Federal Democratic Republic of Ethiopia

Assessment Report of the Homegrown Economic Reform (HGER) Agenda (2019-2022)

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Table of Contents

List of Tables

List of Figures

Executive Summary

Macro-Financial Reform (July 2019 – June 2022)

The Government of Ethiopia implemented the macro-financial reforms of HGER with the objective of debt distress reduction and price stabilization, improving access to finance, and reduction of financial sector vulnerability. Faced with two major challenges of COVID-19 and internal conflicts in the country, the government made concerted efforts in making policy and legal changes that would help achieve these objectives. Furthermore, these policy and legal changes have both short- and long-term impacts that would extend beyond the HGER plan and thus the effects of some of these changes are yet to be seen.

Encouraging developments were seen in debt distress reduction and stabilization due to the improvements made in public debt management and a boost in the values of exports of goods and services. Total public debt stock as a percentage of GDP was 45.2 percent of GDP at the end of the 2021/22 fiscal year from 56.1 percent of GDP in the 2018/19 fiscal year. Furthermore, the HGER period saw increased foreign exchange earnings from exports of goods and non-factor services and from private transfers. Exports of goods increased by 16 percent mainly due to increased exports of gold, coffee, flower, and chat. These changes led to improvements in external debt sustainability indicators. Both external debt to GDP and debt service to export ratios dropped from 28.2 percent and 26.7 percent in 2018/19 to 22.0 percent and 20.4 percent in 2021/22. While these positive changes are signals for improvements in the level of debt distress, these small changes are not significant enough to improve the DSA rates. The GOE should note that debt-carrying capacity is also subject to change and fast growth in exports is critical for meaningful improvements in the DSA risk rating in the long run.

Looking at the financial inclusion indicators, there is an increase in deposits, credit to the private sector, and a decrease in the number of people per branch, suggesting that access to finance improved over the HGER period. Outstanding deposits reached 1.7 trillion in the last fiscal year of the HGER period (i.e., 2021/22) from ETB 899.6 billion in 2018/2019 with an average growth rate of 25 percent. Furthermore, outstanding loans grew by an average of 23 percent over the reform period from ETB 840.9 billion in 2018/19 to ETB 1.6 trillion in 2021/22. This achievement was recorded partly because of the recent currency demonetization, repealing of NBE bills, NBE's provision of a three-year credit line to CBE, and injection of liquidity into the hotel and tourism sectors through commercial banks to counteract the impact of COVID-19.

There are, however, challenges in stabilizing the economy by lowering inflation. General annual inflation was 15 percent in 2018/19 and the 2021/22 fiscal year annual general inflation rate was 34 percent. This is much higher than the government's targets of single-digit inflation. Particularly worrying is the high inflation rate of food items since it has an adverse consequence on the poor. Food inflation was 20 percent in 2018/19 and increased to 38 percent in 2021/22. Despite a decline in food inflation during June 2022 from its highest level of 44 percent in May, it was a record high in the previous months starting August 2021 (38 percent) to the end of the HGER period. The reversal of the tight monetary policy envisaged in HGER contributed to the high inflation rate. Price expectations and supply disruptions (partly due to conflict) have played roles in explaining inflation from the supply side. Coupled with broad money growth, exchange rate pass-through to prices might also have a potential impact on inflation.

Structural Reforms (July 2019 – June 2022)

The structural reforms under the HGER agenda aim to remove bottlenecks that constrain businesses and create an enabling environment for the active participation of the private sector. Under this area, the reforms focus on speeding up ease doing business reforms and improving the performances of the Logistics and the Energy Sectors, thereby promoting economic growth and job creation.

Ease of Doing Business Reforms: Ethiopia's business environment is not conducive for starting and operating businesses, and it is a serious bottleneck for the growth of the private sector. Duly recognizing this problem, the HGER agenda underlined speeding up ongoing reforms of easing constraints to doing business as one major area of its structural reforms. Accordingly, several reform measures toward improving Ethiopia's ease of doing business have been implemented. Among others, the main reform measures include improving the different components of the ease of doing business such as starting a business, dealing with construction permits, paying taxes, trading across borders, getting electricity, getting credit, and registering property. Important improvements have been made to the different components of the World Bank's measure of ease of doing business.[1] If these reform measures are widely communicated and fully implemented, Ethiopia's ease of doing business ranking is likely to improve in a meaningful way. The report also forwarded policy recommendations that can be used to further improve Ethiopia's ease of doing business.

Logistics Sector Reforms: Poor logistics has been identified as one of the key factors that undermine Ethiopia's international competitiveness, and it is a major bottleneck for furthering economic growth and development. Acknowledging that inefficient logistics is becoming a series bottleneck for Ethiopia's international competitiveness, reforming the logistics sector should be considered as one major structural reform area. The HGER agenda has identified the bureaucratic customs processes, inefficient logistics services, under-developed transport systems, inadequate terminal facilities, limited utilization of ICT systems, and inefficient regulatory framework as major challenges observed in the logistics sector (FDRE, 2019). To ensure the efficiency of the logistics services, the HGER proposed reforms in three key areas enhancing the competitiveness and efficiency of the logistics sector, digitalizing logistics and related services, and improving coordination between the different actors in the sector. With the Logistics Transformation Office of EMAA taking the lead, reform measures that aim to build the sector's enforcement capacity, reduce logistic transit time and cost, and provide efficient, reliable, and simplified service have been implemented. As a result of the reform measures, it was possible to improve the implementation capacity of the sector, reduce the trade cost and transit time, and improve the efficiency of the logistics service in the country.

Structural Reforms in the Power Sector: As Ethiopia continues to industrialize, its electric power demand continues to grow. Despite this, the power sector is still characterized by low access, low quality and reliability, poor financial performance, and weak institutional and regulatory frameworks. To effectively address these structural problems, the power sector is one of the prioritized areas that is covered under the structural reforms of the HGER agenda. Among others, the major structural reforms implemented in the power sector include strengthening financial stability, improving institutional capacity, ensuring universal access, and creating an enabling policy and regulatory framework.

[1] The World Bank Group discontinued the Doing Business report as of September 2021 and is planning to launch a new approach, tentatively known as the Business Enabling Environment (BEE), to assess the business and investment climate in economies worldwide.

Sectoral Reforms (July 2019 – June 2022)

Agricultural Sector Reform: Major reform measures in the sector include putting in place legal frameworks towards establishing a strong and functional institutional system that promotes efficient utilization of production resources (including revision of the sectoral policy), access to agricultural inputs (including a national fertilizer supply chain enhancement strategy, developing a seed policy and supporting directives, and removal of duties and taxes on mechanization technologies) and agriculture-focused financial services, and integration of smallholder farmers into agricultural value chains. Significant achievements have been recorded in mechanization, wheat intensification, horticulture, and crop production related to the promotion of cluster farming. Irrigation development is another reform activity that resulted in the development of small-scale irrigation schemes and the distribution of irrigation materials and equipment. Achievements in agricultural import substitution through irrigated wheat production and agricultural export improvement (with the highest coffee export earnings in history) were also recorded during the reform period. Major challenges are the lack of separate planning and reporting for HGER interventions in the agriculture sector and consequently difficulties in tracking expected results.

Manufacturing Sector Reform: The major reforms under the HGER agenda implemented in the manufacturing sector are: revision of policies and regulations and formulation of new ones; development of the manufacturing incentive strategy; formulation of export development and promotion strategy (now being finalized); and digitization of service provision through developing an Industry Information System (IIS) that facilitates access to relevant data from key stakeholders. The manufacturing incentive management is integrated into the IIS. Major challenges concerning the implementation of the manufacturing sector reforms include a lack of awareness and conviction about the need to have a separate plan for the implementation of the HGER agenda, weak institutional networking and inter-sectoral collaborations, the Covid-19 pandemic, and removal of Ethiopia from AGOA trade privilege.

Tourism Sector Reform: Recently developed tourist attraction parks in Addis Ababa (Entoto, Unity, and Friendship Parks) are flagship projects that showcased Ethiopia's historical, cultural, and ecological attractions. The Ministry of Tourism (MoT) has taken action in preserving and protecting immovable heritage sites and movable heritages. The MoT has also performed activities on capacity building and awareness creation on the principles of tourist sites and wildlife protection, tourism marketing and digital promotion, and hospitality activities. New strategies for stopover tourism, Meetings, Incentives, Conferences and Exhibitions (MICE) tourism, and domestic tourism are prepared and implemented. Moreover, the development of a tourism fundraising procedure to guide efforts of pooling resources for investments in developing and protecting tourism sites and infrastructure. The main challenges that seriously obstruct reforms in the tourism sector throughout the three years life span of HGER are the Covid-19 pandemic and armed conflicts in the country.

Mining Sector Reform: The reform measures in the mining sector under the HGER agenda introduce formalizing and supporting Artisanal and Small-scale Mining (ASM) and hence reducing the incentives for informality, illegal and contraband activities in the mining sector. This is supported by policy and legal framework reforms, including the preparation and implementation of policy documents along with improving the regulatory framework key to creating a conducive and enabling environment for private sector participation and operations in the mining sector. The enhancement of a community development fund has been started to ensure local society benefits from mining activities. The reform measures also emphasized the importance of improving the value addition of mineral resources through the establishment of mineral refineries. Major implementation challenges are security problems in mining areas and lack of access to finance, technologies, infrastructure, and logistics to support ASM.

ICT Sector Reform: The reform measures in the ICT sector include promoting the use of ICT for modernizing the civil service and public services, promoting e-commerce and digitization of the financial and logistic sectors, expanding ICT infrastructure, promoting the export of IT-enabled services, and promoting pro-innovation ICT regulatory and business environment. The Ministry of Innovation and Technology (MInT) has completed some legal and policy reforms that support the development of the sector (e.g., e-transaction proclamations and digital policies). Furthermore, the implementation of e-services at various government offices has been completed. Lack of coordination between key stakeholders responsible for the ICT sector reforms and budget constraints have been indicated as major challenges that affected the timely implementation of ICT sector reform measures.

1. Review of Macro-Financial Reforms (July 2019 – June 2022)

The Government of Ethiopia (GOE) designed the macro-financial reforms of the Home-Grown Economic Reforms (HGER) to stabilize the economy, address financial sector vulnerabilities, and improve access to finance. These broad reform ideas were translated into objectives linked to policy actions. These objectives include price stability, debt sustainability, reduction of financial sector vulnerability, and improved access to finance for the private sector. Implementing these reforms successfully and achieving these objectives requires systematic coordination of fiscal, monetary, financial, and capital market reforms. This review identified two broad reform areas. The first set of reforms — i.e., public sector finance and State-Owned Enterprises (SOE) reforms — aimed at maintaining a prudent fiscal policy, enhancing domestic resource mobilization and efficiency of public expenditure and investments, and improving debt management. The second reform area — the monetary-financial reforms — was designed to address foreign exchange shortage, strengthen the monetary policy framework, reduce financial sector vulnerabilities, and improve access to finance. This review summarizes the major developments of the HGER in the three years that elapsed from July 2019 – June 2022.

In general, the HGER reform measures were off to a good start but were quickly challenged by several shocks that led to a delay and in certain cases a reversal of reforms. The first shock came less than a year after the HGER was announced. The first case of COVID-19 was discovered in Ethiopia in March 2020 and soon spread to reach death levels of more than 7,500 people to date. The pass-through effect and the slowdown in certain economic sectors coupled with an increased need for government expenditure led to the relaxation of prudent fiscal and monetary measures. Late in November 2020, the conflict in the northern part of Ethiopia erupted and this presented the second major economic shock that resulted in a lower level of tax collection and the need for increased government expenditure. This also led to delay or reversal of measures in the reform program. We look at each reform measure in this context.

1.1. Public sector finance and SOE reforms

The reforms that aim for strengthening public sector finance and SOEs have the objectives of price stability and debt distress reduction. The Ministry of Finance (MOF) identified reform outputs to achieve these objectives. The major reform outputs include maintaining a prudent fiscal policy, enhancing domestic resource mobilization, improving debt management, and improving the efficiency and governance of public finance systems, and the efficiency of SOEs. Annex 1 presents the mapping of these reform outputs with the overall objectives of the macro-financial reform.

Maintaining a prudent fiscal policy

Maintaining a prudent fiscal policy has the potential role of reducing inflationary pressures and sustaining economic growth. The fiscal deficit in Ethiopia was 2.5 percent of GDP in the 2018/19 fiscal year, which was below the Maastricht Fiscal Criteria[2] of 3 percent of GDP. The HGER, therefore, considered no further consolidation and did not put specific targets for the budget deficit[3]. Hence, we have relied on the targets set in the three-year arrangement under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF)

[2] The Maastricht Fiscal criteria are a set of fiscal criteria that specify the level of government deficit and debt levels not to exceed 3% and 60% of GDP respectively. The criteria are used by the EU for fiscal convergence among its members.
[3] Federal Democratic Republic of Ethiopia (2019), A Homegrown Economic Reform Agenda: A Pathway to Prosperity

between the Government of Ethiopia and IMF in May 2020[4]. Moreover, the government also has an annual budget with specific targets for the budget deficit that is used to review performance.

The focus of this review will be on the modes of financing such as the provision of credit by the National Bank of Ethiopia (NBE) to cover government expenditure in the form of direct advances, which is not in line with the objectives of price stability. The law requires NBE to provide the government with credit and advances to finance the budget deficits[5]. The NBE's monetary financing of government expenditure is known to lead to inflationary pressure. Another source of financing for the government is treasury bills. The MOF uses treasury bill auctions to finance the central government budget deficits, and the market is for short-term financing needs. Pre-2019, NBE auctions treasury bills at a fixed interest rate ranging from 0.8 (for the 28 days) to 5 percent (for the 364 days). With the inflation rate averaging 14 percent between 2004 and 2019, the negative-real interest meant the treasury bills market was not attracting voluntary participants[6]. Until 2019, NBE sold treasury bills to private and public social security funds and the Development Bank of Ethiopia (DBE).

The GOE undertook two policy changes to address gaps in government financing that contributed to inflationary pressure. In December 2019, MOF took steps to limit direct advances and converted the stock of debt from direct advance into a 25-year bond with a 10-year grace period. Furthermore, the government introduced a market-based auction for treasury bills, and the stock of treasury bills was converted to a three-year treasury note. This measure of limiting direct advance aimed to stabilize the price level by reducing the direct credit from NBE while creating simultaneously other sources of funds from the market-based treasury bills, which have no inflationary effect, to finance the government's budget deficit.

The specific targets set out on the three-year arrangement plans (i.e., ECF & EFF) were to bring the fiscal deficit from 2.5 percent of GDP in 2019/20 to 1.9 by the end of HGER (i.e., 2021/22). Taking the government figures at face value, the fiscal deficit as a percentage of GDP was above the targets under the three-year arrangement of reducing the fiscal deficit to GDP. As shown in Table 1, fiscal deficits were 2.8 percent in 2019/20, 3.4 percent in 2020/21 and 4.2 percent in 2021/22. The ratio in the first year of the reform program (i.e. 2.8 percent) was lower than the 3 percent criteria, yet it was higher than the 2.5 percent target under the ECF & EFF arrangements for that fiscal year. While the achieved fiscal deficit was higher in 2019/20 than ECF & EFF plans, the GOE planned to maintain the fiscal deficit ratio with respect to the budget at 2.1 percent. The gap was due to the unexpected/revised budget in the fiscal year. Budget utilization was 133 percent of the budget in 2019/20 (with deficits of ETB 70 Billion in the budget, and 93 Billion in the actual performance). In both the 2020/21 and 2021/22 fiscal years, actual deficits as a percent of GDP were higher than both the budget and ECF/EFF targets. The actual deficit was 3.4 percent in 2020/21, higher than budget targets (2.8 percent) and ECF/EFF targets (1.9 percent). For the 2021/22 fiscal year, the actual deficit was 4.2 percent of GDP, higher than the target set out in ECF & EFF plans. This is also higher than previous fiscal years and the budget planned during the same year. Furthermore, in this last year of the reform period, unlike the previous years, there was higher dependence on domestic finance than external finance.

[4] IMF Country Report No. 20/150, International Monetary Fund. May 2020

[5] Monetary and Banking Proclamation No. 591/2008, The National Bank of Ethiopia Establishment (as amended).

[6] Chauffour, J.-P., & Gobezie, M. A. (2019b). Exiting Financial Repression: The Case of Ethiopia. World Bank, Washington, DC. https://doi.org/10.1596/1813-9450-9082

Table 1: Fiscal Deficit (Millions of ETB, % of GDP): Budget versus Achieved[7]

Fiscal Year	Deficit	Budget	Achieved	Achieved vs Budget (%)	ECF and EFF Plan	As % of GDP (Budget)	As % of GDP (Achieved)
2019/20	Financing	70,327.9	93,277.4	132.6	2.5	2.1	2.8
	External (net)	31,964.7	59,528.8	186.2	-	0.9	1.8
	Domestic (net)	38,363.3	42,104.0	109.8	-	1.1	1.2
2020/21	Financing	121,266.4	149,299.3	123.1	1.9	2.8	3.4
	External (net)	34,865.8	21,808.3	62.5	-	0.8	0.5
	Domestic (net)	86,400.7	108,684.9	125.8	-	2.0	2.5
2021/22	Financing	201,217.8	259,632.7	129.0	1.9	3.3	4.2
	External (net)	11,056.3	3,295.5	29.8	-	0.2	0.1
	Domestic (net)	190,161.5	262,431.0	138.0	-	3.1	4.3

Source: MOF and authors' calculation

By way of summary, fiscal performance during the HGER period reveals that the objective of contributing to price stability following prudent fiscal policy has veered off its plan. All the three fiscal years witnessed an increased expenditure with high budget deficits than what is recommended. This was mainly due to two major challenges the GOE faced that transpired in the country following the onset of the HGER reform. The GOE responded to the challenges posed by COVID-19, which resulted in a reduction in tax revenues because of reduced economic activity, and increased expenditures as the government responded to COVID-19. Furthermore, internal conflict in the country led to an unexpected public expenditure in times of reduced revenue leading to an increased deficit. Taking into account these major factors, the increase in fiscal deficit was moderate.

