export. Agricultural Extension program was intensified to provide skill and knowledge to farmers so as to help them intensify market and export oriented agricultural production and specifically focus on growing of high value crops and increase production for market and export.

During this period, food security program was reengineered by identifying chronically food insecure woredas and provide continuous support and enable poor able farmers to graduate from food insecurity through a program known as productive safety net program (PSNP). PSNP which replaced the employment generation scheme (EGS). EGS was not effective to prevent rural poor to from shocks because it failed to provide enough resource for chronically poor areas as it was linked to disaster prevention program. Hence EGS was not able to provide sufficient and uninterrupted support to food in-secured farmers. The government of Ethiopia together with coalition of donor organizations such as the World Bank, DFID, USAID, EU and DAG developed a food security program known as PSNP. PSNP support about 8 million poor people in rural Ethiopia. The PSNP has two components namely the public work and direct support and more than 95% of the

PSNP support comes from direct support component. Rural poor obtain support from public work in the form of food or cash provided that they can supply labour. The direct support has provided free food/cash to children, old and disable people, and lactating mothers who are not able to work or supply labour.

The Food Security Program has been designed to address the underlying sources of chronic and transitory food insecurity problems of the country. The core objectives of this program are to enable 8.29 million chronically food insecure people attain food security in the five year period. The other objective is to significantly improve the food security situation of the remaining 6.71 million people facing transitory food insecurity problems.

In addition to PSNP, food security program has been composed of three components: (1) household food security package and provision of credit, (2) voluntary resettlement program and (3) Productive Safety Net Program.

The first two programs, viz. household food security and credit provision programs and resettlement, started first in Amhara, Tigray, Oromiya and SNNP. Later, the programs were expanded to other regions namely Afar, Somale, Dire Dawa and Harari regions. The main objective of the household food security program is to ensure food security status of chronically food insecure areas and help facilitate the creation of household level wealth so that people can withstand from shocks so as to stop distress sale of assets. For people who own land, credit has been given for agricultural and irrigation activities at a reduced interest rate together with technical advisory services by the agricultural extension workers organized under the Ministry of Agriculture and Rural Development. The household food security program has been financed largely by the Ethiopian government with an annual budget of two billion Birr. In addition, these programs have also been funded by the World Bank, Canadian CIDA, and Italian Development Cooperation. The resettlement program has been fully covered by the government and no donor organisation was willing to finance. Though the government claimed to have greater contribution in insuring food security of people who have resettled by this program, no credible evidence has been provided.

The third component of the food security program is Productive Safety Net Program (PSNP), launched in 2005 across 262 'chronically food insecure' woredas (districts). These 262 woredas are found in the rural areas of Amhara, Oromia, Southern Nations, Nationalities and Peoples Region (SNNPR) and Tigray region. The Program is one of the largest social protection programs in Africa receiving substantial attention from not only the Ethiopian government, but also from donors such as the World Bank, DFID, USAID, EU, SIDA, and the Irish-AID and is currently providing support to eight million persons per year. The program aims at providing transfers to chronically food insecure households and prevents asset depletion and creating community assets through rehabilitation of natural resources and soil and water conservation. The soil and water conservation activities covered by the PSNP are stone bunds, gully rehabilitation, check dam construction, area closures and

plantation of various tree species. The activities are implemented in an integrated manner as per the watershed approach. The construction of social infrastructure including construction and maintenance of schools, health posts, Farmers Training Centres (FTC), waste disposal pits and stores were also important activities of the productive safety net program.

As PASDEP is being implanted, the food security program of the country continued to be modified continuously. Since 2010/11 the Food Security Program consists of the Productive Safety Net Programme (PSNP), Household Asset Building Programme (HABP), the Voluntary Resettlement Programme and the Complementary Community Investment Programme (CCI).

The PSNP provides 8.3 million chronically food insecure households in 319 woredas with predictable cash and/or food transfers during lean months to smooth consumption in these households, protect and help them grow their assets thus improving their resilience to shocks and resulting in their graduation from the programme. The PSNP helps to create productive assets as outputs of public works (PWs), with the aim of contributing to enhancing sustainable livelihoods. The direct support beneficiaries of PSNP, those persons in target woredas who require social protection that live in households without persons able to contribute work in return for food or cash, constitute 20 per cent (about 1.3 million) of total beneficiaries; most of this group are not expected to graduate.

The HABP promotes the skills and income of food insecure households; often these families have accumulated sufficient assets to graduate from PSNP. Thus PSNP and HABP complement each other to help chronically poor households increase their asset base and thus become sustainably food secure.