The government has set a direction to phase out direct advances from NBE. The government converted the outstanding debt from direct advances into a 25-year government bond with a 10-year grace period to signal the government's commitment. As a result, the outstanding debt from direct advances dropped from ETB 187 billion (7 percent of GDP) in June 2019 to ETB 31 billion (i.e., close to 1 percent of GDP) by the end of June 2020. While this decline shows commitments of the GOE, direct advances from NBE reverted in the following two years—it increased to ETB 83.5 Billion (1.9 percent of GDP) in June 2021 and to ETB 160 billion (2.6 percent of GDP) in June 2022 (Annex 2). This shows the magnitude of the reversal of the targets set out in the HGER. This reverse might show the government's pressure to face the challenges mentioned above, especially internal conflict in the last two years of the reform period. Although most of the financing of the deficit was done through Treasury Bills, the increase in the direct advances contributed to the persistent inflation we observe in the country today.

The conversion of the outstanding debt from direct advances is only relevant to signaling the government's intent. For price stability, the critical factor is how the government has been financing the deficit since the government launched HGER. In the first years of HGER implementation, the net domestic financing from the banking system declined from 0.4 percent of GDP (2018/19) to 0.15 percent of GDP (2019/20). While this decline was not significant enough, the figure increased to 1.2 percent of GDP (2020/21) and 3.4 percent

[7] In 2021/22, unlike other years, deficit financed from domestic (net) sources is greater than the total deficit. This is because the government has unused resources of ETB 6 billion.

of GDP at the end of the reform period (2021/22) (Annex 3). This might have a potential impact on an increase in money supply and hence a potential challenge for price stability. Yet, as mentioned above, there are good signals in terms of converting direct advances to T-bills for domestic financing. By June 2020, of the total net changes in these two instruments, direct advances constituted 58 percent while the T-bills cover the remaining. In the following two years, there was a shift from direct advances to T-bills financing. The share of net changes in direct advance declined to 35 percent in June 2021 and 28 percent in June 2022 (Annex 2).

Recognizing the positive steps taken to phase out direct finances, specifying the terms under which the NBE finances the government will put the gains on a solid foundation, as observed in other countries. Ethiopia needs to put in place a binding and formal procedure for the NBE financing of the government. Such an approach will partly address the question of the independence of the central bank, which will send a clear signal indicating the commitment to price stability and help mitigate the entrenched inflation expectations that contributed to the observed realized inflation.

Enhancing domestic resources mobilization

Ethiopia has been reforming tax policy and administration since the early 2000s. The government introduced the value-added tax, modernized the tax administration system, introduced an IT system to keep a central database of taxpayers and associated information, and implemented mandatory use of electronic sales registry machines. The earlier changes have contributed to an increase in tax revenue explained as a percentage of GDP. MOF introduced a number of tax policy reforms in the second half of the HGER reform period. Among the main reforms include customs duty reform, a surtax reform, excise tax, and ad hoc exemptions for basic food items.

In September 2021, MOF updated the old customs tariff book and changed customs duty brackets from 0%, 5%, 10%, 20%, 30%, and 35% to 0%, 5%, 15%, 25%, and 35%. This change was aimed at harmonizing the tariff book of the country with that of the World Customs Organization(WCO) and enhancing local manufacturers' competitiveness by imposing higher duty rates on final products and lower duty rates on key raw materials of imports. Although this reform was projected to be revenue neutral and hence will have a marginal effect on overall customs duty collections, it is expected to affect the tax revenue indirectly by increasing the domestic production capacity and productivity. Likewise, MOF implemented reforms on surtax payments on imports. Imported items with a customs duty rate of 15% and below which are considered raw materials or key imports are now exempt from surtax payment. However, imports with a customs duty of 25% and 35% (except garments and textile products considered final consumer products) continue to be subject to a 10% surtax, which in fact has been projected to reduce the surtax revenue. The MOF also introduced a new Excise Tax Proclamation[8]. This reform changed the tax base for locally produced goods from the 'production cost' to 'ex-factory prices'. The tax base for imported goods remained the same (i.e., CIF value plus customs duty payable). The reform also introduced a number of administrative measures aimed to ease taxpayer permits, empowering the tax authority to follow up and monitor local excisable goods manufacturers. While the focus of these reforms and (hence this review) is on the reforms made on foreign trade taxes, MoF's Tax Policy Directorate also has plans to introduce reforms in domestic taxes such as Value Added Taxes and in some important direct income taxes such as agriculture income tax.

[8] Proclamation No. 1186/2020

Along with the tax policy measures mentioned above, the government also implemented important tax administration measures aimed at easing the compliance burden on taxpayers, reducing the administrative costs to the tax authorities, and boosting revenue for the government. The tax exemption approval process that regional government entities and investment bureaus handle has been centralized and requests are directly submitted at MOF to ensure the effectiveness of tax exemption privileges. It is expected and there are signs that the centralized process reduces the volume and cost of approved exemptions.

The Ministry of Revenue (MOR) has also improved its tax audit capacity to reach more taxpayers. As a result, large SOEs, which were not taxed previously due to limited internal capacity, are now addressed and embraced into the tax net. MOR also implemented the electronic single window system, a one-stop window where users can directly make various requests, and brought many customers to the system. Other administrative measures taken by MOR include on-the-job training for tax officials, taxpayers' consultation, and enhancing awareness creation and public recognition for most tax-compliant taxpayers where certificates of recognition for the most tax-compliant taxpayers at all levels are granted, which are among the noticeable measures.

Given that a significant part of the economy is under the informal sector, which is not taxable, formalizing the informal economic activities and bringing the informal sector into the tax net requires strong political commitment and investment in both infrastructure and manpower development. In this process of broadening the tax base, there is a need for tax administration authorities in regional states and City administration to form harmonies with the federal tax administration authority (MOR) and support each other as new tax potential is available at the regional and City administration level.

Reforms regarding modernizing the tax system and digitalizing transactions are underway. Yet, these reforms require large expenditure on infrastructure development as well as coordinated collaboration among the stakeholders such as financial institutions (commercial banks, national bank of Ethiopia), Ethio-telecom, MOF, Ministry of Trade and Regional Integration (MoTRI), and others.

These policy and administrative reforms have their own roles in the recent nominal increase in tax revenues. The annual average growth rate of tax revenue from 2016/17-2018/19 was 12.1 percent from ETB 191 billion in 2016/17 to ETB 268 billion in 2018/19. This average annual growth rate improved to 18 percent from 2019/20-2021/22 from ETB 268 billion in 2019/20 to ETB 437 billion in 2021/22.

Despite these reforms and growth in tax revenue in nominal terms, the tax-to-GDP ratio declined since 2015. This decline in tax to GDP ratio is worrisome because improving tax collection is at the heart of correcting the macroeconomic imbalance that the country is facing. With increased tax revenue, the government can finance its developmental responsibilities without overburdening the economy with debt and non-conventional modes of financing deficit, such as direct advances from the NBE. The tax-to-GDP ratio was 12.4 percent in 2014/15, which has been declining over the years. The ratio declined from 9.2 percent at the start of the HGER to 7.1 percent at the end of the reform (Annex 4). This is significantly lower than the sub-Saharan African average of about 16 percent of GDP. However, the HGER agenda put the direction of reversing the declining tax to GDP, and the ECF and EFF targeted to raise the tax to GDP ratio to 12.7 percent of GDP. This deviation requires immediate attention[9]. Furthermore, looking at the components, both direct and indirect taxes as a share of GDP declined from 4.3 percent and 5.7 percent in 2018/19 to 3.4 percent and 3.7 percent in 2021/22 (Annex 5). Addressing the decline in tax to GDP ratio also requires a dynamic look at the tax base, buoyancy, and implementation. It is important to highlight an area that has progressed well in the reform period to do with consolidating tax expenditure. Leakages of revenue through ineffective tax incentives that are misused and not well-targeted have led to the wastage of incentives and resources. The MOF has taken steps to address this issue during the reform period.

Improving Debt Management

The Ethiopian government issued a regulation on the financial administration of the federal government in 2010, which calls for a debt management strategy to be developed by the MOF. Accordingly, Ethiopia formulated a debt management strategy in 2012. This Medium-Term Debt Strategy connects borrowing with macroeconomic policy, assists the government in maintaining sustainable debt levels, at low cost and low risk, and encourages the establishment of local debt markets. The debt management strategy aims to guide the government to borrow the appropriate amount at the right time and limit the negative impact of unsustainable debt on the economy. The MOF updated the debt management strategy for 2016 to 2020. The strategy is a formal step to manage debt accumulation. By so doing, it helps the country to avoid macroeconomic instability and debt overhang.

As part of the HGER, the Debt Management Directorate of MOF is working with a new medium-term debt strategy developed for the next five years in collaboration with the World Bank and the International Monetary Fund. The new strategy will incorporate the new T-bills market, capital market development, Public-Private Partnership, and common framework. The strategy aims to revise the composition of the government debt portfolio through a cost-risk tradeoff. It also aims to incorporate the debt of SOEs and contingent liabilities arising from PPPs, which provides a broader picture of the public sector's debt portfolio.

The MOF also restructured existing debts to lessen short-term obligations, reduce immediate foreign currency obligations, mobilize budget support, and strengthen Government Finance Statistics (GFS) data compilation. As a result, the external debt to GDP ratio declined from 28.2 percent in 2018/19 to 22 percent of GDP at the end of the reform period. Similarly, the domestic debt to GDP ratio declined from 27.9 percent in 2018/19 to 23.2 percent of GDP at the end of the reform period. A summary of some of these major activities implemented and their output by the MOF is presented in Annex 6.

SOEs reforms underway

As part of the reform, outdated SOE legal frameworks were revised to reflect the current economic context. Among the SOE sector reforms is the enactment of the new public Enterprises' privatization proclamation (No. 1206/2020) which replaces the old proclamation (No. 146/1998) enacted to enhance the transparency and efficiency of public enterprise's privatization process. MOF has established a permanent SOE oversight and pre-privatization unit to strengthen and institutionalize SOE reforms and sustain the benefits out of the reform. SOEs are adopting the International Financial Reporting System (IFRS).

[9] The team is undertaking a deeper study on the determinants of the tax-to-GDP ratio at a granular level to recommend actionable policy interventions.

The government has also taken actions to liberalize the telecom market with the sale of licenses for private operators and partially privatizing Ethio-telecom to improve market competitiveness and enhance the quality of telecom services. To lead and regulate the telecom sector, Ethiopian Communication Authority (ECA) has been established by proclamation 1148/2019. Likewise, the privatization of the asset of the Sugar Corporation is in progress and aimed to strengthen sugar production potential by attracting private sector capital and expertise into the market that has been monopolized by the government. Ten out of the 13 sugar estates have been identified to be privatized and the process of privatization is underway. Moreover, there was a strong recommendation for the government to promote private sector participation in the logistics sector and the Ethiopian Shipping Lines and Logistics Enterprise (ESLLE) to expand the availability of value-added services as well as improve efficiency and quality of service. However, the asset value of ESLSE is very low and not feasible for sale. It has been rather believed by the government to liberalize the sector while keeping the ownership under the government noting both its strategic importance and potential for value addition to the logistics sector. The general direction of the government at present seems limited to restructuring and transforming the enterprise to improve its governance and revamp its business model to compete in the prevailing market. There are also reforms currently being undertaken in other SOE's such as Ethiopian Railway Corporation (ERC), Ethiopian Electric Power (EEP), and Industrial Parks Development Corporation (IPDC).

1.2. Monetary and Financial Sector Reforms

Addressing forex imbalances

To address the foreign exchange imbalances, the NBE planned to speed up the depreciation of the Birr vis-à-vis USD towards adjusting the real exchange rate to its equilibrium value. The projected exchange rate by NBE showed that the nominal exchange rate would be 34.7 by the end of June 2020, 40.9 by Jun 2021, and 45.8 by Jun 2022. Furthermore, the parallel exchange rate was projected to be 41.6, 44.9, and 47.1 for the same period[10]. The ultimate objective of the bank is to remove the spread between the official and parallel exchange rates by Jun 2024 where both exchange rates will stand at 52 ETB/USD (Annex 7). Furthermore, NBE also planned to build up foreign exchange reserves to serve as a buffer to supply the market as the foreign exchange allocation system moves towards a market-based one. NBE has increased the crawling rate of the Birr visa-a-vis the USD. The average exchange rate (Birr to USD) depreciated by 55 percent from ETB 31.3/USD in 2019/20 to ETB 48.6/USD in 2021/22, higher than what was targeted. Furthermore, the exchange rate roadmap set out by the NBE assumed tightened monetary policy that would result in a stabilization of prices to a single digit by June 2021. This has however not materialized as indicated above with reserve money increasing significantly partly to finance the government budget. Accordingly, inflation has also increased significantly. These developments have derailed the exchange rate unification goal. Other measures outlined in the roadmap hinged on the unification of the exchange rate including the development of a viable foreign exchange market by complementing it through auctions by the NBE, supporting price formation, and moving towards a controlled more market-determined rate. Due to the failure to achieve a unified exchange rate these elements of the roadmap could not be implemented.

The real exchange rate, among other factors, determines the competitiveness of the country's exports and the sustainability of its balance of payments. It is a crucial aspect of an industrial policy in countries that achieved

[10] Building Blocks for Exchange Rate Reform Roadmap. National Bank of Ethiopia. April 2020

successful structural transformation (Rodrick (2008) and Guzman et al. (2018))[11,12]. In line with this argument, the effective real exchange rate depreciated by 36 percent from 2019/20-2021/22. However, the parallel market premium increased by 8 percentage points in the same period from 30.6 percent in 2018/19 to 32.9 percent in 2021/22 because of the historically highest parallel exchange rate in the HGER period (Annex 8 and Annex 9). The two major shocks (COVID-19 and internal conflicts) played a role in further reducing the supply of foreign exchange and destabilizing the parallel market as demand outpaces supply in both markets. The COVID-19 pandemic had pass-through effects, particularly on certain export commodities like textiles, coffee, and oilseeds. The biggest impact came on the travel and tourism sectors which declined sharply due to pandemic mitigating measures that reduced travel. Internal conflict on the other hand affected loans, grants, and FDI receipts further exacerbating the shortage of foreign exchange in the system. The shocks pushed parallel market rates upwards resulting in increased premiums. Therefore, the significant depreciation of the Birr vis-à-vis USD did not result in the desired depreciation of the real exchange rate because part of the depreciation passes through to domestic prices as evidenced by the increased role of the non-food inflation, thus partially blunting the initial depreciation. Furthermore, expansionary monetary policy has brought demand push inflation that further reduces the impact of the initial depreciation.

Foreign exchange earnings from exports of goods saw an average 16 percent increase over the HGER period, which is more than the average growth in the previous 7 years (Figure 1). This was mainly due to increased exports of gold, coffee, flower, and chat, which grew by 273%, 25%, 31%, and 9% respectively during the same period (Annex 10). The sudden increase in the value of export of gold was mainly attributed to the relatively higher price in the international market, and the adjustment made by NBE's purchasing price of gold, which has witnessed a 30 percent upsurge since last year to incentivize miners and discourage the contraband export of gold. Forex earnings from the export of non-factor services and private transfers (i.e. from private individuals) also grew by 10 percent and 1 percent respectively. However, they grew by 16 percent and 6 percent during the three years before the reform period (i.e. 2016/17-2018/19). The slower growth during the reform period was due to a negative growth rate in these two accounts (-5.3 percent and -19.2 percent, respectively). In the 2019/20 fiscal year, this slower growth was mainly because of COVID-19.

Given the negative domestic impacts of COVID-19 that followed the HGER and the internal conflict in the country, the performance of the export sector is encouraging. However, unless the country manages to diversify its exports, the current increase in the export of goods might not be a sustainable source of forex earnings. This follows from the supply constraint of low productivity and production coupled with a low marketable surplus for agricultural exports.

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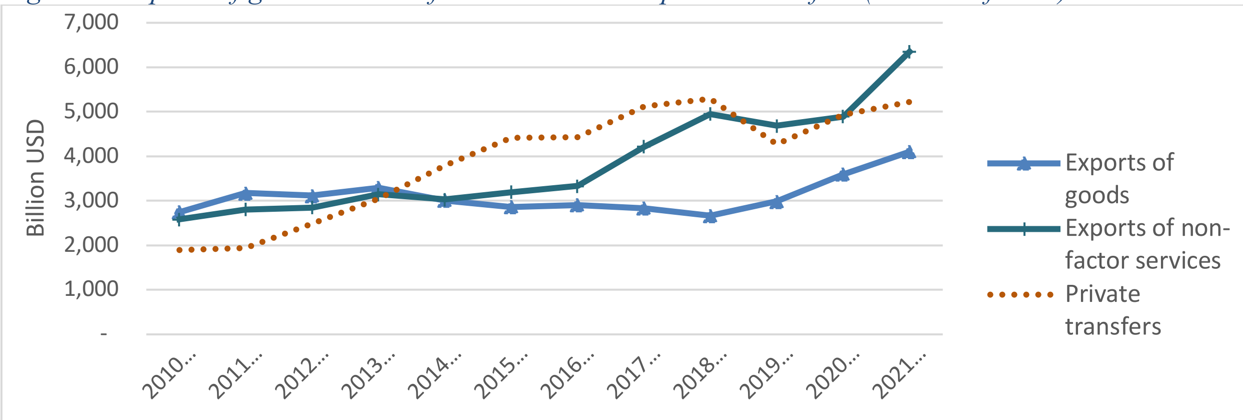
[11] Guzman, Ocampo, Stiglitz (2018), "Real exchange rate policies for economic development," World Development, Volume 110, Pages 51-62

[12] Dani, Rodrick (2008), "The Real Exchange Rate and Economic Growth," Brookings Papers on Economic Activity 2008(2):365-412

Figure 1: Exports of goods and non-factor services and private transfers (Billions of USD)



Source: Drawn with data from NBE

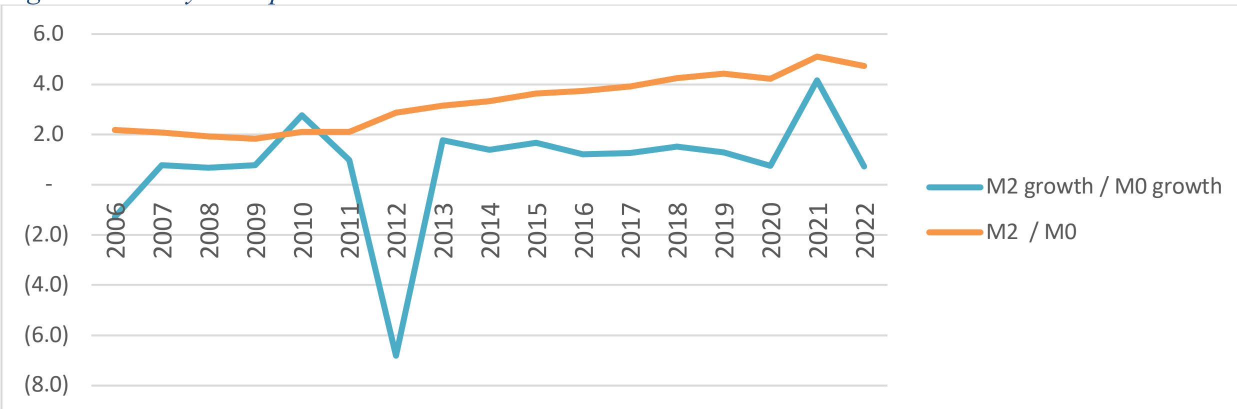
Although the HGER period showed a boost in foreign exchange earnings, this was offset by increased imports of goods, mainly driven by imports of fuel, semi-finished goods (especially fertilizers), and durable and non-durable consumer goods. As a result, the total forex payments grew from USD 13.9 billion in 2019/20 to USD 18.1 billion in 2021/22. Combined with a declining official transfer and capital account balance in the reform period, Ethiopia's balance of payments deficit was USD 2.1 billion at the end of the reform period, the highest in the last 10 years. The two major shocks (COVID-19 and internal conflicts) have severely affected the balance of payments. The impact of COVID-19 has mostly been pass-through impacting nontraditional exports, private transfers, and travel and tourism following the months of the first case in March 2020. The conflict, on the other hand, affected loans and grants, and FDI in the capital account resulted in an increased deficit. This puts pressure on the country's available forex reserve, which was already low pre-HGER period.

Strengthening the monetary policy framework

Treasury bills and government bonds were being financed by pension funds, NBE (directly, and indirectly through DBE), and other SOEs at less than the market rate before December 2019. NBE has also been financing government spending through direct advances. As a result, the market for indirect monetary instruments is underdeveloped. That leaves NBE with monetary aggregates as the main instruments of monetary policy. Hence, NBE conducts monetary policy by setting the growth of broad money to line with nominal GDP growth[13]. Because NBE does not directly control broad money growth, it uses reserve money as its operational instrument. This suggests that the effectiveness of this policy depends on the stability of the relationship between (a) reserve money and broad money and (b) broad money and prices (and other macroeconomic variables).

[13] NBE (2009). NBE's Monetary Policy Framework, Economic Research and Monetary Policy Process.

Figure 2: Money Multiplier



Source: Drawn based on data from NBE

Data over the last several years shows that both relationships are far from stable. As can be seen from Figure 2, the money multiplier has doubled within a decade (2011/12 - 2021/22). Similarly, the velocity of money has been very volatile (Annex 11). It is this fact that necessitates reforming and strengthening the monetary policy framework of the country which includes building the analytical capacity of NBE to help the transition from the current quantitative monetary policy framework to a more forward-looking price-based monetary policy framework over the medium term (as envisioned in the monetary policy roadmap). In addition, it requires introducing new indirect instruments intricately linked with outcomes of interest. Although not explicitly mentioned, the plan of NBE envisioned following a prudent monetary policy (limited money growth) while introducing the above-mentioned instruments.

The NBE has developed a new monetary policy framework that moves monetary policy from a quantity (reserve money) based one to a price (interest rate) based one. A number of liquidity management instruments have been developed including directives on the overnight facility and lending and deposit auctions. The NBE has planned to anchor the policy rate over the medium term. The NBE has succeeded in launching the T-bills auction and approved an open market operation directive. However, the liquidity of the T-bill market is not sufficient for the required open market operations. This is due to a narrow investor base and limited awareness of participants. NBE also revised the monetary policy framework of the country. It has also decided to implement a hybrid monetary policy framework during the transition period. This is to use both quantity-based and interest rate based monetary policy. The plan for reserve money growth in the fiscal year 2019/20 was 12.5 percent. However, actual growth (22.4 percent) has much exceeded the plan. Actual reserve money growth (7.2 percent) was below what was planned (12 percent) for the fiscal year 2020/21. However, it grew by 37 percent in 2021/22. The possible explanation for the deviation of reserve money growth from the target is the liquidity support NBE provided to commercial banks to combat the economic impact of COVID-19, and due to the unplanned expenditure outlays that came about by the internal conflict in the country. Broad money, in the fiscal year 2019/20, grew by 17 percent. It also grew by 30 percent in 2020/21 and 27 percent in 2021/22. The trend for these growth rates was not consistent to reserve money growth (Annex 12 and Annex 13), which might indicate that targeting reserve money growth is not an efficient way to conduct monetary policy. Moving towards an interest rate based monetary policy is commendable, however, a few challenges remain regarding its viability. One is that an inflation rate of more than 30 percent will keep real interest rates in negative territory. Secondly, operationalizing the central bank liquidity management instruments will require sufficient liquidity in the system to share with T-Bills.

Another aspect of strengthening the monetary policy framework is decreasing the role of NBE as a financier of government deficit. Reducing fiscal dominance provides NBE with the flexibility to deploy indirect instruments to achieve price stability. The plan by the MOF was to completely phase out direct advances by NBE in the mid-to-long term. Although it did not have specific quantitative targets during the HGER period, NBE planned to reduce direct advances to the government. As discussed in section 2.2, although the decline in direct advances to ETB 31 billion in 2020 from ETB 187 billion at the end of the previous fiscal year might show commitments of the government, pushed by COVID-19 and internal conflict in the country, direct advances reverted in the following two years. It was ETB 160 billion in June 2022 (Annex 2).

Reforming public financial institutions and dealing with vulnerabilities at public banks

Excessive borrowing of SOEs from public banks (i.e. Commercial Bank of Ethiopia (CBE)), and delays and cost overruns of public projects undertaken by the SOEs posed a challenge to public banks' balance sheets (especially CBE). Furthermore, modernizing the operations of public banks is overdue. Since no specific targets were put in the plans regarding the health of the balance sheet of public banks by the relevant government organization (e.g. NBE), assessing the status of outputs and whether activities are being undertaken and goals are being met per the plan might be a difficult exercise. As a result, this review summarizes the main activities undertaken.

Modernizing the operations of CBE and DBE to the level of industry best practices was one of the objectives of the reform. A study was conducted to design a plan for modernizing the operation of CBE and DBE. In addition, an asset quality review has been undertaken by CBE to account for potential risks to the SOE loans. To upgrade NBE's financial regulatory framework to international standards, NBE has planned to move from the Basel I supervision approach to Basel II and III. In addition, regulation for establishing a deposit insurance scheme has been approved by the council of ministers. Furthermore, Liabilities & Assets Management Corporation (LAMC) was formed to reduce (eliminate) the risk of SOE loans that are not being serviced in the financial sector. The aim is to generate resources, including from the privatization proceeds, to rebuild the health of the Commercial Bank of Ethiopia’s balance sheet.

Enhancing financial sector development and developing capital markets

The long-term finance needs of the public and private sectors have been borne by commercial banks and required financial repression to facilitate. Financial repression has resulted in macro-imbalances and a fair allocation of financial resources requires institutions including capital markets. In addition to launching a T-bills market in 2019, a background study for the inter-bank money market was conducted and key challenges have been identified to implement the market (which the bank is resolving in collaboration with development partners). The House of Peoples Representatives of Ethiopia passed a proclamation on the formation of capital markets (bonds, stocks/equities, and derivatives) on July 2021 with the objectives of “supporting the development of the national economy through mobilizing capital, promoting financial innovation, and sharing investment risks”[14]. The proclamation entails the establishment of capital market authority and the

[14] FEDERAL NEGARIT GAZETTE, 2021. *Capital Market Proclamation No. 1248 /2021,* Addis Ababa: FEDERAL NEGARIT GAZETTE

establishment of a Securities Exchange. Furthermore, to support the development of mobile banking to promote financial inclusion, directives on mobile money issuers and agents were issued. Mobile money issuer and agent licenses were granted. A National Digital Finance Strategy has also been prepared and approved by the Council of Ministers. The established institutions are in the process of commencing operation but it would take time to see the bulk of long-term financing needs addressed through them.

1.3. Assessment of the reform in terms of achieving its objectives

Reducing debt distress

Total public debt stock as a percentage of GDP declined to 45.2 percent of GDP at the end of the 2021/22 fiscal year from 56.1 percent of GDP in the 2018/19 fiscal year. However, in nominal terms total public sector debt stock stood at USD 57.34 billion in 2021/22 which was slightly higher than the total public debt stock of USD 53.8 billion in 2018/19, out of which external debt stock was USD 27.9 billion in 2021/22 and USD 27.08 billion in 2018/19.

Debt restructuring for both external and domestic debts has been accomplished during the HGER period. Among others, the USD 2.5 billion principal and interest payment restructuring that postponed payments for five years by commercial creditors under the 1st external debt restructuring scheme, a debt resolution framework that aims at restructuring SOEs debt of close to ETB 780 billion for highly indebted SOEs including EEP, ERC, EEG/METEC, CIC, ESC and EEU, and domestic central government debts restructuring by converting short-term bills to long-term notes and bonds are the notable actions taken to reduce debt distress.

The Government of Ethiopia targeted to reduce the Joint IMF-World Bank Debt Sustainability Analysis (DSA) rating from high to moderate. There has been commendable economic growth in Ethiopia. However, growth has been in non-tradable sectors, such as the construction sub-sector. This by no means implies the performance of the export sector was dismal—there are promising changes in the export sector. Furthermore, while the tax-to-GDP ratio has been declining as the growth rate of nominal tax revenue is less than the growth rate of nominal GDP, there has been above 18 percent average annual growth in nominal tax revenue collection during the reform period. These progresses have had a positive impact on some of the debt sustainability indicators. Table 2 presents these indicators along with EFF/ECF projections and DSA thresholds. The external debt to GDP ratio was declining from 28.2 percent in June 2018/19 to 22.0 percent in June 2021/22. Similarly, debt service to exports of goods and non-factor services also dropped from its pre-reform period of 26.7 in 2018/19 to 20.4 percent at the end of the reform period.

However, in terms of the goals to be achieved, there is a long way to go before the debt service to export ratio and PV of external debt to export ratio fall below the 15 percent and 180 percent of the DSA threshold. The IMF and the World Bank put these threshold ratios for countries with the medium composite index measuring debt carrying capacity. Furthermore, the ratios for Ethiopia are above the EFF/ECF projections.

Table 2: Debt sustainability indicators (in percent)

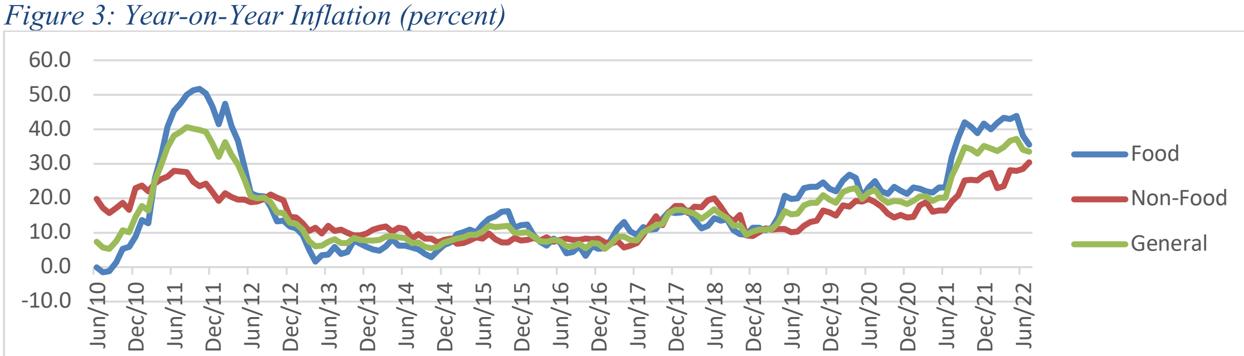
Sustainability Indicators	2018/19	2019/20	2020/21	2021/22	DSA Threshold
External Debt to GDP	28.2	26.8	26.5	22.0	40
Domestic Debt to GDP	27.9	24.4	24.2	23.2	
Total Public Debt to GDP	56.1	51.2	50.7	45.2	55
External Debt to Exports of Goods and Non-factor Service	355.5	376.5	347.5	267.0	180
Debt Service to Exports of Goods and Non-factor services	26.7	26.1	22.4	20.4	15
Debt Service to Total Revenue	18.3	17.7	17.9	20.7	18
Debt Service to Tax Revenue	21.3	20.2	20.5	23.7	

Source: IMF, MOF, and authors' calculation

Price Stability

The GOE envisioned single-digit inflation in the last decade and throughout the HGER period. Therefore, one of the goals set in the HGER program was overcoming this challenge by reducing inflation to a single-digit level. Reforms of monetary policy and limited reserve money growth were targeted to achieve this goal. However, driven by both domestic and external factors, Ethiopia experienced high inflation over the HGER period. Actual data shows that inflation exceeded the plan by a significant margin. The general annual inflation was 15 percent in 2018/19 and 2021/22 FY annual general inflation rate was 34 percent. Particularly worrying is the high inflation rate of food items since it has an adverse consequence on the poor. Food inflation was 20 percent in 2018/19 and increased to 38 percent in 2021/22. Despite a decline in food inflation during June 2022 from its highest level of 44 percent in May, it was a record high in the previous months starting August 2021 (38 percent) to the end of the HGER period. Controlling inflation is still a challenge for achieving the price stability objective of HGER.

Figure 3: Year-on-Year Inflation (percent)



Source: Drawn with data from CSA

Although identifying a causal link between the pushing factors of inflation is a difficult exercise and is beyond this review, we highlight some potential external and domestic factors for the increasing trends of inflation in recent times. A potential source of inflation is international commodity price shocks (such as what happened in 2008 and 2011-see Annex 14). However, apart from the supply disruption due to the Ukraine war which started in February 2022 (see below), a look at commodity price trends over the last few years— i.e. 2016-2021 that includes two years of HGER period— does not suggest that it is the main driver of inflation in Ethiopia. To see the minimal role played by an international price shock is to examine the close association between price trends in Ethiopia, with that of neighboring countries, Sub-Saharan countries, and

World price trends. As shown in Annex 14, the inflation in Ethiopia tracks its neighboring countries, especially in periods of large international commodity shocks in 2008 and 2011. The recent departure in the inflation trend in Ethiopia suggests that international commodity shocks are not major causes for the high inflation we observe in Ethiopia. This by no means suggests Ethiopia's inflation was not affected by the international commodity prices—including the recent war in Ukraine, which broke out in Feb 2022 and had a major shock to selected commodity prices. The World Bank's latest Commodity Markets Outlook shows that the war has disrupted the production and trade of several commodities, particularly those where Russia and Ukraine are key exporters, including energy, fertilizers, and grains[15].

The growth of broad money supply that began in 2016 (see section 1.2 above) along with a recently declining GDP growth that started in 2017 might be a potential pushing cause of the recent inflation. Furthermore, the depreciation of the exchange rate, passing through imported items, might also play a role in increasing prices. The official exchange rate (i.e. Birr-to-USD) depreciated by 73 percent from 2018/19 (ETB 28.1/USD) to 2021/22 (ETB 48.6/USD). Furthermore, the depreciation of the parallel market rate mirrors the trend in the official exchange rate. Unless the depreciation is coupled with sterilization (limiting money supply), it is bound to pass through domestic prices. This pass-through and the money growth, at least in part, explain the current price trend.

Recent supply-side evidence suggests that although food production is increasing the share of marketable surplus is still stagnant (causing supply shortages while demand has been increasing). Furthermore, the geographic dispersion of prices has been widening while market integration has declined since 2015. These suggest geographic factors like supply disruptions (partly due to conflict) have a role in explaining inflation rather than just demand-side factors.

Financial Stability

The Commercial Bank of Ethiopia (CBE) plays a significant role in the Ethiopian financial sector. As of June 2022, it accounted for 59 percent of total assets, 52 percent of total outstanding credit, and 52 percent of outstanding deposits in the Ethiopian commercial banking sector (Annex 15). Due to significant lending by CBE to state-owned enterprises and cost overruns and delays or projects undertaken by these firms, the bank is significantly exposed to risk. During the HGER period, NBE amended the Banking Business Proclamation that allowed for the inclusion of digital service providers (Fintechs) as financial institutions and approved directives on digital financial service providers and issuers. A regulation was approved for the establishment and operation of deposit insurance. Other reforms include the establishment of full-fledged interest-free banks and the issuance of directives on consumer protection.

Measuring financial stability is not as straightforward as measuring price stability. Therefore, several measures are proposed in the industry to understand the health of the financial system (see Annex 16). In this review, we use capital adequacy ratio, liquidity ratio, and non-performing loans.

The banking sector's capital adequacy has been much higher than what the NBE planned to achieve over the first and a half years (Annex 17). This shows that the banking system's capital is sufficient to withstand losses

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[15] Commodity Markets Outlook: The Impact of the War in Ukraine on Commodity Markets. A World Bank Report. World Bank Group. April 2022.

within expected risk parameters. The banking system's share of non-performing loans is smaller than the threshold (5 percent) and it declined until 2020. This indicates that banks' loan portfolios are healthy and banks are unlikely to face liquidity or solvency issues. But note that in banking systems like Ethiopia's where the banking system is dominated by state-owned banks and their loan portfolio is mainly comprised of lending to other state-owned enterprises with implicit and/or explicit guarantee of the government, the share of non-performing loans is not a good measure of the health of the banking system. Sufficient liquidity is necessary for the banking system to be able to accommodate sudden cash outflows. At the beginning of the HGER plan period, the banking system's liquidity was at the border of what is deemed sufficient. Over the first 1 and a half years, the liquidity of the system has improved in line with the plan. This shows that reform measures are achieving their intended goal. One dimension of the banking sector falling short is customers' satisfaction and effectiveness and efficiency of service. The rating of the banking system in terms of customer satisfaction falls significantly below the target set in the HGER plan. In addition, the performance has not improved over the first 1 and a half years of HGER.

Financial Access

Outstanding deposits reached 1.7 trillion in the last fiscal year of the HGER period (i.e., 2021/22) from ETB 899.6 billion in 2018/2019 with an average growth rate of 25 percent. Furthermore, outstanding loans grew by an average of 23 percent over the reform period from ETB 840.9 billion in 2018/19 to ETB 1.6 trillion in 2021/22. Compared to the three years before the HGER period, we also see similar growth rates; however, they started from a very low base (Annex 18). This achievement was recorded partly because of the recent currency demonetization, repealing of NBE bills, and NBE's provision of a three-year credit line to CBE and injection of liquidity into the hotel and tourism sectors through commercial banks to counteract the impact of COVID-19.