Voluntary resettlement has the objective to enable chronically food insecure households attain food security through migration and settlement with access to enough land to become food secure through farming.

Complementary Community Investment Programme focuses on capital intensive community infrastructure development with the objective of benefiting groups of food insecure people living in chronically food insecure woredas of pastoral, semi pastoral and moisture stressed highland areas.

## **Health Policy**

Similar to the food security program, health has become one sector that obtained attention in the development policy of Ethiopia. Following the change of Government in 1991, a number of political and socio-economic reform measures were put in place. Two of these were the development and introduction of a new National Health Policy in 1993 and, in 1997, the formulation of a comprehensive rolling 20-year Health Sector Development Plan (HSDP). The HSDP is entered to its second (HSDP II) and third phase (HSDP III (during SDPRP and PASDEP). The

major foci of the health policy have been democratization and decentralization of the health care system, development of the preventive, promotional and curative components of health care, assurance of accessibility of health care for all segments of the population and the promotion of private sector and NGOs participation in the health sector.

The national health policy focuses on a comprehensive health service delivery system to address mainly communicable diseases, malnutrition, improving maternal and child health. The health service delivery system has been decentralized with responsibility for implementation being largely devolved to the districts which plan on the basis of block funding for the sector. The health policy emphasized inter-sectoral collaboration, particularly in ensuring family planning for optimal family health and population planning, in formulating and implementing an appropriate food and nutritional policy and in accelerating the provision of safe and adequate water for urban and rural populations.

In general, during the implementation of SDPRP and PASDEP as well as GTP, the HSDP has introduced a four-tier health service system which comprises: a primary health care unit, (a network of a health center and five health posts), the hospital, regional hospital and specialized referral hospital. A health post has been being staffed after 2005 by two health extension workers. These new cadres are trained for one year and their training emphasizes disease prevention measures with focus on the following programs: A health center is at the highest level of a primary health care unit. It includes services such as in-patient and out-patient services including surgery, and with laboratory services.

A health station used to give services that a health center does, but at a smaller scale. Health Station is now being phased out. According to the new health sector development program (HSDP), a primary health care unit comprises of 5 health posts and a health center serving as a referral point. Therefore, when the HSDP is fully implemented, a health center will serve 25,000 people.

The aspect of health management and support within the health system operated in accordance with the decentralized administrative structures. At present, the decentralization process has expanded to district level and has devolved primary responsibility for service delivery and management from regional health bureaus to district health offices, enabling them to management and coordination primary health care delivery in the their respective areas.

### **National nutrition strategy**

Until 2008, there has been a food-biased approach towards combating malnutrition in Ethiopia, but later during the PASDEP period there has recently been a growing understanding of the multidimensional and multi-sectoral characteristics of the causes of malnutrition among policy makers. In 2005/06 draft National Nutrition

Strategy was formulated during 2005/2006. The situation analysis report highlighted the importance of a multi-sectoral approach in addressing food as well as non-food factors including those related to health and nutrition.

When the Government of Ethiopia developed PASDEP, its National Nutrition program was developed and implemented in order to help the country achieve the Millennium Development Goal (1) of halving poverty and hunger by 2015.

In 2008, Ethiopia launched its first ever National Nutrition Strategy (NNS) in order to tackle persistent malnutrition in the country with the goal of ensuring that all Ethiopians are able to achieve an adequate nutritional status in a sustainable manner. The strategy has focused on reducing malnutrition among the most vulnerable groups, particularly young children, pregnant/lactating women, individuals with HIV and households affected by food insecurity. It also included components to help promote healthy diets and lifestyles. Crucially, the NNS aimed at improving coordination of nutrition-related activities implemented by other government ministries and relevant partner organizations and to create links across sectors.

### **Education and training policy**

The country also has adopted education and training policy in 1994 which was enhanced by successive Education Sector Development Programs which were the main components of the poverty reduction strategy papers namely SDPRP, PASDEP and GTP. The Education Training Policy outlined the mission and goal of the current Ethiopian education system of Ethiopia. The chief goal of the education and training policy has been the cultivation of citizens with an all-round education capable of playing conscious and active role in the economic, social, and political life of the country at various levels. The policy focuses on increasing access to education opportunities with enhanced equity, quality and relevance. This policy provided the basis for the successive multi-year education sector development programs developed in 1997, 2002, 2005 and 2010. The first Education Sector Development Program (ESDP I) stated in 1997/98 with a longer term goal of achieving universal primary education by 2015. The second phase of this program (ESDP II) was spanned for three years similar to that of SDPRP, from 2002/03 to 2004/05, while the third phase (ESDP III) spanned over 2005/06 to 2009/10.