Financial access indicators for the usage of financial services cover types and values of services per number of populations. For banks, for instance, usage indicators include the number of deposit and loan accounts per 1000 adults and the value of deposits and loans per 1000 adults. The NBE does not have a quantified plan regarding the number of access points. Data from its quarterly publications show that the number of bank branches per person has continued to increase over the last year and a half. Specifically, the number of people per branch decreased by 1702 between June 2019 and June 2021(Annex 19). Another indicator for access to finance is the number of transaction accounts per 1000 adults, which was 90 in 2020 lower than the plan during the fiscal year (148).

The use of financial services has increased significantly over the last year and a half. The number of accounts per 1000 adults increased from 129.3 in the first half of the 2019/20 fiscal year to 147.9 in the first half of the fiscal year 2020/21. The expansion of transaction accounts is much larger than planned under the auspices of the HGER. Though the expansion of accounts is an encouraging sign of improved financial access, it is clear that at least some of this is due to the demonetization that was undertaken in mid-2020, the limit on the number of transactions and cash withdrawals that are put into effect during the period discussed above. It will be helpful to assess how active these newly opened accounts are. Another major factor for increased access is the expansion of the use of digital finance. Bank interoperability was put into effect allowing transactions between banks easier and reducing the need to hold cash balances. In addition, the payment systems have improved with the expansion of various payment modalities like *telebirr* and other mobile services.

1.4. Concluding remarks

The GOE implemented HGER against the backdrop of difficult economic problems in the country—two major factors transpired in the country following the onset of the HGER. The emergence of COVID-19 and internal conflicts in the county have made the implementation of HGER challenging. Both of these factors, coupled with other international factors (e.g. Ukraine war) had the effect of changing resource allocation and the efforts in the implementation of the reforms themselves resulting in the reversal of certain measures. Furthermore, some of the reforms have envisaged longer-term impacts than the time HGER is planned for and thus the effect of some of the measures is yet to be seen.

With this note in mind and the many economic variables involved, there has been some progress towards achieving the objective set in the HGER plans in the area of debt distress reduction and debt sustainability although there are gaps for improvement. Both external debt to GDP and external debt to exports declined over the reform period, mainly due to an improvement in exports of goods and services on the one hand and a reduction of external commercial loans and debt restructuring on the other hand. However, there is a long way to go before the breached debt service to export ratio and PV of external debt to export ratio reach the 15 percent and 180 percent DSA thresholds respectively. On the other hand, inflation has been and is still a challenge and thus the objective of stabilizing prices was not achieved, even worsened over the HGER period. A closer look at international commodity price trends over the last few years does not suggest that it is the main driver of inflation in Ethiopia. The exchange rate pass-through effect and the money supply growth, at least in part, explain the current price trend as the demand side factors. It is, therefore, imperative to monitor and assess the causes of current inflation from the domestic perspective. The financial sector is stable and there is an encouraging advance toward financial inclusion over the HGER periods. Moreover, there is a need to adequately appreciate the impact of the shocks to first, work towards mitigating their impacts and develop a pathway to continue the implementation of the reform measures. The measures are still relevant to achieve sustainable job creation and growth.

2. Review of Structural Reforms (July 2019 – June 2022)

The structural reform pillar of the HGER agenda aims to remove bottlenecks that constrain businesses and enhance institutional capacity. Accordingly, this section presents an assessment of the implementation of structural reforms of the HGER program by the HGER implementing institutions. Specifically, it assesses the performances of Ease of Doing Business reforms coordinated by the Ethiopian Investment Commission (EIC), Logistics Sector Reforms implemented by the Logistics Transformation Office (LTO) of the Ethiopian Maritime Affairs Authority (EMAA), and Structural reforms of the Power Sector implemented by the Ministry of Water, Irrigation, and Energy (MoWIE). After reviewing the performance of the reform implementation and the challenges encountered in the process, an effort is made to provide reform area-specific policy recommendations.

2.1. Ease of doing business reform

Under the structural reform pillar, the HGER considers the ease of doing business as a major reform area. Specifically, this reform area focuses on addressing challenges related to business licensing and registration procedures, logistics and power service provisions, policy and regulatory government support institutions, support systems for industrial parks, and tax and customs administration. While the overall goal of these reform measures is to create a conducive environment for starting and running businesses in Ethiopia, the specific objectives include improving Ethiopia's doing business ranking and the associated scores.[16] In addition, these reform measures and the resulting improvements will have important implications in attracting Foreign Direct Investment (FDI), promoting domestic investment, and helping businesses to flourish.

2.1.1. Ease of doing Business Reforms: Performance Review and Challenges

The Ethiopian Investment Commission (EIC) is one of the institutions mandated to lead and coordinate the implementation of these ease-of-doing-business reform measures under the HGER agenda. Accordingly, in the period following the launch of the HGER agenda, several reform measures have been taken to address the challenges of starting a business, obtaining construction permits, paying taxes, getting credit, registering property, and getting electric power. In addition, investment laws and proclamations have been amended and several consultation meetings have been held with key stakeholders to enhance coordination among the relevant stakeholders.[17]

The overall performance of Ethiopia in ease of doing business score and rank is poor. However, its score has shown slight improvement, rising from 48 to 49 in the 2019/2020 and 2020/2021 fiscal years. This increment, however, does not improve Ethiopia's rank in the global context and also when compared to other sub-Saharan African countries, e.g., Rwanda, Kenya, Egypt, Uganda, and Ghana. Among the critical areas, Ethiopia has poor performance in protecting minority investors, getting credit, starting a business, and trading

[16] Ethiopia was ranked 159th with a score of 48 in the 2019/2020 fiscal year. However, the score has shown subtle improvement in 2020/2021 and increased to 49.

[17] In order to enhance and properly implement the ease of doing business reforms, 11 legislations in Ethiopia were revised and amended over the past three years. These are: Commercial Code, Commercial Registration and Business Licensing, Movable Property Security Right Proclamation, amendment of the Value Added Tax (VAT) proclamation, Alternative Dispute Resolution Proclamation, Electronic Transaction Proclamation, Capital market proclamation, New York Convention Ratification proclamation, Electronic Single Window Regulation, Building Risk Directive, and Court Case Management Directive. These reforms are expected to produce significant change in reducing the structural bottlenecks that hamper the vibrant growth of private sector.

across borders. On the other hand, Ethiopia has a relatively better performance in enforcing contracts and paying taxes.

Table 3 below provides the major accomplishments in improving the components of ease of doing business.

Table 3 Highlights of accomplishments in improving Ethiopia's Ease of Doing Business

Components	Accomplishments
Starting a business	- Introduced a single standardized application form and business process for multiple services with the aim of reducing the number of procedures to start a business. As a result, the number of procedures has been reduced from 11 to 10 and the number of days from 32 to 17 days. - Improved services by reducing the number of business types that required the quality verification certificate from 1352 to 10 and reducing the number of business licensing categories from 1352 to 519. - Endorsed the one-center service provision to announce a company name in a newspaper, business address verification/lease agreement, by-laws and MoU, and TIN and VAT registrations during the establishment of a business. - Launched an online trade registration and license service to make investment registration and licensing service more efficient, effective, and accessible. - Abolished the requirement to publicize the establishment of companies and cancellation of business licenses and commercial registration in a newspaper. - Removed the rule that imposes cancellation of registration as a penalty for failure to obtain a business license within one year of commercial registration. - Removed the rule prohibiting investors from obtaining certificates of registration and business licenses via proxy. - Permitted foreign investors to sell their own products produced in Ethiopia through electronic commerce. - Developed and revised the investment proclamation, regulation, guidelines, and operating manuals and made them investor-friendly. It also introduced a policy shift from a positive to a negative listing approach to restricting FDI. Moreover, the EIC approved the Industrial Park designation and issued the ex-pat employees labor law directive.
Dealing with construction permits	- Launched an online application for construction permits in Addis Ababa City Administration which reduced the planning and consulting time from 3 days to 45 minutes and the approval time from 3 weeks to 3 days. - It was possible to reduce the cost of dealing with construction permits by 1.8 percentage points of warehouse value and the number of construction permit procedures by 2 procedures (from 15 to 13). - Reduced the service provision time by introducing a risk-based inspection and enforcing final inspection/quality control system at headquarters, sub-city, and woreda levels. To achieve this, the Ministry of Construction and EIC printed and circulated the new building risk-level directive, provided training, and increased the number of staff. As a result, the building quality control index (0-15) has risen from 11 in 2020 to 13 in 2021. - Ethiopia's score in dealing with construction permits increased from 52.8 points in 2019 to 59.7 points in 2021.
Paying taxes	- Operationalized the VAT quarterly (instead of monthly) filing and payment procedure for small and medium taxpayers. This eased the burden of paying taxes, mainly for smaller taxpayers with annual turnovers below 70 million ETB as they are now expected to file and pay their VAT quarterly. - Increased the coverage of e-filing/payment and taxpayer outreach: 81% of LTO, 80% of MTO and 46% of STO taxpayers e-filed in December 2020, while 51% of LTO, 27% of MTO and 4% of STO taxpayers have made e-payments in December 2020. The system challenges have also been addressed. For example, it ensured user-friendliness, fully automated tax payments through a bank, and removed the requirement to bring the slip to the tax office. In addition, it introduced an e-invoicing system by issuing an e-receipt directive to implement an e-transaction proclamation.

	- Reduced the time to install cash register machines to 3 days max and built effective service and reform communications platforms, including a dynamic website. - Endorsed law that allows replacing cash registration machines with software that provides a similar service. This saves 7 days and ETB 8,000 to ETB 10,000. - Reduced the hours spent paying taxes from 306 in 2018 to 292 in 2021 and number of tax Payments (per year) reduced from 29 to 27. However, there has not been improvements in the time it takes to get VAT refunds (48.69 weeks) between 2019 and 2020. The impact of the 50% reduction in VAT withholding (from 15% to 7.5%) is yet to be seen. - Launched the Electronic Single Windows system in 28 government institutions, including tax and tax-free rights, licensing, and other assurance services.
Getting electricity	- Introduced a digital device to monitor power outages. The system is deployed in all three districts (North, South, and East districts) of Addis Ababa in the 2020/21 budget year. - Reduced unnecessary processes required to obtain electrical connections. Specifically, the number of days to get electricity was reduced from 95 days in 2020 to 80 days in 2021.
Registering property	- Digitized the property ownership certificate to reduce the number of days, operating procedures, and payments required for the registration process. - Improved the quality of its land administration system by publishing the official list of documents required for property registration. - Combined the different payments into one and applying cadastral information system. As a result, the number of procedures required to register a property in Ethiopia reduced from 7 to 6 and the number of days it takes reduced from 52 to 51 days. As a result, Ethiopia's Quality (0-30) score in registering property increased from 5.5 in 2020 to 11 in 2021.
Trading across borders	- Launched the Electronic Single Windows (eSW) system, a one-stop service system - Improved the procedures by allowing pre-arrival clearance and approving the policy of deferred payment system. - Reduced charges imposed on imported and exported products. - Permission to allow foreign investors to sell their own products produced in Ethiopia through electronic commerce - Introduced free trade zone draft proclamation and related incentives regulation. After approval by the council of ministers it was sent to the HPR for approval. The first special economic zone in the country was inaugurated in Dire-Dawa and this is hoped to increase FDI inflows and improving export system.
Getting credit	- Reformed the loan supply system. Specifically, the movable property security right proclamation has been ratified and operationalized with the aim of increasing access to credit. - Expanding access to credit information system. By operationalizing the Credit Information System that allows online service to MFI lenders and capital good financing companies, it was possible to increase access to credit information. - Increased information on the borrower's registration system from 0.4% to more than 5%. As a result of the above, Ethiopia's Strength of legal rights (0-12) increased from 3 to 8 and the Depth of credit info (0-8) scored increased from 0 to 6.
Resolving Insolvency	- Introduced the revised Commercial Code that is expected to improve the investment environment in several ways. Among others, the revised Commercial Code has rules that facilitate bankruptcy and reorganization procedures and reduce the timeframe for resolving insolvency to 15 years.

Challenges and Limitations in the implementation process

Reforming the ease of doing business requires efforts of different stakeholders integrated and synergized. As a result, the EIC had to work collaboratively with other government offices. However, EIC indicated that it encountered challenges in undertaking structural reform measures by coordinating, synergizing, and monitoring the accountabilities of the different institutions that can contribute to improvements in Ethiopia's ease of doing business ranking. Moreover, EIC pointed out contradicting rules and directives and/or differing interpretations of the law practiced by different government entities. In general, the lack of consultation among government entities when drafting and implementing new rules, regulations, directives, or policies has also been another challenge.

Furthermore, corruption has been creating challenges in implementing reform activities as well as enjoying the reform gains.

The limited number of reforms in terms of ease of paying taxes and trading across borders (customs) and/or problems in widely communicating reforms undertaken in these areas can be indicated as one limitation. In the case of the former, the major reforms reported are the introduction of the electronic single window system, e-payment/e-filing system, and reducing the frequency of VAT-filling. Noting is reported, for example, in terms of improving the time it takes to get VAT refunds. Moreover, ensuring full coverage of incorporated medium taxpayers under the e-filling and e-payment system has not been achieved

The numbers also tell us that EIC's target of increasing Ethiopia's doing business (DB) score from 48 points in 2019/20 to 49 points by the end of the 2013 EC fiscal year (2020/21) is not ambitious enough. This target is also not consistent with the country's vision of making Ethiopia among the top 100 countries in the EDB ranking. A one-point increase in Ethiopia's DB score would not improve its global ranking significantly. For instance, to get to the top 120 performers or join its neighbors, Ethiopia needs to increase its DB score to around 60 points from its current level of 48 points.

In general, however, with some of the reform measures still underway, there has been important progress in terms of improving Ethiopia's business environment. Important improvements have been made to the different components of the World Bank's measure of ease of doing business. If these reform measures are widely communicated and fully implemented, Ethiopia's ease of doing business ranking is likely to improve in a meaningful way.[18]

2.1.2. Policy Recommendations

It is already evident that Ethiopia's score and rank of ease of doing business are poor, and there is ample room for potential improvements. Therefore, Ethiopia needs to design and implement the following policy recommendations to achieve higher scores and ranking in regional and global contexts.

Robust coordination among government offices and further empowering the EIC: There is a need to establish smooth and robust coordination among government offices. Weak coordination among different government institutions and differing interpretations of the law were some of the challenges pointed out by the EIC in undertaking the structural reforms related to ease of doing business. For example, the EIC mentioned legislation by MoR requiring a lease agreement for TIN, while the EIC abolished the lease agreement requirement for obtaining an investment permit. In general, since improving the ease of doing business involves different stakeholders, the EIC cannot be solely responsible for the success and failures of

[18] The World Bank Group discontinued the Doing Business report as of September 2021 and is planning to launch a new approach, tentatively known as the Business Enabling Environment (BEE), to assess the business and investment climate in economies worldwide.

implementing these reform measures and improving Ethiopia's ease of doing business ranking. Moreover, given its role in implementing these reform measures, the EIC needs to be further empowered to strictly coordinate, synergize and monitor the accountabilities of the different institutions that can contribute to Ethiopia's ease of doing business ranking.

Benchmarking best practices from peers: The fact that Ethiopia has a relatively poorer ease of doing business performance compared to other sub-Saharan African countries suggests that there is ample room for Ethiopia to make improvements. Moreover, the existence of well-performing sub-Saharan African countries means a great opportunity for Ethiopia to learn from the experiences of its close neighbors. Below are some examples of where Ethiopia can make further improvements in its EDB performance by taking simple lessons from other sub-Saharan African countries.

While Ethiopia has reduced the number of procedures and days and cut fees to start a business, it is still behind other African countries. For example, Nigeria made starting a business easier by reducing the number of days from 20 in 2018 to 7 in 2020 and improving the online platforms. Nigeria also made starting a business easier by no longer requiring on-site inspections for business premises registration.

Implement automated systems to monitor and report power outages like many other African countries, e.g., Egypt, Kenya, Rwanda, and Uganda. This system clarifies any possible failures in motors, pumps, transformers, control devices, or any electrical-type equipment. In addition, by adopting Uganda's experiences, Ethiopia needs to improve the monitoring and regulation of power outages by improving its calculations of the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI). These indices are one of the electric utility industry reliability measures, including outage duration, frequency outages, system availability, and response time. Lower values in these indices indicate lower interruptions in business operations due to power outages. Ethiopia should also make getting electricity faster by enhancing the review process and increasing equipment availability for new electricity connections.

Although there are indications that some of the above reform measures are also available in Ethiopia, they are either not well communicated, put into use widely, or made fully operational.

Strengthen the digital tax filing and payment system: It is important to strengthen the electronic filing and payment system by increasing network infrastructures, enhancing the functionality of the system, and providing information and training to business owners. It is also important to develop an online case management system to process value-added tax cash refunds following Côte d'Ivoire's experiences. Given that the time it takes to get VAT refunds has not improved in Ethiopia and that it is one of the areas susceptible to tax fraud, this is an area that deserves policymakers' attention.

Combat Corruption: Taking serious measures against corruption is important to make sure that businesses enjoy the outcomes of the reform measures and that the reform efforts bear fruit. The recent move by the government to intensify the anti-corruption campaign is a good start and a clear indication that the problem has become rampant.

2.2. Logistics sector reform

Ethiopia's logistic sector is characterized by bureaucratic customs processes, inefficient logistics services, underdeveloped transport systems, inadequate terminal facilities, limited ICT systems, and an inefficient regulatory framework. These inefficiencies increase the costs for businesses involved in trading across borders, delays in exporting and importing, and generally reduce the country's international competitiveness. As a result, improving Ethiopia's weak logistics sector performance is one of the major structural reform areas of the HGER agenda aimed at promoting Ethiopia’s economic growth and development.

Objectives and targets

HGER proposed historic and fundamental reforms in three key areas to improve the overall functionality of the sector. The first reform area aims to enhance the logistics sector's competitiveness and efficiency. The Logistic Transformation Office (LTO) has set three distinct goals (see

Table 4). It first aims to: one) build the sector's enforcement capacity, two) reduce logistic transit time and cost by 10%, and three) provide efficient, reliable, and simplified services.

The second reform area in the reform of the logistics sectors is focused on the digitalization of logistics and related services. The LTO plans to enhance its ICT service to increase the efficiency of the logistics sector and expand the study of Logistic Information Systems to make a common information system for all import and export products.