The Education Sector Development Program (ESDP) had the following six components:

- Primary Education: which include construction, expansion and rehabilitation of primary schools; curriculum revision and development; upgrading of teachers skills; and supply of textbooks.
- Secondary Education: that include expansion of school services, curriculum revision and development, and supply of educational equipment and material.

- Technical-Vocational Training: expand programs that train students in technical and vocational fields.
- Teacher Training: upgrading and expansion of training institutions, in service (after employment) training of primary school teachers, curriculum revision and development, introduction of distance learning and alternative education methods, and training of school directors or coordinators on school management.
- Tertiary Education: it took measures will be taken to meet growing demand of teachers, engineers, health specialists, public administrators, and others.
- Institutional Capacity Building: Include upgrading Ministry of Education and Regional Education Bureaus' skills in planning, financial management, implementation, and monitoring and evaluation.

## **4. Contribution of policies and programs in the past and future**

### **4.1. Contribution of development policy**

We have seen in the previous section that per capita income has increased in both rural and urban areas with rural poverty declined more than urban poverty until 2005 and urban poverty decline more than urban areas after 2005. As a result Ethiopian has met MDG target of reducing poverty by half. We also have seen net enrolment rate in secondary and primary education increased substantially for both boys and girls as well as in rural and urban areas. The gap between boy and girls was initially very high in net enrollment, but later the gap get closed. There has been a gap in enrollment rate for both primary and secondary between rural and urban areas, but the gap is still big although the gap declines to some extent.

Children's nutritional achievement measured in terms of stunting and underweight declines. Child and maternal mortality declined, and achievement in this regard has been encouraging though the MDG target of reducing maternal mortality has not met.

How do policies and program work to bring such a remarkable achievement is the main question this paper. Hence it is worth discussion who programs helped to bring remarkable achievement in education, health and food security.

Ethiopia for centuries has been following a unitary government system in which all political power was given to the central administration. People did not have the power to administer their locality and regions. There was political, religious and cultural domination from the ruling class for centuries. As a result there was resentment and resistant from the majority of people in Ethiopia. Those resistances results civil war in Ethiopia that lasted for more than 30 years.

Moreover, Ethiopia was ruled by the military government for 17 years when economy was declining from year to year. During this time, political polarization and civil war reached at its pick level and result into deterioration of the economy which eventually led to the overthrow of the Marxist dictator government.

After the collapse of the military dictator government, the EPRDF ruled government restructured the economy and changed the economic system from Marxist to free market.

Ethiopia follows a federal structure of political and administration system since 1994, which provide regional states the freedom to administer their region up to self-determination. The abolition of political dominance creates some kind of satisfaction so that regional leader to rally behind the ruling party and make programs more effectively implemented. Although there has been other political oppositions who did not like the new federal system of political administration, these oppositions were not strong enough to disrupt the political and economic system of created by the new government.

The political freedom was supported by economic freedom via the decentralization fiscal power to regional governments. The first wave of decentralization helped regional states to obtain block grant from the federal government and allocate the fund to activities which benefits their people. Government expenditure at both federal and regional increased substantially. By 2010, the federal and regional budget reached 70 billion birr from 2.1 billion in 1995. Regional revenue increased substantially. As a result the yearly block grant received by regional governments received by 11% per annum. The among of budget allocated for agriculture, food security, health and education sectors as well as for road, electricity and drinking water increased substantially.

In 2002, the fiscal decentralization deepened and woreda administration started to receive block grant there by increased their economic power. The fiscal decentralization up to woreda level government increased the allocation of budget for primary education and basic health services. The increased budget coupled with the capacity building support provided to regional and woreda level government resulted into a better implementation of agricultural extension, health extension, education and other government programs. The increased budget enables to construct schools and clinics in remote areas of the countries resulting into enormous expansion of schooling and basic health service deliveries. .

Another channel of support provided by the federal government was programs developed and implemented by federal ministries (for example, food security office of the Ministry of Agriculture and rural development). Government together with the coalition of donors has developed a social assistance program known as productive safety net program (psnp) that supports 8 million people ever year to change the lives of chronically poor people. There are ample evidences that this program helped communities to cope with shocks such as drought. As a result of



this support households were prevented from making distress sale of their asset. Although few studies showed that the productive safety net results into child labor because of children directly involved in public work and substituting parent work at home and on the farm, the productive safety net program enables children to be better fed and enrolled in school.

## **4.2. Public expenditure and its output**

### **4.2.1. Overall public expenditure**

As a result of the change in the political and economic system of the country, and the development and implementation of poverty reduction strategies, public expenditure increased substantially after 1995 and even further increased substantially after 2002 when the first generation of PSRP was formulated and implemented.

The total public expenditure of the Ethiopian Government was 2.1 billion Birr in 1995 and increased to 12.6 billion Birr in 2007 and to 70 billion in 2012 indicating an annual average increase of 14%. The federal subsidy provided to regional government has also increased. Up to 2008, the annual average growth rate of the total budget has been 14% and that of federal subsidy 11% (HoF, 2010), which is less than the six-year average inflation rate (12.7%) indicating that there has been a real increase in total expenditure of regions, but a decline in real federal grants to regional government (excluding Addis Ababa City Administration). The fact that the total budget increment rate is higher than that of federal grants to regional governments may indicate that public expenditure of regional governments from own revenue was increasing.

As indicated in Table 1, as per cent of GDP, the federal government public spending was 21% and that of regional government was 7% in 2000. In 2010, the federal government spending as per cent of GDP declined to 10% and that of regional spending increased to 10%, which makes federal government spending and regional government spending to be equal.

The emerging regions such as Afar, Somale, Gambella and Benshangul-Gumuz have higher growth of public expenditure and which actually has been larger than that of the federal subsidy. This is partly due to the fact that in the early years of fiscal decentralization, these regions were not able to use all the federal subsidy transferred to them. Later, however, these regions have been able to develop sufficient capacity to utilize the budget and generate more own revenue. Dire Dawa City administration stands as one of the regions where expenditure from own revenue showed very good progress.

Table 1. Federal and regional states' public spending and revenue collection

Year	% of general public spending as % of GDP	% of federal government public spending as % of GDP	% of regional states public spending as % of GDP	regional revenue % of GDP	federal revenue as % of GDP	country revenue as % of GDP	Regional states' revenue collected as % of total country's revenue collection	% of regional states' spending as % of total country's spending
1999/00	27.9	21.1	6.8	2.3	12.4	15.1	17.7	24.5
2000/01	27.5	19.3	8.2	2.6	13.0	15.8	17.6	29.8
2001/02	27.4	18.6	9.0	2.8	13.0	15.8	18.0	32.9
2002/03	25.3	15.8	9.5	2.6	13.3	16.1	17.4	37.6
2003/04	26.3	17.1	9.1	2.4	12.1	15.6	22.1	34.7
2004/05	21.5	13.1	8.4	2.8	11.1	14.5	23.3	39.0
2005/06	21.3	12.6	8.7	2.7	11.6	14.1	17.5	41.1
2006/07	21.3	12.1	9.1	1.9	10.2	12.8	20.1	42.9
2007/08	18.5	9.3	9.2	1.8	9.9	12.1	18.4	49.6
2008/09	17.4	9.4	8.0	1.7	9.6	12.1	20.6	45.9
2009/10	18.7	10.5	8.2	2.2	11.6	14.2	18.3	43.9
2010/11	19.4	9.7	9.7	1.9	11.1	13.7	18.4	49.9

#### 4.2.2. Outputs of public expenditure on selected sectors

##### Economic growth

Growth of real GDP per capita in the first half of the 1990-2000 decade was punctuated by periods of negative growth in 2002 and 2003. As such, despite otherwise respectable growth rates in other years, per capita GDP was only 18 percent higher in 2005 than in 2000. By the end of the 2000 decade, however, overall growth remained high as per capita income increased by 50 percent over the 2005 level. This shadows the poverty rates that fell by 7.5 percentage points between 2000 and 2005, and even further by 14.5 percentage points between 2005 and 2011.

##### Poverty reduction

The incidence of poverty declined markedly between 2004/05 and 2010/11. The headcount poverty rate fell from 38.7 % in 2004/05 to 29.6 % in 2010/11. This implies that Ethiopia is on the right track to achieving the MDG target of reducing poverty by half by 2015. Over the same period, poverty gap is also reduced, but not the severity of poverty. Headcount poverty fell in all regions of the country.