The third major reform area aims to enhance coordination across the logistics sector actors. Several actors and institutions are involved in the logistics sector. As a result, the sector is also affected by multiple regulations and such as maritime transport, road transport, rail, ports, customs, finance, etc. This reform is therefore aimed at establishing a robust coordination structure among key players in the logistics sector and enhancing its operational efficiency.

2.2.1. Logistics Sector Reforms: Performance Review and Challenges

Improving service delivery by integrating rail transport with road transport and freight centers

There have been achievements in strengthening the sector’s service delivery by integrating rail transport with road transport and freight centers. The major achievements in this regard include:

- Exporting 26,316 TEU containers of goods using the Modjo and Endode centers. The coverage of railway export containers increased from 2.6% to 24.2%. Specifically, by the end of the 2021/22 Ethiopian budget year, 14,579 20-feet containers for export have been transported through the railway line, higher than the previous year’s export of 11,737 20-feet containers.
- The 200 flat wagons that were purchased earlier were brought to work, increasing the capacity of the railway service that goes to the Djibouti port 3-fold.
- Work has begun on a project that links Awash Depot to the Djibouti railway line. As a result, in the 2020/21 Ethiopian budget year, from a total of 1,284,381 metric tons of imported fertilizer, 111,770 metric tons have been transported by rail.
- Moreover, the monthly frequency of train travel has increased from 5 to 20 and the capacity is increased from 12,950 metric tons to 51,800 metric tons.

Performance of the Logistics Sector Reforms in Reducing Trade Cost

- By using rail transport for imported and exported containers and dry bulk transport, it was possible to reduce the logistic cost by ETB 1,833,388,390 and save USD 35,567,315 in foreign currency.
- By applying the containerization of the export logistics service, 5,691,262.5 USD has been saved. Moreover, by using rail transportation it was possible to reduce the time that was required to transport the same volume of goods by 24,835 vehicles, on average, by 1.5 days each.
- Moreover, the Vessel anchorage time was reduced from 9 days to 1.4 days, on average; berth time for a given ship was reduced from 24 days to 10.3 days; and due to improvements made in Djibouti port operation, the time needed for loading a rail has been reduced from 3 days to 1 day.

Furthermore, for the success of the structural reform that focuses on enhancing the logistics sector's competitiveness and efficiency, the Logistic Transformation Office (LTO) has set three distinct goals and

Table 4 below summarizes the goals, targets and achievements in detail.

Table 4 Review of performance in the logistic sector

Goal	Achievements
Goal 1: Building the Implementation Capacity	
Target 1: Establishing the National Logistic Council (NLC) and transferring the council to full implementation	- NLC is established and become fully operational, held eleven formal and one special meetings; approved Eight studies on Interventions/ programs for study by LTO and other local and international consultants and gave direction for implementation. These included dry bulk importation, FOB directive revision, the opening of multimodal transport, containerization program, Free Trade zone, Ethiopia logistics Transit cost and time studies as compared to East African countries and domestic Logistics Performance Index (LPI) of Ethiopia for the year 2020 and 2021 based on WB indicators. The LPI's are published implying an improvement in logistics performance.
Target 2: Enhance Logistic transformation Offices' (LTO) implementation capacity	- Experienced personnel/consultants are hired from academia and practitioners in the sector through funding from the World Bank, WFP, and Flying Swans (a Dutch company) in partnership with EMA; Full-fledged LTO is operational, undertook several activities mainly designing and implementing the National Logistics Strategy (NLS) interventions and programs with concerned stakeholders, among others.
Target 3: Establishing the Ethiopian Logistics Community of Practice (ELCOP) also known as Ethiopia Logistics sectoral Association (ELSA)	- Association established with elected board members, necessary staff recruited for its office and is operational; participated in various workshops, meetings, dialogues related to NLS implementations, studies and validations representing the private sector.
Target 4: Organizing Technical working group (TWG)	- TWG set up composed of public and private logistics sector operators and stakeholders; Participated in technical forums and think tank meetings during program design and implementations. - Training offered to capacitate the team, discussions and awareness creation activities were undertaken
Goal 2: Reducing Logistic Transit Time and Cost by 10%	

Targe 1: Developing the Export Logistics Support Package and Starting Operation	- Major export logistic gaps were identified, export support package produced, and round of professional discussion has been held. Based on the result of the performance evaluation, the implementation scheme updated, special surveillance systems were introduced, and additional program improvement measures were taken.
Target 2: Strengthening the Export Containerization System and increasing its coverage from 48% to 70% in 2021/22 fiscal year	- The rate of export containerization at the end of 2020/21 fiscal year was 48%, missing the 52% target set for the fiscal year by 4 percentage points. - After learning through research and gap identification, the export containerization execution has been increased to 64.8% at the end of the 2021/22 budget year. - Operation and upgrading the export containerization program with special focus to cereal and oilseeds exports and making all coffee exports to be wrapped by containers has been improved. Noticeable achievement was recorded in the containerization of coffee exports, i.e., more than 95%. To scale up the export containerization system, a performance evaluation is conducted on the implementation of the containerization system.
Target 3: Deploying Livestock Logistic Export System/program	- Assessment on livestock export logistics completed and validated by LTO. A study was conducted on this program and under implementation by MoA with a financial and professional support of WB. Based on a survey, a detailed program has been developed to set up a retention facility for livestock at Djibouti port. The port agreed and provided area at the new port of Djibouti.
Target 4: Developing Modern and Effective Logistics System for Perishable Goods	- Technical team formed, pre-feasibility study and feasibility study have been completed by a Dutch company for the setup of cool port facilities at Modjo Dry port (cool port Addis) through Ethio-Netherlands cooperation and it is in progress. Mobilization of financial resource for the development of cool logistics infrastructure from the two parties (Ethiopia and Netherland) is in process. - Parallel to the study, trial shipment was made in exporting two 40-foot avocado containers weighing 48m/tones from the Amhara region to England have been successful. - Technical working group set up at the national level for cold chain activities and is well progressing.
Goal 3: Providing Efficient, Reliable, & Simplified Service	
Target 1: Liberalize the sector to private actors	- Directive prepared, reviewed and approved by the NLC to strengthen the multi-modal transport system and increase its coverage as well as gradually opening up the forwarding service to the international market; manuals and other formats prepared for its implementation. The plan to invite domestic private companies to start multimodal operating service by the end of 2022 is progressing well. - Ethiopia's trade logistics project, which transforms the Modjo dry port to green logistics hub facility undertaken through WB financing is well progressing and reached 38.5% of its completion. - FOB Procedure/Directive (1990 and 1992) has been revised and implemented. - Draft directive submitted to MoTL to open up the dry port services to both domestics and international operators. It is at its final stage for approval.

Target 2: Improve the functionality of the Customs and Supervising Office; improving the Custom Procedure and reduce the number of required documents;	- The number of required documents reduced from 6 to one/two documents (Single window) - Integration of the logistics service through intermodal facility (rail transport with road transport) and freight centers is enhanced. - Construction of heavy track terminals at two Djibouti gateways (Galafi and Dewalle) is completed and fully functional.
Target 3: Digitalize logistics and related services	- A comprehensive single-window service/online service is implemented/ operational; 16 organizations joined the system and 22 are in process to join this platform. - The study of Logistic information system/logistics digitalization strategy meant for all import and export has been developed and under review for implementation. - At Djibouti port, the port and custom service payment system is changed from manual to an online system. - Under the Trade logistics Project/Modjo Green Logistics Hub; the procurement of Terminal Operating System and integration platform/facility is in process. - A study is being conducted to avail Port community system/IMS platform in the Ethio-Djibuti corridor.

Challenges and Limitations in the implementation process

The logistics sector reform is complex and thus reform has faced several challenges. The followings are some of the challenges the sector has faced in implementing the reform program.

- Lack of financial resources for the implementation of the strategic initiatives that the office has planned to undertake.
- The difficulty of coordinating different governmental and non-governmental bodies causes delays in implementing reform measures that the office has been undertaking.
- The COVID-19 pandemic and its containment measures imposed a substantial impact on the logistic sector reform implementation process.
- The conflict in Ethiopia has constrained the reform in the logistic sector.
- The Ukraine-Russia war has hampered the performance of the logistics sector reform.

Although the Logistics Transformation Office (LTO) has done a lot of work in terms of advancing the HGER agenda, assessing its performance in implementing the HGER has been difficult. This is mainly because the LTO, despite its commendable achievements in implementing a list of reform measures that can help to advance the sector, did not have a specific HGER plan and corresponding time-bound targets that guide its reform implementation. This made it difficult to make a reasonable and focused assessment of the office's performance in implementing the HGER agenda.

For example, in the cases of livestock and perishable goods export logistics, the office needs to develop key performance indicators and set specific and measurable targets to allow for monitoring its performance. Moreover, even if some of the documents provided by the office indicated that the office has a target of reducing the country's logistics cost by 25 percent, detailed information is lacking to assess whether this target is achieved or not.

The LTO has indicated undertaking detailed research on the containerization program and identified the main reasons for the lower performance in containerization to be shortages of empty containers, problems with the weight limits of land vehicles, lower train frequency, exporters' low interest in getting off their tradition, lack of information and understanding the benefit of export containerization. Because of the above-mentioned constraints, the export containerization performance has been lower than the target set by the LTO. However, the office has not indicated specific/concrete solutions to address the identified challenges and improve the performance of export containerization in the future.

2.2.2. Policy recommendations

Enhancing the efficiency and cost-effectiveness of the logistics sector is important to reap the benefits of Ethiopia's high hopes in the manufacturing sector and boost its export competitiveness. These will require a menu of actions and reforms.

Fastening the logistic reform: The government has announced a historic reform in the logistics sector to improve the overall functionality, but implementation is lagging and there is a need to speed up the process. For example, key supporting regulations and the empowerment of regulators are needed to functionally liberalize dry port activities, including warehousing, cold storage, and packaging functions.

Government must prioritize the remaining steps of this reform area as the remaining actions may face pushback from special interests. In the absence of prioritization, such opposition may effectively undermine the benefits of actions taken to date.

Strengthening digitization and e-commerce: Logistics has been in the midst of a tech-driven revolution. Building robust digital capabilities can allow cargo visibility/traceability, doing business online, and increasing efficiency. Introducing an electronic document management tool would reduce, as much as possible, the time of transfer of a document between instances, the number of instances, and the supervisory authorities needed themselves.

Improve and refine the Single Window mechanism: Integrate this functionality into the general information base of public services. Reduce the barrier to entry for small businesses. Conduct training to explain the work of new systems and increase information literacy. Furthermore, it is important to:

- Introduce an electronic queuing mechanism to speed up the time of crossing border points by road;
- Develop a mechanism for closer interaction with customs authorities in trading countries;
- Introduce a mechanism for smart consolidation of goods in warehouses, thereby reducing the idle time for loading/unloading;
- Improve the accuracy of tracking cargo in space.

Building human capital in the logistics area: It is important to increase the attractiveness of the industry for young professionals and competent personnel. Technical positions should be filled based on expertise instead of political appointments. Moreover, sufficient compensation should be provided to retain top talent in permanent positions that are needed for continued problem-solving and innovation.

2.3. Power sector reform

As Ethiopia continues to industrialize, its electric power demand continues to grow. Despite this, the power sector is still characterized by low access[19]; low quality and reliability characterized by significant interruptions and fluctuations; poor financial performance due to huge accumulated debt, improper tariff setting, operational and administrative inefficiency, and weak institutional and regulatory frameworks. Consequently, the power sector is considered a key structural reform area under the HGER agenda. The aforementioned challenges necessitate the development of a comprehensive Power Sector Reform Roadmap (PSRR), which is in line with the Homegrown Economic Reform (HGER) Agenda.

2.3.1. Power Sector Structural Reforms: Performance Review and Challenges

Ethiopia's renewable generation capacity reached over 4,800 MW at the end of June 2022, which is dominated by hydropower. The contribution of solar, wind, and geothermal energy is less than 10%. Substantial investments have been made in the transmission and distribution of the grid network, covering about 70% of towns and villages in the country. However, the power sector falls short of effective and reliable service delivery. In 2022, the electricity access rate in the country is about 48%, where more than 60 million people have no access to electricity. To improve access to and reliability of electricity in the country, the Ethiopian government has put effort into reforming the sector. Table 5 and Table 6 summarize the key reform goals, activities, and achievements in the power sector reform.

Table 5 Reform measures/Goals and activities in the power sector

Reform measure/ Goals	Targets/Activities
Ensuring universal access to electricity	The National Electrification Program (NEP 2:0) in 2019 adopts an integrated approach to achieve universal access with 96% through grid connections and 4% through off-grid solutions by 2030. The existing regulatory frameworks that hamper investments in off-grid connections are under revision and new guidelines are under preparation.
Strengthening power sector institutions and regulatory frameworks	The Ethiopian Electric Power (EEP) and Ethiopian Electric Utility (EEU) are the main institutions in the power sector, and they suffer from a lack of efficiency and capacity. The reform aims to modernize corporate governance and improve the operational efficiency of power sector institutions, including through ownership, organizational, and management restructuring and innovations.
Implementing a sustainable financing model for the power sector	The reform in the power sector focuses on cost recovery through tariff revisions, implementing differentiated tariff rates between households and commercial/industrial users, and improving management efficiency and increased participation of the private sector to enhance the power sector's financial sustainability. In this regard the 4-year tariff adjustment has been implemented from 2018 to 2021.
Encourage independent power producers (IPPs) and	Public Private Partnership Regulation updated to strongly involve independent power producers (IPPs) Vertical unbundling of EEP and horizontal unbundling of EEU is important which can be implemented in phased approach.

[19] Currently, electric access is only 36% from the grid and 12% from off-grid.

public-private partnerships (PPPs)	

Table 6 The Power sector targets and achievements

GOAL	Objective	July 2020- June 2021			July 2021- June 2022		
		Target	Performance	%	Target	Achievements	%
Universal access	Increase number of electrified villages/ rural town	387	364	94	425	204	48
	Install 12 solar mini-grids for off-grid electrification	12	8	85	4	2	50
	Improve customer connection	100000	413,485	41	100000	364,466	36
	Complete 25 new solar mini-grid tender preparation and negotiation	100	100	100			
	Improve grid and off-grid connection coverage	52	46	88	58	48	82.7
Financial sustainability	Increase average tariff to cost reflective level	0.048	0.043	90	0.06	0.042	70
	Increase revenue from electric power sales (EEP and EEU) in billion birr	33.14	28.6	87	43.4	37.1	85.5
	Implement Utility Debt restructuring	100	95	95	5	5	100
	Reduce transmission and distribution technical losses (**needs further study**)	18	19.5	92			
Operational Performance Improvement	Undertake further power sector reform study (**needs government decision)***						
	Full implementation of ERP in EEU	100	99	99	1	1	100
	Launch digital payment system	30	30	100			
	Reduce SAIFI		130		112	83	74
	Reduce SAIDI		365		280	195	69
	Improve customer satisfaction level	70	67	95	72	58	80.5

Note: Some of the reform measures require government approval e.g. Unbundling of the utilities; further tariff adjustment and regulatory framework. **SAIFI** stands for System Average Interruption Frequency Index (SAIFI), while **SAIDI** stands for System Average Interruption Duration Index.

Challenges and Limitations in the implementation process

One of the biggest challenges in the power sector reform implementation is the slow achievement of the National Electrification Program (NEP). As per the program, the government has a big stake to allocate enough matching funds every year in parallel to the foreign currency component. In addition, the organizational setup in the EEU and regional offices has been evaluated and restructured. Some of the reform measures require approval from the government (Council of Ministers or the Prime Minister's Office). For example, during our interview with the sector, it was indicated that the unbundling of the utilities, further tariff adjustments, and the introduction new regulatory framework and institutional restructuring require strong government decisions for their implementation and are important steps toward implementing the HGER agenda.

2.3.2. Policy Recommendations

Ethiopia faces significant challenges in expanding access to electricity and making it more reliable. As such, stakeholders including the government, private sectors, and international development partners should collaborate to accelerate the progress toward universal access to electricity in the country. The core of this effort starts with governments' commitment to having the right regulatory conditions and institutional setup in place to attract investment in all areas of the sector, including generation, transmission infrastructure, distribution, and operational management. Among others, the government needs to do the following:

Promoting Private Investment in Electrification

- Recognize that electrification is a long-term investment and a necessary input for long-term economic transformation. It is crucial to find ways to finance the upfront costs of electrification, which will pay for itself only in the long run. In this regard, electrification may be viewed as a time-consistent way to save or invest for future generations.
- Amend the legal framework to attract the private sector to invest in all areas of the sector, including generation, transmission infrastructure, distribution, and operational management. Approval of the roadmap and establishment of the Power Sector Reform Office to implement the reform as per the roadmap could spur investment in the electric sector. The formulation of a market-driven electric power could improve the participation of the private sector in power sector investment.
- Study and recommend possible unbundling of the utilities (EEP and EEU) to create plain ground for the private sector to be engaged in generation and distribution activities.
- Encourage development partners to play a role in fostering interaction between private investors and the government such as providing technical assistance for electrification, planning to support building up the right regulatory environment, institutional setup and providing concessional financing to risk mitigation for drought, oil price shocks, and conflicts.

Expand access to electricity and strengthen reliability

- Invest in mini-grid and off-grid electrical sources that play a key role in achieving universal access.
- Take advantage of recent rapid technological advances to provide different forms of electricity service to meet basic needs and strategically promote productive uses. Stand-alone solar solutions provide services such as lighting, charging cell phones, and power for low-capacity appliances.

- Although access is important, reliability will be crucial if electricity provision be sustainable. Access rate alone should not be the sole measure of progress because universal access may not deliver its full promise if quality and reliability continue to be poor, with a significant strain on the country's economy.
- Design a national electrification strategy in a coordinated manner. Coordinate with other sectors to take advantage of complementarities and the provision of complementary inputs to productive economic activities. For example, coordinating with development initiatives (such as agriculture, social services, industry, transport road infrastructure finance institutions, skills development, and public service delivery etc.) could provide insight into where to prioritize the provision of electricity, and thereby amplify its economic impact. Experiences elsewhere indicate that the centerpiece of successful electrification rollout is the preparation and practical implementation in each country of a national electrification strategy that addresses, in a systematic and coordinated manner, the institutional, technical, and financial aspects of electrification.