The headcount poverty rate fell in rural areas from 39.3 % in 2004/05 to 30.4 % in 2010/11. Over the same period, in urban areas it declined substantially, from 35.1 %

in 2004/05 to 25.7 % in 2010/11. In urban Ethiopia, in 2010/11, we observed significant decline in poverty gap and severity, while poverty gap remains the same and poverty severity increased for rural areas. Nationally, the *Gini* coefficient for per adult equivalent consumption remained constant. In urban areas there was a substantial decline in inequality from 44 % in 2004/05 to 37.8 % in 2010/11 while it was increasing until 2004/05 at an alarming rate.

In 2010/11, poverty head count index is the highest in Afar (36.1%) followed by Somali (32.8%) and Tigray (31.8%), while poverty estimates are lowest in Harari (11 percent) followed by Addis Ababa (28.1 percent) and Dire Dawa (28.3 percent). In terms of food poverty, the highest poverty is observed in Amhara (42.5 percent) followed by Tigray (37.1) and BenishangulGumuz (35.1%). The lowest food poverty is found again in Harari (5%) followed by Dire Dawa (21.7%) and SNNP (25.9). Overall, compared to the previous years, the difference in poverty incidence among the regional states in 2010/11 has narrowed substantially indicating a balanced growth among regional states. Moreover, absolute poverty is much lower than food poverty in all regions.

The poverty results indicate that absolute poverty in 2010/11 (compared to 2004/05) have decline over the past five years in all regions except Dire Dawa urban (where absolute poverty incidence increased by 6%). Poverty gap in 2010/11 also declined in all regions except in rural Afar, rural SNNP, Addis Ababa and urban Dire Dawa. Poverty severity also declined in 2010/11 in many of the regions including Tigray, Amhara, Benishangul-Gumuz, Harai, urban Afar, urban somale, and rural Dire Dawa, but poverty severity increased in rural Afar, Oromia, rural Somale, SNNP, Addis Ababa, and urban Dire Dawa.

### **Agricultural growth**

First, with the exceptions of 2001 and 2002, the real value of agricultural production in Ethiopia grew by roughly 9 percent per year on average. Given the dominance of agriculture in the livelihoods of rural dwellers, the doubling of real agricultural GDP between 2000 and 2011 was an important driver of rural poverty reduction. Much of this growth was driven by increases in the production of cereals, which account for three quarters of cultivated area (Dorosh and Schmidt, 2010). The production of all major cereal crops grew steadily over the course of the decade. In the 1990s, despite stagnating yields, increases in areas cultivated drove increases in cereal production. In the 2000s, however, yields grew by 3.5 percent per year and contributed to the 7 percent annual growth in cereal production during this time period (Dorosh and Schmidt, 2010). This type of growth was a key objective of the government's Agricultural Development-Led Industrialization (ADLI) strategy.

Although the population remains largely rural, with some 80 percent employed in agriculture, the service sector grew so much over the decade (12 percent per year on average) that by 2011, it accounted for a greater share of GDP than agriculture. With

financial services, real estate and wholesale and retail trade leading the way, especially between 2005 and 2011 (MoFED, 2011), urban dwellers are the most likely beneficiaries. Further, given that much of the growth in the service sector occurred in the latter half of the decade (average annual growth of 13.6 percent compared to 7.8 percent in the first half), the performance of this sector is consistent with the greater decrease in urban poverty observed during this period. Finally, industrial production more than doubled over the decade, but it started from such a low base that it accounted for only 10 percent of GDP by 2011.

**Education sector.** Public expenditure on education has increased from 634 million Birr in 1994 (1986 Ethiopian Fiscal Year) to 3.7 Billion Birr in 2007 (1999 EFY) implying an average annual increment rate of 14% more than the inflation rate. Direct outputs of government expenditure on education are number of schools constructed, number of teachers hired. As a result of increased public expenditure on education, construct schools, purchase of books for primary and secondary schools have been increased over time.

The number of schools constructed in regional states has increased tremendously over the last two decades. There were 20,660 primary schools and 952 secondary schools in 2007 Ethiopian Fiscal year which were 11 thousand and 382, respectively in 1998 indicating that primary schools construction increased on average by 7.5% and that of secondary schools increased by 11% annually. The highest average annual increase in the number of schools was observed for the two disadvantage and pastoral regions of Somale (18% per annum) and Afar (15% per cent per annum) because they started from a low base. The second highest annual growth rate of the number of schools constructed is for Tigray, Addis Ababa, and Diredawa, Amhara and Oromiya regions, while the lowest annual growth rate (three per cent per annum) is observed for Gambella and Harari Regions. The modes increment (around sic per cent per annum) was observed for SNNPR regions. For the number of secondary schools constructed. Still highest growth is observed for Somale Regions (27 %), followed by Tigray (15% per annum), Afar (14% per annum), Addis Ababa (13%). The lowest growth rate of secondary school construction was observed for Gambella(2% per annum) and Harari (3% per annum). The rest of the regions such as Amhara, Oromiya, Addis Ababa, SNNPR, showed a modest increase in the construction of secondary schools.

A similar trend was observed for the number of teachers hired in primary and secondary schools. Between 1998 and 2007 Ethiopian fiscal year, the number of teachers in primary schools increased from 109,000 to 225,000 and in secondary schools increased from 12,000 to 28,000 indicating an annual average increase of 8.4 and 9.6 per cent, respectively. Regional distribution of the number of teachers hired for primary education is quite diverse with Tigray, Amhara, Afar and Gambella showing a two-digit growth rate (10 to 12% per annum), while for Addis Ababa, Oromiya, Benshangul Gumuz and SNNP Regions, the annual average growth rate is

between 7 and 8 per cent. For Somale region, the number of teachers hired in primary schools declined by an average of two per cent per annum.

Although the number of teachers hired in primary schools declined in the Somale region, there has been a higher increase in the construction of primary schools. The declining trend in the number of teachers can be partially explained by the instability which makes it difficult to obtain teachers who can teach in those remote areas of the region. In secondary education, the number of teachers hired increased in the same pattern as those in primary education in all regions. In the Somale region, however, the number of teachers in the secondary education showed an increase by seven per cent per annum while it was declining for primary education. The highest increase in secondary schools teachers was observed for Tigray (18% per annum) and Benshangul Gumuz (13 % per annum) regions followed by Amhara (10% per annum), Oromiya (10%), Gambella (9% per annum), SNNP (8% per annum) and Somale (7% per cent per annum)

The performance of Ethiopia's education sector has been quite satisfactory. Except Somale and Afar regions, many of the regions are very close to attaining universal enrollment. Needless to say, enrollment has increased substantially. The number of teachers hired was substantial although it failed to match the rapidly increasing enrollment. Despite the deterioration in the quality of education, however, public expenditure on education has been very effective in expanding primary education and secondary education. Education spending has the highest share in regional level spending, which was on average 38%. Studies made by the house of federation indicated (HoF, 2010) that in primary education, for every increase in budget by one million Birr, an additional 1645 to 1786 children can be enrolled with 95% confidence, that is, with 5% error. In secondary education, an additional 135 to 150 students can be enrolled for every one million birr additional budget with 95% of the cases.

The general orientation of Ethiopian primary education has been pro-poor and pro-rural. This has been particularly true after the second wave of decentralization popularly known as the district/woreda level decentralization program (DLDP). (decentralization at district level), the education spending has been more pro-poor. The decentralization process and the increased amount of federal subsidy to disadvantages regions have been the main reasons for the increased pro-poor nature of education spending.

Education spending favoured disadvantaged regions and contributed to reducing gender inequalities. Although public spending on education is more equally distributed than private household expenditure, the distribution of the latter has also improved due to growth in enrolment among the poor. If such policy efforts continue, there is reason to be optimistic about continuing reductions in wealth and location-based disparities in education access.

Despite the achievements at the primary level, however, the ESDP has been less successful at improving equity at secondary level. Despite substantial increases in the enrolment of children in secondary schools since 1997, absolute enrolment levels are still very low and wealth, geographic and gender disparities remain considerable. There is a significant need for policies to modify current allocations between primary, secondary and tertiary education and for strategies to comprehensively shape education demand and supply side factors.

At the primary school level, a study made by Woldehanna and Jones, 2005 indicated that girls are increasingly benefiting from public expenditure on education and that there has been a significant narrowing of the gender gap. The rapid rate of growth in girls' primary enrolment can in part be attributed to not only a low baseline, but also to concerted efforts by communities and local authorities to enforce the ban on early marriage, to have girl drop-outs re-instated and to initiate affirmative action programs for girls. While these efforts are commendable, policy-makers need to take measures to ensure their sustainability.

The picture is much less optimistic at the secondary level. Girls overall benefit from public expenditure fell relative to that of boys between 1996-2004, particularly in rural areas where the decline was over 100 per cent. Although poor girls' and boys' share of public spending on education improved over time, inter-quintile differences were still marked.