3. Review of Sectoral Reforms (July 2019 – July 2022)

3.1. Agriculture Sector Reform (July 2019 – July 2022)

Agricultural growth remains an important driver of economic growth and poverty reduction due to its role as a major source of employment and output for the Ethiopian economy. Although there has been agricultural productivity improvement in the past few years, it is limited to some crops, with limited investments and productivity improvements in a range of sub-sectors. Furthermore, yield growth remains insufficient to match the growth of domestic demand for food and industrial inputs. Thus, increasing market-driven agricultural production and productivity and enhancing agricultural value addition and access to domestic and international markets will be required for agriculture to contribute to the structural transformation of the economy. Cognizant of this fact, the agriculture sector is one of the sectors included under the sectoral reforms of the HGER agenda. The sectoral reform agenda pertaining to the agriculture sector aims to unlock new and existing growth potential and promote investment in the sector by addressing market failures and regulatory and investment constraints in the sector.

3.1.1. Achievements and Challenges of the agricultural sector Reform Implementation

Major Achievements: The reform measures mainly include revising existing or developing new policies and legal frameworks to realize the goal of the agriculture sector reform agenda stated in the HGER document. Major achievements in this respect during the three years HGER implementation period include putting in place legal frameworks towards establishing a strong and functional institutional system that promotes efficient utilization of production resources, access to agricultural inputs and agriculture-focused financial services, and integration of smallholder farmers into agricultural value chains. The details of these policies and legal frameworks are presented in Annex A.1.

Specifically, the revision of the Agriculture and Rural Development Policy by looking at the policy pillar and identifying gaps in existing policy (see Annex A.1.a). A draft revised Rural Lands Administration and Use Proclamation has been submitted for review and approval to the Council of Ministers (see Annex A.1.b). Developing a national fertilizer supply chain enhancement strategy, a seed policy and supporting directives, and removal of duties and taxes on mechanization technologies are also among the reforms in legal frameworks that aim to improve agricultural productivity through enhanced access to agricultural inputs and technologies (see Annex A.1.c). Legal frameworks are also introduced to improve the supply and accessibility of agricultural finance (see Annex A.1.d). A Contract Farming Law has been approved by the House of Federation and directed to the House of Peoples Representatives for final approval (see Annex A.1.e). Furthermore, observed achievements related to implementation of agricultural reform measures are:

Piloting disbursement of a loan valuing more than 700 million Birr to 22,000 farmers using their landholding certificate.

Improved procurement and logistics system to improve supply of fertilizer and improved certified seed varieties. In 2019/20, the quantity of mineral fertilizers and improved seeds procured and distributed increased by 18% and 66%, respectively, compared to the baseline year (i.e., 2018/19) (see Appendix Figure 1). However, this upward trend was reversed in 2021/22, plausibly mainly due to the Russia-Ukraine war.

Tax exemption on mechanization has made agricultural mechanization accessible to farmers. Using the tax exemption, 1,092 importers imported around 1.2 million mechanization technologies (mainly water pumps and cables, and tractors and their accessories).

4.74 million ha (37 %) of the smallholder land cultivated through Agricultural Commercialization Cluster (ACC). Crop production in ACC increased by 22% between 2018/19 and 2021/22 (Appx. Figure 2). Crop productivity under ACC is 32% higher than national average (increase in yield for individual crops is presented in Appendix Table 2).

Modernize livestock production through increasing vaccination by an average of 15.9% per year, and initiating heifer multiplication programs to improve access to dairy genetics. The construction of livestock quarantine facilities in Millen and Metema has been completed. A national poultry sub-sector transformation action was initiated. The resulting production figures of livestock products are mixed. While poultry meat, egg and milk production increased by 65%, 17% and 73%, respectively, between 2021/22 and the baseline year, meat production from cattle, sheep, goat and camel declines by 77% during the same period (see Appx. Figure 3).

The agricultural exports in 2021/22 reached to 3 billion USD, which is a 41% increase compared to the agricultural exports in 2018/19 (i.e., at the baseline). This is driven by a staggering 87% increase in coffee export within that period (see Appx. Figure 4). With regard to agricultural import substitution, the domestic wheat supply-demand gap is expected to shift from -15 million MT in 2019/20 to +2 million MT in 2022/23. However, the trend in import of other food items has not yet been reversed (see Appx. Figure 5).

Challenges: The major challenges encountered in the implementation of the agriculture sector reform measures are:

- The planned reform measures/activities have no detailed time schedule (monthly or quarterly) and no separate monitoring, evaluation and reporting system.
- The deleterious Covid-19 pandemic and locust invasion.
- Delayed approval of the sectoral policy, the Rural Land Administration and Use Law, and the Contract Agriculture Law.
- Poor coordination among the different stakeholders in the sector.
- Challenges related to the alignment of the human resource transformation plan with civil service guidelines, and federal and regional reform alignment.
- Shortage of finance and foreign exchange for the purchase of agricultural inputs and mechanization technologies.
- Lack of a strong private sector to deliver on contracts.

3.1.2. Policy Recommendations

The recommendations for the agriculture sector are:

- Use a separate system for planning of reform measures or initiatives and for tracking their implementation and results.
- Approval and implementation of the revised agriculture and rural development policy to transform the agriculture sector to a dynamic and sustainable accelerated production growth.
- Approval and implementation of the revised Rural Lands Administration and Use Proclamation to strengthen security of land use, property and transfer rights as well as strengthen the legal framework for the land transaction and communal land ownership. Furthermore, develop and implement a legal framework for land consolidation.
- Develop systems and procedures with a clear strategy for promoting private sector investment in fertilizer production and supply chain and veterinary service.
- Design and implement efficient mechanization services with clear enabling environment, legal and regulatory framework to engage private sector and cooperatives
- Similar to ACC, design and implement livestock-based commercialization clusters.
- Commercialize public animal genetic improvement service with a clear model to semi-commercialize public animal genetic improvement service with the appropriate legal and related institutional framework to operationalize agreed upon model.
- Approval of the Contract Agriculture Law and implement it to promote contract agriculture among farmers and pastoralists with commercial producers and off-takers.
- Develop and implement import substitution strategy to strategic agricultural products, and develop and implement an agricultural commodities export strategy.
- Put in place operational modalities that support and encourage agriculture-focused finance and insurance services.

3.2. Manufacturing Sector Reform (July 2019 – July 2022)

The industry sector is one of the most important drivers of growth and is usually touted as "the engine of growth". And experience shows that almost no country (except some small city-countries) has achieved a high level of economic development without achieving a major breakthrough in its industrial sector, particularly the manufacturing sector. Compared to other sectors, the industry sector has greater potential for forward and backward linkages, specialization, technological innovation, and mass production. Building a vibrant high-tech manufacturing sector is essential to establish an economy's competitiveness in the global market. Cognizant of the importance as well as the shortcomings of the manufacturing sector, the HGER agenda recognizes the manufacturing sector as an engine for growth and transformation of the economy through creating effective backward and forward linkages, providing comprehensive support to MSMEs and enhancing the productivity of firms and workers. The principle that guides the manufacturing industry sector reform is that there is a need to have coherent, sequenced and implementable reforms that attract investors and ensure the competitiveness of the sector. There is also a need to ease bureaucracy through digitization and making information available to all.

3.2.1. Achievements and Challenges of the manufacturing sector Reform Implementation

Major Achievements: The Ministry of Industry (MoI), formerly known as the Ministry of Trade and Industry (MoTI), has planned and executed interventions in four major areas. These are: (i) revising or developing policy and legal frameworks (Annex A.2.1), (ii) developing the manufacturing incentive mechanism (Annex A.2.2), (iii) digitization of service provision (Annex A.2.3), and (iv) strengthening manufacturing sector support institutions (Annex A.2.4). The observed achievements associated with the implementation of the reform measures are: increased revenue from export; job created; and improved logistics of imported raw materials. The manufacturing sector has attracted 60% of Foreign Direct Investment and created 230 thousand new job opportunities in 2020. The manufacturing output has increased from 4.91 billion USD in 2018 to 5.12 billion USD in 2021. Moreover, export revenue from manufactured products increased from around 453 million in 2018/19 to 495 million in 2021/22, which is a 9.3% increase during the three years of the HGER implementation period (see Appx. Figure 6). Digitized customs facilitation allowed imported raw materials to be transported straight from a customs post to factories.

Challenges: major challenges encountered in the implementation of the manufacturing sector reform measures are:

- Lack of awareness and conviction about the need to have a separate plan for the implementation of HGER has had a detrimental effect on the commitment of the staff of the ministry towards the implementation of the HGER plan. This challenge arises due to absence of orientation to the Ministry about the need for a separate HGER plan.
- The Covid-19 pandemic has disrupted the global market. Furthermore, removal of Ethiopia from AGOA trade privilege restricted textile manufacturers' duty-free export access to the U.S. These challenges forced the Ministry to divert its immediate focus for manufacturers to continue their manufacturing and retain employees.
- Institutional coordinations and inter-sectoral collaborations towards implementing the reform measures in the manufacturing sector are very weak. The 'Ethiopia Tamirit' initiative was launched in May 2022 to address this challenge and boost competitiveness of the sector, but its impact is yet to be assessed.
- Lack of access to finance as a working capital and importation of inputs or raw materials and spare parts created challenges in implementing reform activities.

- Policy alignment, sequencing, coherence and consistency have been a challenge for the sector's growth and bringing about structural transformation envisaged in the HGER agenda.

3.2.2. Policy Recommendations

The recommendations for the manufacturing sector are:

- Future reforms in the manufacturing sector should be accompanied by separate implementation plans and M&E and reporting specific to the reform measures.
- There should be strong coordination of efforts and collaborations between the Ministry and Ethiopia's Investment Commission (EIC), Industrial Parks Development Corporation (IPDC), universities, TVETs and research institutions, and utility providers.
- Approval of the legal framework and other instruments developed as a result of the reform.
- Most of the planned reforms in the manufacturing sector are underway while some are at preliminary stages, and these should be completed to the fullest extent as outlined in the HGER agenda. This includes finalizing the incentive strategy development.
- Launch all the digital platforms and systems that have been developed.

3.3. Tourism Sector Reform (July 2019– July 2022)

Ethiopia has enormous physical and social aspects of tourist attractions. It is endowed with diversified and unique historical sites, cultural heritages, festivities and social systems. It has diverse ecological and geological zones, ranging from desert to frosty mountains and extensive plains, parks and sanctuaries with endemic wild animals and birds. Moreover, Addis Ababa is the capital city of Africa and hosts many regional and international organizations. However, the tourism potential of Ethiopia is underexploited. The main reasons for such under exploitation of Ethiopia's tourism sector include lack of skilled manpower in the sector, limited infrastructural development and inadequate promotion or marketing. The HGER plan aims to relieve these constraints so as to tap the potential of the tourism sector in Ethiopia.

3.3.1. Achievements and Challenges of the Tourism sector Reform Implementation

Major Achievements: Most of the achievements in implementing the reform measures in the tourism sector are related to legal reforms, problem and potential identification and documentation, revision of existing and developing new manuals and guidelines, and institutional networking. Specifically, the reform measures that the Ministry of Tourism (MoT), formerly known as the Ministry of Culture and Tourism, has implemented between July 2019 and July 2022 are: (i) improving tourism legal framework and foster institutional capacity (Annex A.3.1), (ii) designing a new investment incentive package for tourism investment (Annex A.3.2), (iii) improving access to finance to tourism operators in the short term (Annex A.3.3), (iv) designing and implement destination development strategy (Annex A.3.4), (v) developing integrated tourism marketing, promotion and branding platforms (Annex A.3.5), and (vi) strengthening the linkage to the agriculture sector (Annex A.3.6). In 2021/22, preservation and protection of 12 immovable heritage sites and 30 movable heritages, and provision of star ratings for 30 new hotels and proof of qualification for 150 tourism service providers were realized. Other results obtained in relation to the HGER plan implementation by the MoT mainly include: protecting wildlife parks from poachers; building road infrastructure in national wildlife parks, and protecting and controlling wildfires in and around national wildlife parks; and capacity building of local community members on wildlife development and ensuring that they will get fair share of the benefit generated from it.

Challenges: The major challenges encountered in the implementation of the tourism sector reform measures are:

- The Covid-19 pandemic and the armed conflict in the country hit the tourism sector the hardest, as movement of people is highly restricted. To provide some figures, the Ministry planned to attract 1,161,334 international tourists in 2012 EFY (i.e., 2019/20) of which only 36% was realized. Similarly, the Ministry realized 30% and 36.3% of planned international tourist arrivals in 2013 EFY (i.e., 2020/21) and 2014 EFY (i.e., 2021/22), respectively.
- Though the MoT and MoA had established a discussion forum and regular and productive consultation meetings on promoting agro-tourism, the discussion was interrupted due to Covid-19. Such interruption has delayed the implementation of reform activities on agro-tourism.
- The planned reform measures/activities have no detailed time schedule (monthly or quarterly) and no separate monitoring, evaluation and reporting system.
- Lack of finance for the development of tourism sites and related infrastructure, lack of skilled manpower and public bureaucracy in the procurement of services and materials have adversely affected the implementation of the reform measures.

3.3.2. Policy Recommendations

The recommendations for the tourism sector are:

- Mobilize funding for investments in tourism infrastructure development to enhance accessibility and quality of services in key tourist attractions outside the capital city.
- Lack of skilled manpower is one of the main challenges of the development of the tourism industry of Ethiopia as implementation of human resource development is missing from the tourism sector reform. This should be addressed by targeting critical short-term skills training while laying the foundations for long-term human resource development strategies, such as skill gap identification, networking with training institutions, and curriculum revision and development.
- A tourism sector recovery plan should be designed to undo the effects of the Covid-19 pandemic and armed conflicts as these challenges seriously obstructed implementation of reform measures and performance of the tourism sector.

3.4. Mining Sector Reform (July 2019 – July 2022)

The mining sector is identified as one of the underdeveloped sectors and is promoted as a competitive industry (*value addition*) and a strategic source of input for other industries (*inter-sectoral linkages*). Despite the availability of vast and diverse mineral resources potentials, the mining industry remains untapped with a low level of development. Several constraints hinder the growth and upgrading of the mining industry in Ethiopia. For instance, technical and institutional barriers, lack of legal framework (that governs investors' relationship with local communities), and informality related to mining products significantly constrained mining sector development.

3.4.1. Achievements and Challenges of the Mining sector Reform Implementation

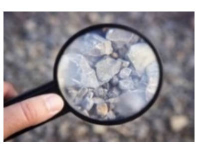
Major Achievements: To alleviate the mining sector constraints, the reform interventions that have been implemented in the sector are: (i) developing Policy, legal framework, and institutional capacities (Annex A.4.1), (ii) formalizing and support artisanal and small-scale mining (Annex A.4.2), (iii) strengthening geological information accessibility and promotion of the sector (Annex A.4.3), (iv) enhancing local community engagement (Annex A.4.4), and (v) reducing incentives for contraband trade (Annex A.4.5). Observed achievements related to the implementation of the reform measures in the mining sector are:

The total volume of gold production has increased from 7.227 tons (2009-2011), which was Worth 0.337 billion USD, to 21.14 tons (2012-2014) which is worth 1.4 billion USD.

Human Capital development through the tailored MSc Programs at AAiT (AAU). Currently 44 Students are attending the programs (Mineral engineering and petrochemical engineering).

The restructuring work of the three organizations have been implemented and working successfully. As a result two Institutes (Geological Institute of Ethiopia and Mineral industry development Institute) were established under the ministry by regulation. This restructuring has created an efficient working environment with downsizing the number of employees within the three organizations from 1000 to 520.

485,656 new job opportunities were created in small-scale mining in the HGER period (2012 to 2014).



Import substitution on strategic commodities such as coal, ceramic, marble, granite is ongoing and these products will be fully substituted at the end of the current HGER period**.**

Increased volume and value of export in mining products. Export earnings from gold during the HGER year from 29 million USD to 536 Mill USD (Appx. Table 3).

Challenges: The major challenges encountered in the implementation of the tourism sector reform measures are:

- Political instability and security problems in mining production areas and major companies.
- Lack of finance support to artisanal miners who have a great share of gold production.
- Lack of technology, traditional mining practices, and necessary logistics to improve the miner's capacity.
- Lack of infrastructure like water for mining purposes, electric power, access to roads in major gold producing areas.
- Contraband and illicit trade.

- Lack of logistics for regional mining offices to support and monitor artisanal miners.

3.4.2. Policy Recommendations

The recommendations for the mining sector are:

- Holistic capacity building activities for ASM, supply of machineries and other logistics which improve productivity, formalizing Artisanal Miners legal structure and providing delineated resource potential areas for ASM miner should be given an additional emphasis.
- Strengthening stockholder's engagement and security institutions could minimize the illicit trading of mining resources.
- Working on capacity development of regional states in terms of manpower and logistical capabilities to develop the mining sector should also be an area of further reform actions.
- Developing the mining sector as a whole and using the existing potential of the resource endowment in addition to Gold (such as Tantalum, natural gas, etc) will have immense benefit towards the country's prosperity goal.

3.5. ICT Sector Reform (July 2019– July 2022)

The ICT sector is prioritized as an enabler of socio-economic transformation in Ethiopia. Not only can its promotion be a new source of economic growth and job creation but it also enables the country to transition into an inclusive digital economy. Due to the continuously expanding Science Technology Engineering and Mathematics (STEM) universities in the country, there is a growing population of ICT graduates. Furthermore, Ethiopia's untapped telecom sector and its liberalization plans, and the development of specialized ICT parks make the ICT sector a potential growth sector.

3.5.1. Achievements and Challenges of the ICT sector Reform Implementation

Major Achievements: To fully unlock the potential of the ICT sector, the key ICT sector reform measures that have been implemented are: (i) developing a conducive policy and regulatory environment (Annex A.5.1), (ii) promoting the use of ICT for modernizing the civil service and public services (Annex A.5.2), (iii) promoting e-commerce and digitization of the financial and logistic sectors (Annex A.5.3), (iv) expanding ICT infrastructure throughout the country and ensure it is accessible (Annex A.5.4), (v) investing on ICT literacy and advanced trainings (Annex A.5.5), and (vi) promoting the export of IT-enabled services (Annex A.5.6).

To modernize the civil service, more than 309 electronic services are implemented to make civil service easily accessible for customers. Also, the MInT indicated that more than 8.6million people were reached in e-services usage (See Appx. Figure 7 and Appx. Figure 8). The outcome of these reforms is that public institutions are able to provide timely, convenient & reliable government services through online (digital) services, hence ensuring good governance. In 2014, MInT planned to increase the number of direct e-gov services users by six-fold (5 million) to reach the cap set by the ten-year innovation and tech sector plan. Additional achievements related to the implementation of the reform measures in the ICT sector are:

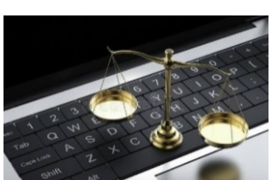
Promoting e-commerce led to accomplishments like provision of support to different digital tech entrepreneurs for piloting, obtaining training for entrepreneurs in collaboration with Alibaba, implementation of framework for entrepreneurship development in ICTpark, and technical support for different e-commerce companies and incubators.

Financial intermediaries and applications are getting licenses to operate in the system. Example: Telebirr, Kacha financials. These led to the technical capacity development of entrepreneurs and making about a 20-billion-birr transaction by telebirr as a milestone.

The telecommunication sector has been liberalized and paved the way for private sector ISP'S to invest in the sector ($800+ million) which led to the outcome of SAFARICOM Ethiopia to join the market. Furthermore, this will be an opportunity to develop communication infrastructure, and realization of comprehensive telecom service provision for all.

The major achievements due to the investment on ICT literacy and advanced training include the finishing of training and the formation of an association by Alibaba entrepreneurs (digital Ethiopia transformation association), capacity building of Regional ICT professionals in terms of portal management and cyber awareness, awareness of internal staff on selected advanced areas of development such as power BI, application programming interface, and making digital learning platform operational. Moreover, more than 2000 staff have received different training and getting badges, from basic to the advanced IBM DNA platform.

More than 1,197,168+ visitors to date have accessed the services and payment was also enabled using Derash as a facilitator to pay for their utility in different regions. Private sector IT enabled services, such as RIDE, have started operating in neighboring Djibouti. The BPO sector brought hard currencies and created thousands of jobs. Moreover, recent research conducted using social accounting matrix methodology shows that the ICT sector has contributed about 4% to the GDP of Ethiopia.



Concerning the creation of a pro-innovation and ICT regulatory and business environment, startup and personal data protection proclamation was ratified.

Challenges: The major challenges encountered in the implementation of the ICT sector reform measures are:

- Budget constraint to advertise and reach a large portion of society on the use of ICT for modernizing the civil service. The social media aspect of the promotion is versatile and enables it to reach more people at once but still it needs subscription in some instances and platforms.
- Lack of sustainable support structure that can oversee and render support as needed for the entrepreneurs to flourish.
- Low acceptance of non-cash or digital currency by the people, which requires the attitudinal change (digital financial literacy need to be rampant)
- Despite the rapid expansion of ICT infrastructure, the quality of the available infrastructure remains to be an issue that makes the implementation of the ICT sector reform challenging. Upgrading the quality and relevance of existing ICT infrastructure needs to be part of the ICT infrastructure expansion.
- Delay of the ratification of the finalized versions of respective draft laws which hinders the possibility of seeing the impact.

3.5.2. Policy Recommendations

The recommendations for the ITC sector are:

- ICT modernization services require a huge budget. Thus, mobilizing funds for investments for ITC infrastructure development and to reach a large portion of society on the use of ICT for modernizing the civil service should be an integral part of national development plans.
- The quality of the available infrastructure is an issue that makes the implementation of the ICT sector reform challenging. Therefore, upgrading the quality and relevance of existing ICT infrastructure needs to be part of the ICT infrastructure expansion.
- The multisectoral nature of the ICT sector reforms calls for the coordinated effort and collaboration of the various sectors and stakeholders as well. Thus, working on coordination efforts and collaboration with different institutions would help to realize the goal of digital Ethiopia 2025.

Annexes

ANNEX I. MACRO-FINANCIAL REFORM MEASURES

Annex 1 Mapping macro-financial reform objectives with the outputs of public sector finance and SOE reforms

No.	Outputs	Objectives
1	Maintaining a prudent fiscal policy to reduce inflationary pressure	Price stability
2	Enhancing domestic resources mobilization	Price stability and reduced debt distress
3	Improve debt management and export performance	Reduced debt distress
4	Efficiency and governance of public finance systems	Reduced debt distress
5	Improve the efficiency of SOEs	Reduced debt distress
6	Leverage public investment to increase private investment	Reduced debt distress/ Rebalancing the role of the public and private sectors

Source: Ministry of Finance

Annex 2 Public Sector Domestic Debt Outstanding by Instrument (millions of ETB)

	Instruments	30-06-19	30-06-20	30-06-21	30-06-22
Values (Millions of ETB)	Direct Advances	187,265	31,000	83,500	159,500
	Treasury Bills	138,034	23,724	120,960	317,670
	Treasury Notes*		149,333	147,658	147,658
	SOE Debt	411,652	486,560	575,364	657,231
	Government Bonds**	36,589	228,337	248,458	248,020
	Total Domestic Debt	773,540	918,954	1,175,939	1,530,078
Net Changes	Direct Advances		-156,265	52,500	76,000
	Treasury Bills		-114,310	97,236	196,710
	Total		-270,575	149,736	272,710
	Direct Advances		58	35	28
	Treasury Bills		42	65	72
	Total		100	100	100

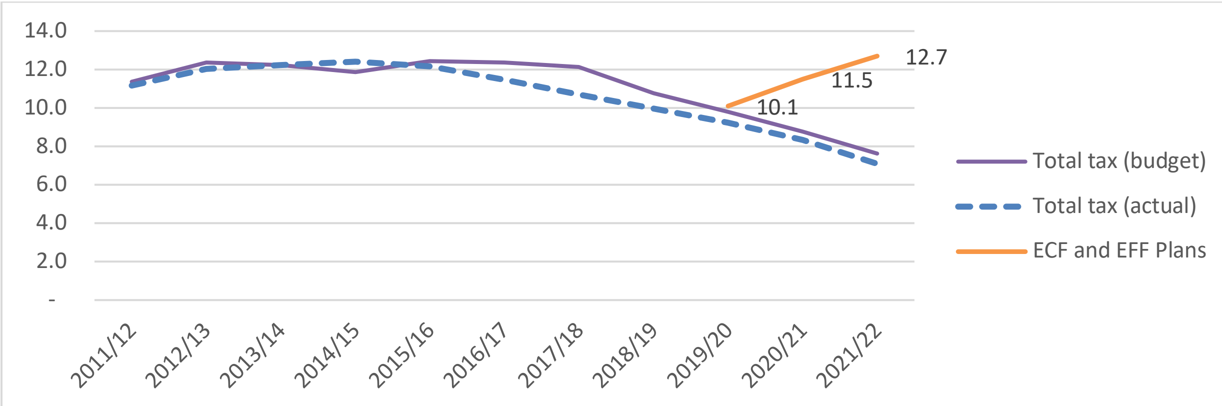
Source: MOF, Public Sector Debt Statistical Bulletin. No. 42

Annex 3 Domestic Financing from the Banking System (millions of ETB)

Financing	2018/19	2019/20	2020/21	2021/22
Domestic Financing - From the Banking System	10,189	5,215	54,121	206,614
National Bank of Ethiopia	38,572	28,852		
Commercial Bank of Ethiopia	(28,384)	(23,637)		
Domestic Financing - From the Banking System (% of GDP)	0.38	0.15	1.25	3.36
NBE (% of GDP)	1.43	0.85		

Source: MOF and authors' calculation

Annex 4 Total tax revenue as a percentage of GDP



Source: Drawn based on data from MOF

Annex 5 Direct and indirect tax revenue (as a percentage of GDP)

	2018/19	2019/20	2020/21	2021/22
Total tax (actual)	10.0	9.2	8.3	7.1
Direct taxes	4.3	3.9	3.9	3.4
Indirect taxes	5.7	5.3	4.4	3.7
Domestic indirect taxes	2.9	2.3	1.9	1.6
Import duties & taxes	2.8	3.0	2.5	2.1

Source: Drawn based on data from MOF

Annex 6 Activities undertaken in debt management by the Ministry of Finance

Activities undertaken in debt management
A medium debt management strategy is under preparation (described in main text). Debt restructuring with Chinese creditors and Abu Dhabi Funds was completed, and debt restructuring with Saudi is in progress. Ethiopia has benefited from the G20 Debt Service Suspension Initiative (DSSI) worth a total amount of USD 221.66 million that should have been paid by the central government to its bilateral creditors from May 2020 to June 2021. The debt service suspension initiative (DSSI), as the name indicates, suspends debt service temporarily and is meant to ease financial constraints on low-income countries so that they can respond to the crisis caused by COVID-19. Since it entered into effect on May 1, 2020, several countries have benefited from the DSSI. The debt service suspension, which was set to end by December 31, 2020, has been extended to December 31, 2020.[20] While DSSI might help to address liquidity issues, it is not going to address debt solvency. Ethiopia requested a debt treatment under the G20's Common Framework from G20 and Paris Club creditors. Ethiopia is working with the Paris Club, the International Monetary Fund, and other partners to benefit from this initiative. The debt treatment under the G20's common Framework is carried out on a case-by-case basis and is based on the debt sustainability analysis and will address both liquidity and solvency issues with a long-term perspective. Hence, depending on the nature of the problem, the

[20] https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

debt treatment might include debt write-offs. Although the DSA shows that Ethiopia's debt is sustainable, IMF considers debt reprofiling is required to bring the DSA to a moderate risk rating.[21]

Domestic central government debts was restructured. Direct advance worth 192 billion Birr was converted into a 25-year bond including a 10-year grace period, and Accumulated treasury bills converted into three years treasury notes.

There was an increased focus on concessional loans from external sources between 2016 and 2020. Under the Homegrown Economic Reform, a zero limit on non-concessional loans has been adopted. In fact, there has been no non-concessional borrowing by the central government or by other institutions guaranteed by the government in the last three years.

A debt resolution framework has been developed for highly indebted SOEs (Ethiopian Electric Power (EEP), Ethiopian Railway Corporation (ERC), Metal and Engineering Corporation (METEC), and Ethiopian Sugar Corporation (ESC), which was passed in July 2020. The resolution proposes restructuring the debt owed to the Commercial Bank of Ethiopia.

MOF has improved total public sector debt transparency, as requested by partners, by publishing quarterly and annual debt statistics and analyses.

Source: From discussion with the officials of MOF

Annex 7 Projected exchange rate path of the Ethiopian Birr against the US dollar

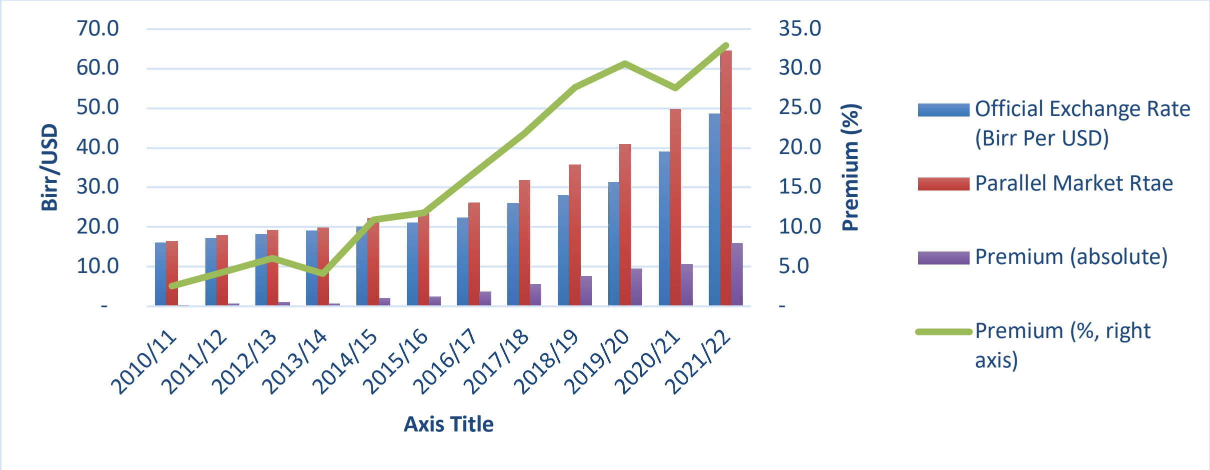
Date	Nominal exchange rate (NER)	Parallel exchange rate 2/	Spread*
Jul-19	28.9	36.1	25.0
Jun-20	34.7	41.6	19.8
Jun-21	40.9	44.9	9.6
Jun-22	45.8	47.1	2.8
Jun-23	49.5	49.5	0.0
Jun-24	52.0	52.0	0.0

*Exchange rate unification expected to be achieved by June 2023.

Source: Building Blocks for Exchange Rate Reform Roadmap. National Bank of Ethiopia. April 2020

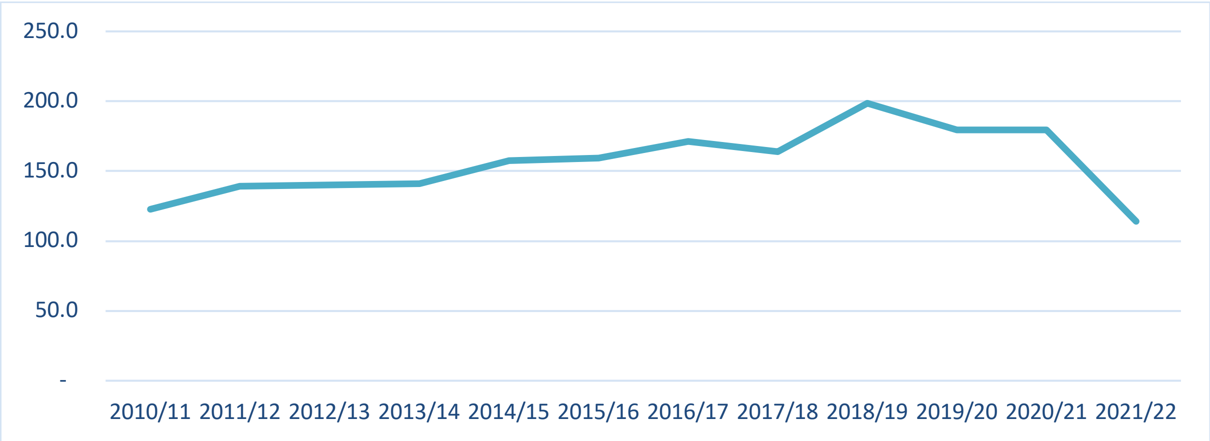
[21] https://www.bloomberg.com/news/articles/2021-04-15/rescheduling-payments-will-ease-ethiopia-s-debt-risks-imf-says

Annex 8 Trends of official and parallel exchange rate



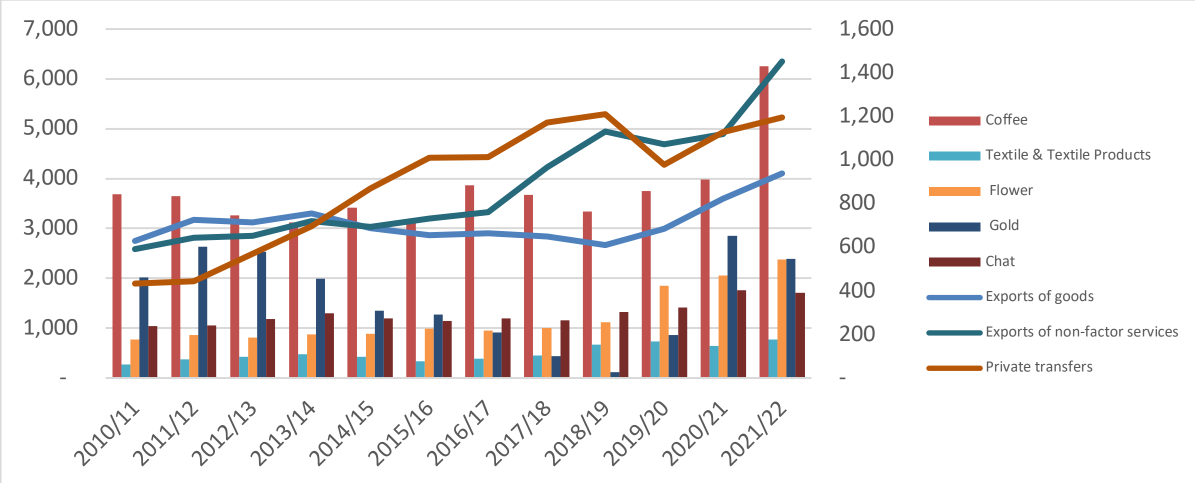
Source: Drawn based on data from the National Bank of Ethiopia

Annex 9 Trends in the Real Effective Exchange Rate (REER)



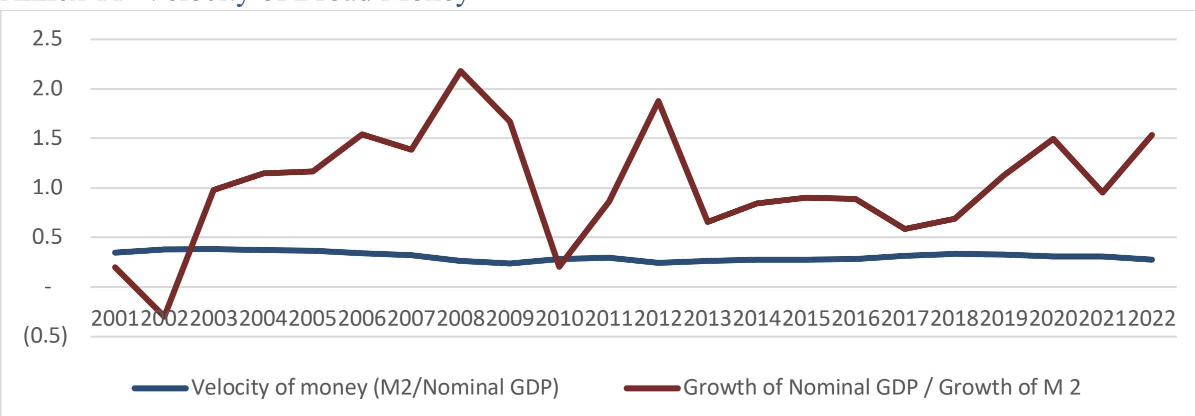
Source: Drawn based on data from the National Bank of Ethiopia