By investing heavily in disadvantaged regions, important strides in addressing regional educational disparities have been made through the ESDP and poverty reduction strategy (SDPRP and PASDEP). Almost all regions in the country are performing well in the education sector except Afar and Somale Regions. Given a very low baseline of educational enrolment in areas such as Somale and Afar, more concerted action is needed to further reduce the inter-regional educational gap without compromising efficiency.

**Health sector.** The four year average expenditure by sector indicates that the health sector received 10% of the total public expenditure by regional governments excluding Addis Ababa City Administration. Taking all regions together, the health sector received about 245 million Birr in 1986 and reached one billion Birr 13 years later. This meant that it grew by 14 per cent per annum during the period in review.

The expenditure in the health sector increased in terms of both absolute amount and per capita basis. Before the start of fiscal decentralisation, the per-capita expenditure in the health sector was less than 10 %, but it increased to over 20 per cent under the current government. When the SDPRP was put in place, it was around 11% but rose to above 20% during the PASDEP. The highest increase over time was for Dire Dawa followed by Somale and Afar regions where the incidence of diseases and malaria is larger. The next higher increase in spending was for SNNP and Harari, while the increment for Tigray, Amhara and Oromiya regions is very close to the national average. Despite high incidence of disease and malaria in the region, the

lowest was recorded for the Gambella region because the regional government did not pay sufficient attention to the health sector.

As a result of the increase in government expenditure, the number of health extension workers, health posts, hospitals, health professionals, vaccination coverage has increased substantially. It is to be noted that the Ethiopian government has started an innovative health extension system in rural areas. In another four years' time, it is expected that the program will also be launched in the urban areas. Until now, the performance of the health extension system has been satisfactory in all the regions. Consequently, output and outcome of health services has increased substantially.

The number of physicians was declining for some times until it began to grow again starting in 2008. The population-physician ratio is still extremely low but was nevertheless increasing. For some regions, for example, Gambella the ratio is high because of the remoteness and harsh weather conditions of the region. At a national level, the population health-workers ratio has been increasing over time but it is still extremely high. In addition, the health service provided by the sector in all regions of the country is below the international and African standard.

The health sector development program has registered significant successes in many areas. For example, stunting and severe stunting of children in the country has significantly declined. Infant, child and under five mortality rates have also showed a declining trend in all regions. The adult and maternal mortality have also show similar decline over the years.

There is no doubt that public spending in the health sector has contributed much to the afore-mentioned achievements in the health sector. Nevertheless, it is not always easy to quantify the contribution of health spending for such improvements in outcome and impacts. Moreover, the achievements in the health sector in Ethiopia are not as impressive as those in the education sector where there is consensus among the public and academician/researchers regarding the successes Ethiopia has achieved in that sector. Therefore, efforts similar to that of the education sector have to be exerted to make the health sector more successful and satisfy the need of the society.

**Agriculture and food security.** In terms of agriculture, it is found out that regional expenditure in the sector is significant indicating that public spending to ensure food security is substantial. Most regions have more than 10% of their budget allotted to agriculture and food security. The exceptions in this regard are Harari, Dire Dawa City Administration and Benishangul. Three regions namely, SNNP, Amhara and Oromia have allotted 14-15% of the budget to agriculture. These same regions are also the ones with the highest level of agricultural expenditure.

The patterns in the use of fertilizer, improved seeds and irrigation practices show that improved seed and irrigation are not common in all regions. This hints the need

for improving these practices in all regions. Fertilizer consumption however is common among farmers in all regions. Some regions however have a higher use of fertilizer. The proportion of fertilized area is higher for the three big regions compared to the others. As witness by the data Central Statistical Agency (CSA) of Ethiopia, agricultural production and productivity has increased over the last 10 years because of the intensification of agriculture.

Agricultural research is carried in some regions though other regions are at their earlier stage in this regard. Oromiya and SNNP seem to have released some varieties.

Resource management activities are ubiquitous. All regions are involved in different types of resource management. There is also an increase in the proportion of farmers engaged in resource management between the years 2003 and 2012. Some resource management activities such as afforestation though critical are not widely practiced among region. Tigray and Amhara as well as Oromia very recently are by far the leading regions in the different aspects of resource management.

Agricultural expenditure has a positive and significant influence on agricultural production. This indicates that the federal block grant is useful to stimulate agricultural development in the regions. The extent of extension coverage is higher and increasing at advisory service level. Number of farmers under crop extension however showed a decline in all regions indicating that some work need to be done along this line.

**Food security programs including PSNP.** The Household food security and credit provision programs and resettlement started with an actual budget of expenditure of 674 million Birr. In 2009, it reached two billion Birr. The highest share of the food security budget is allocated to the Amhara Region (32%) followed by Oromiya (23%), and Tigray (18%). SNNP and Somale regions are also important beneficiaries of food security programs receiving 12% and 11% respectively. In general, a total of one million households have been covered in the credit for household package program in Amhara, Tigray, Oromiya and SNNP regions from 1997 to 1999 Ethiopian fiscal years. While Afar Region obtained 4% of the national total food security budget, Dire Dawa received less than one per cent.

With regard to the resettlement program, the food security office report in 2011 indicated that 224,021 households who were voluntarily re-settled during the period 2003/04 -2010/2011, 220,801 households (98 per cent) have now become food self-sufficient (MOFED/MoA 2011). Though the government claimed to have greater contribution in insuring food security of people who have resettled by this program, no credible evidence has been provided.

The amount of resource allocated for PSNP is huge as it is largely financed by donors and partly by loan obtained from World Bank. The program support about 8



million food in-secured rural people. On average (using 2005 to 2009 expenditure on PSNP), the highest share of budget went to Amhara Region (39%), followed by Oromiya (22%), SNNP (21%), Tigray (17%). Harari Region is also a beneficiary of PSNP although it received less than one per cent (only 0.2% of the total national PSNP budget). Recently, in 2008 and 2009, Afar and Somale Regions started to obtain an extremely small budget from the PSNP program budget, i.e. 0.2 and 0.1 per cent respectively.

After 2008, the PSNP is complemented by the Other Food Security Programs (OFSP) and the Household Asset Building Program (HABP). A recent IFPRI impact evaluation (Berhane et al 2011) has found positive impacts on household food security from these programs. The evaluation found that the PSNP has improved household food security by 1.05 months, while beneficiaries of all three programs have improved food security by 1.53 months; crop production and holdings of livestock units have increased; children's meals have increased by 0.15 in the lean season. For recipients of the PSNP, access to the OFSP/HABP has increased the likelihood of using fertilizer by nearly 20%, and of investing in stone terracing by 13% (Berhane et al, *ibid*). Overall, there are significant improvements in household assets, incomes, food production and nutrition as a result of these food security programs, which adopt the integrated approach initially piloted in the Tigray watersheds.

## **5. Concluding remarks**

Ethiopia's achievement in meeting the MDG goals is very encouraging. Ethiopia has already achieved the MDG target of reducing extreme poverty, reducing gender disparities in primary and secondary education, reducing child mortality by one third and universalization of primary education ahead of the 2015. Although the country is behind the MDG target in reducing maternal death, a lot of progress has been in reducing maternal mortality.

The reasons for such success are (1) the ability of the country to create peace and security and mobilize its people for development; (2) the establishment of broad based and participatory political system; (3) the formulation of appropriate development and economic policies and particularly the developing agricultural led industrialization strategy that focus on agriculture and rural areas where more poor people are living; (4) creation of pro-poor programs in pro-poor sectors such as agricultural extension, health extension, productive safety net program and market oriented agricultural production; (5) fiscal decentralization leading to pro-poor budgeting, allocation of large share of the public budget for education, agriculture and health by federal and regional states as a result of the fiscal decentralization with further deepening the decentralization to local level; and (g) aligning its policies and programs to PRSP and MDG initiatives so as mobilizing domestic and international community to finance public expenditure.

With the increased public spending on pro-poor sectors such as agriculture, education, and health, substantial achievement has been obtained in agriculture and food security, education and health/nutrition in reducing intersecting inequalities:

1. agricultural production has intensified leading to increased agricultural production;
2. food security packages and credit services were provided to all rural communities to intensify agriculture and productive safety net program was implemented to all chronically poor communities to make rural households create wealth and be able to cope up drought and other shocks;
3. Poverty has declined and food security has improved an increased agricultural production coupled with the proper implementation of productive safety net program ,
4. primary and secondary schools have built and teachers have hired and trained to expand enrollment of poor children in primary and secondary education in all regions including in disadvantaged regions;
5. As a result of expansion of schooling to rural and disadvantaged regions, it was possible to eliminate the gender gap and reduce the rural urban disparities
6. health post, clinics, centers and hospital have built and every kebele has obtained at least a health post staffed with two health extension workers;
7. Improving food security together with increased health service delivery has led to declining stunting, and child and maternal mortality.

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