Annex 10 Exports of major commodities in Ethiopia



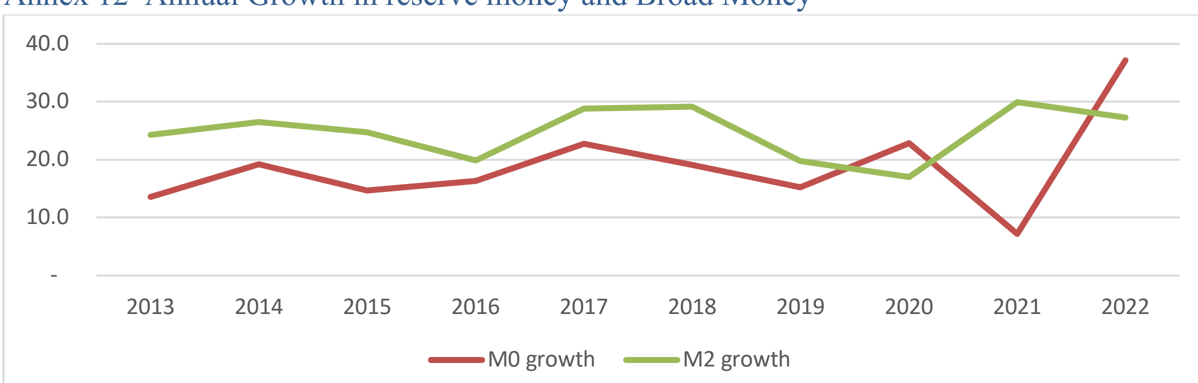
Source: Based on NBE data

Annex 11 Velocity of Broad Money



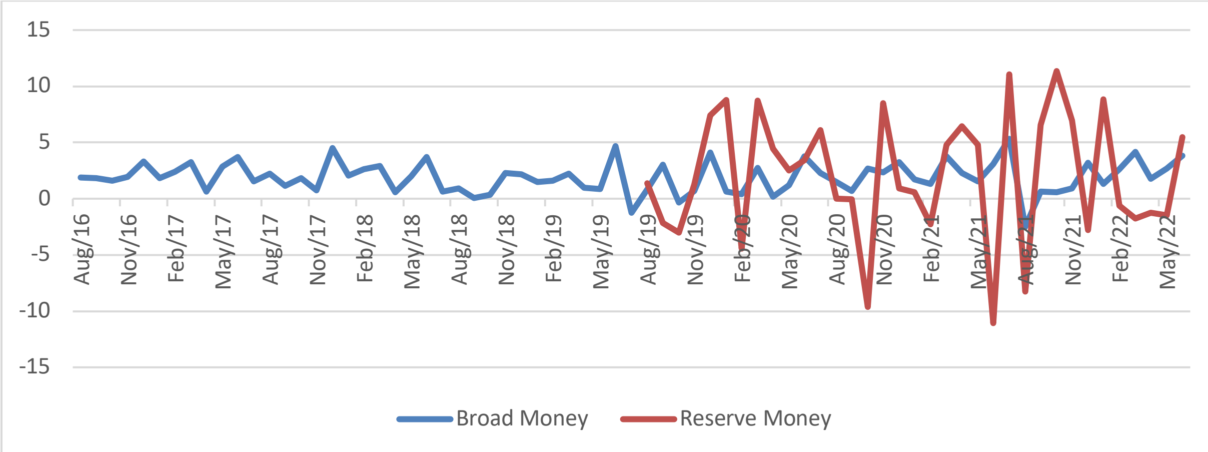
Source: Drawn based on data form NBE

Annex 12 Annual Growth in reserve money and Broad Money



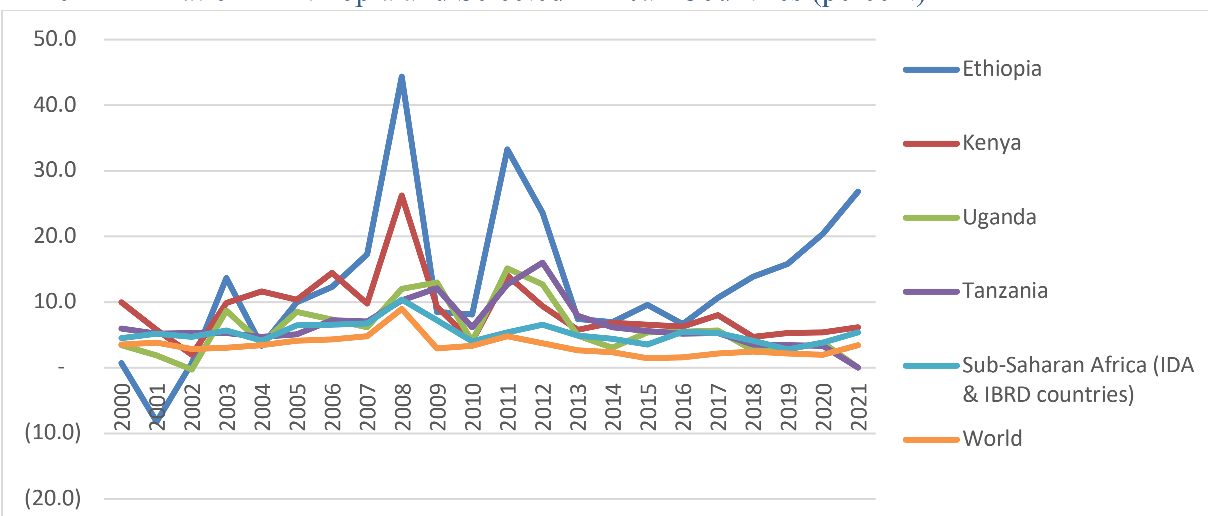
Source: Drawn based on data form NBE

Annex 13 Monthly Growth in reserve money and Broad Money



Source: Drawn based on data form NBE

Annex 14 Inflation in Ethiopia and Selected African Countries (percent)



Source: World Development Indicators (https://data.worldbank.org/indicator/)

Annex 15 Market share (%) of the commercial banking sector as of 2022

Bank	Asset		Outstanding credit		Deposit		Capital & Reserves	
	Amount (Mil. ETB)	Share	Amount (Mil. ETB)	Share	Amount (Mil. ETB)	Share	Amount (Mil. ETB)	Share
Public	819,278.8	59.4	789, 481.1	51.5	891, 984.1	52.3	49,822.1	41.7
o/w CBE	819,278.8	59.4	789,481.1	51.5	891,296.5	52.3	49,822.1	41.7
Private	560,555.1	40.6	742,707.7	48.5	813,045.4	47.7	69,635.3	58.3
Total	1,379,833.9	100.0	1,532,188.8	100.0	1,705,029.5	100.0	119,457.4	100.0

Source: National Bank of Ethiopia

Annex 16 Indicators for measuring financial stability

Although a comprehensive financial soundness assessment requires information about the health of the balance sheet of the household sector, the corporate sector, and the government, and other macroeconomic variables, in the following we highlight the measures that directly address depository institutions' financial status. Among measures that address the balance sheet of depository institutions are the following[22]:

Regulatory Capital to Risk-Weighted Assets: regulatory capital to risk-weighted assets gauges depository institutions’ capital strength to withstand shocks and absorb unexpected losses.

Nonperforming loans (NPLs) net of provisions to capital serves to assess the potential impact on the Banks’ capital of non-performing loans. It measures the adequacy of Banks’ balance sheet to withstand losses on loans already identified as nonperforming.

Nonperforming Loans to Total Gross Loans: measures the ratio of nonperforming loans to Banks’ loan portfolio. A high ratio indicates that the quality of the loan portfolio of Banks is deteriorating and indicates liquidity and solvency issues down the line.

Loan Concentration by Economic Activity and Location: measures the concentration of lending to firms in specific sectors or locations. If lending is concentrated by sector or location, then the riskiness of the loan portfolio increases.

Liquid Assets to Total Assets: Higher liquidity to total assets ratio increases the ability of Banks to meet expected and unexpected cash outflows. It is a buffer against a liquidity crisis.

Liquid Assets to Short-Term Liabilities and Liquidity Coverage Ratio: this indicator measures the mismatch between the liability and assets of financial institutions. If a large chunk of Banks’ liabilities is short-term and their lending portfolio tends to be composed of long-term holdings, it increases the susceptibility of the Bank to a liquidity crisis that may morph into a solvency issue.

Annex 17 Indicators of Financial Stability and Access, Planned and Achieved

Outcome	KPIS	July 2019-Dec 2020	
		Planned	Achieved
Financial stability	Capital adequacy ratio (CAR) of the banking Sector	>=8%	18.39%
	Liquidity ratio of the banking sector	>=15%	17.79%
	Non-performing loans (NPLs) ratio of the banking sector	<=5%	2.32%
	Customers’ satisfaction on effectiveness and efficiency of service delivery of the banking sector	>=88%	72.17%
	Maintain minimum solvency of the insurance sector	>100%	277%

22 Reference for Financial Soundness Indicators

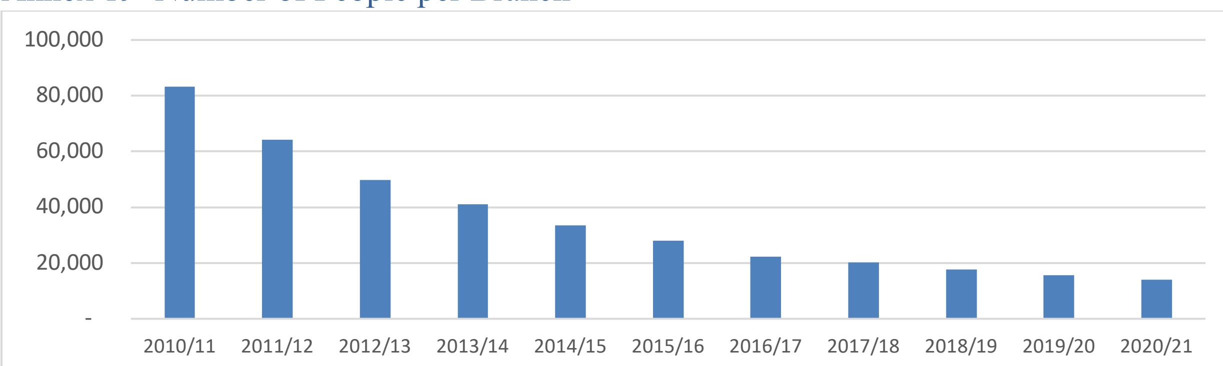
	Maintain minimum liquidity position of the insurance sector	>100%	103%
	Maintain minimum capital adequacy of the insurance sector	>20%	40%

Annex 18 Growth in Deposits and Loan Outstanding

Variable		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Deposit	568,818.7	730,257.7	899,628.4	1,041,410.3	1,356,822.3	1,705,029.5
Outstanding	Loans	560,792.0	685,980.5	840,983.5	1,032,203.0	1,283,283.8	1,590,362.9
	Deposit	29.8	28.4	23.2	15.8	30.3	25.7
Annual growth	Loans	23.9	22.3	22.6	22.7	24.3	23.9

Source: Computed based on National Bank of Ethiopia

Annex 19 Number of People per Branch



Source: NBE, Second quarter report 2020/21

ANNEX II. SECTORAL REFORM MEASURES

Annex A.1. Revised or developed policies and legal frameworks in the agriculture sector

Policies and legal frameworks that have been revised or developed towards enhancing rural land use and administration, access to agricultural inputs, private sector participation, and commercialization are presented below.

a) Revision of the 1994 agriculture and rural development policy

Following the adoption of HGER, the MoA has embarked on revising the 'Rural Development Policies, Strategies, and Instruments', an overarching policy and strategy framework which has guided agriculture and rural development in Ethiopia. The revised Agriculture and Rural Development (ARD) policy is drafted with an overall objective of accelerating progress by refocusing state interventions on developing regulations and providing services that cannot be provided by the market, thereby facilitating private investment, entrepreneurship and innovation. It aims to transform the sector, within the next 20 years, to one that sustains accelerated production growth with producers that are increasingly commercially oriented and have access to well-functioning input, output and financial markets, while conserving and enhancing the natural resource base on which the sector depends. The revision of the policy opened up room for setting up a platform for inclusive collaboration towards government-led and consensus-oriented policy making in the agriculture sector. The inputs received from the platform are prepared into a comments audit trail table that summarizes the sets of comments and the core policy team reflections. A series of consultations enabled the revised draft policy to incorporate concerns of the different stakeholders. The draft policy has been enriched by the inputs of multiple stakeholders and submitted to the CoM for review and approval.

b) Revision of the Rural Lands Administration and Use Proclamation No. 456/2005

To improve the legal framework regarding land use rights as collateral, the MoA implemented a pilot program that allows holders to use land use rights as collateral for acquiring loan, through facilitating linkages with financial institutions and financial innovations. During the pilot implementation in Amhara, Oromia and SNNP regions, eight microfinance institutions (MFI) participated and have disbursed more than 700 million birr to nearly 22,000 farmers using their landholding certificates. The pilot exercise sheds light on the contribution of using landholding certificates as collateral for agricultural development and employment creation. The pilot showed promising results and the lessons learned were used as inputs for the revision of the Rural Land Administration and Use Proclamation 456/2005. After multiple rounds of stakeholder consultation and endorsement of regional governments, the draft has been submitted for review and approval to the CoM. This initiative played a role towards formulation of the 'Movable Property Security Right' proclamation (see section 'd' below).

c) Developing legal framework to enhance provision of agricultural inputs and services

i) National fertilizer supply chain enhancement

Shortage of fertilizer has been a major problem for agricultural production in Ethiopia. As a result, the procurement system has been changed from procuring fertilizers from importers to FOB and shipped from the manufacturer port to the regional central warehouse by the Ethiopian Shipping and Logistics Service Enterprise. This change has contributed to the improvement of the fertilizer marketing system of the country.

ii) Developing a seed policy and supporting directives

Improved seed varieties are crucial for improving crop production and productivity. Nevertheless, the use of improved crop seeds has been limited in Ethiopia. As part of sectoral HGER reform measures, a new seed policy and regulatory framework have been proposed, and consequently a National Seed Policy has been adopted by the MoA under the delegation of the CoM. To facilitate the implementation of the policy, a new Seed Proclamation and Plant Breeders Right Regulations are developed and currently being reviewed by the CoM. Furthermore, to facilitate smallholder farmers' access to agricultural inputs in general and improved seed varieties in particular, various policy documents have been developed, endorsed or are in the process of endorsement. To name these legal frameworks; (i) direct seed marketing (DSM) directives, (ii) issuing Certificates of Competence (CoC) for seed businesses directive, and (iii) adopting agricultural one-stop-shop (AOSS) CoC. DSM and AOSS create access to seed and all types of inputs, respectively, for smallholder farmers.

iii) Removal of duties and import taxes on agricultural mechanization technologies

Duty and taxes account for a large portion of the cost of importing agricultural technologies, making them expensive for farmers. This is one of the key barriers to the widespread adoption of agricultural machinery and restricted the transformation of smallholder agriculture in the country. By considering this, the government endorsed the removal of duties and import taxes on agricultural mechanization technologies**.** This has resulted in a substantial increase in the import and adoption of agricultural machineries.

d) Developing a legal framework for agriculture-focused financial services

Legal frameworks have been introduced to improve the supply and accessibility of finance to the agricultural sector of the country. Besides allowing the use of land use rights as collateral for acquiring loans, the NBE has enacted Proclamation 1147/2019 and the National Financial Inclusion Strategy (NFIS) to allow the usage of movable properties as collateral, which will further facilitate financial inclusion in the agriculture sector. In accordance with the Proclamation No. 1147/2019 and the National Financial Inclusion Strategy, the NBE has issued a directive titled "*Codification, Registration and Valuation of Movable Properties to be pledged as Collateral for Loan, Directive No.* MCR/02/2020". The other is promotion of the Warehouse Receipts System that will protect farmers from falling market prices during the harvest season and through facilitating storage of agricultural outputs at certified warehouses using collateral receipts.

e) Developing a legal framework for contract agriculture

Contract farming in Ethiopia is currently governed by the general Civil Code. This doesn't adequately address specific rules for special contracts, facilitate market linkages, and provide clear rights and remedies to parties in contract farming arrangements. As such, the existing laws do not provide an institutional framework for the promotion, facilitation, and coordination of contract farming arrangements. Taking into account the revised or newly developed policies and legal frameworks discussed above, the new contract farming law was prepared and approved by the House of Federation and directed to the House of Peoples Representatives for final approval. Thus, this law aims to modernize agricultural marketing and improve smallholder farmers' market participation.

Annex A.2. Reform Measures in the manufacturing sector

Annex A.2.1. Revised or developed policies and legal frameworks in manufacturing sector

a) **Developing Ethiopia's New Industrial policy**

Ethiopia's new Manufacturing Industrial Policy provides special focus to export promotion and also emphasizes the importance of substituting import of manufactured goods through local production and promoting local industry linkages based on comparative and competitive advantage of Ethiopia. The process of drafting the policy involves preparation of a diagnostic and policy white paper, where the content of the report has been reviewed by steering and technical committees composed of relevant stakeholders. The diagnostic report identifies 10 priority sub-sectors which have revealed comparative advantage, 10 sectoral deep dive studies were conducted to identify cross-cutting binding constraints across and policy recommendations on how to address these constraints have been indicated in the policy white paper. Based on the findings the Ministry of Industry core policy team has developed the Manufacturing Industry Policy in consultation and discussion with the private stakeholders, development partners, think tanks, academicians, regional and federal (13 institutions have participated in the write-up) stakeholders. The draft policy has undergone 2 validation workshops in which more than 30 institutions representatives have participated. The draft policy has 6 policy pillars with at least 2 policy directions and 62 implementing instruments. The process of drafting the policy is completed, and currently it is awaiting approval from CoM. A linkage strategy and manufacturing industry incentive study that are based upon the manufacturing industrial policy is under development.

b) **Export Development and Promotion Strategy**

Export Development and Promotion Strategy Preparation of export development and promotion strategy focuses on both intensive and extensive margins for product diversification and market expansion. As such, the strategy is intended to increase Ethiopia's forex earnings through increasing the volume and types of export products and identifying new destination markets. This strategy is being finalized by the mandated Ministry (i.e., the MoTRI). The MoI has been following up and is ensuring that the manufacturing sector received the necessary attention in the strategy. The MoI is also initiating a commencement of a background study that would help enrich the contents of the strategy.

c) **Developing trade policy and undertaking ease of starting a business reforms**

Ethiopia has never had a trade policy. As part of implementation of HGER, a Terms of Reference (TOR) is developed for a consultant to undertake the technical support for the trade policy framework development. Furthermore, ease of starting a business reforms involve revision of legal requirements to start a business that is specific to MoI. In this respect, endorsement of the revised trade law, revision of many legal requirements for starting a business, discussion with relevant stakeholders to align the revision are underway to improve Ethiopia's rank in cost of starting a business.

d) **Development of e-commerce service framework**

E-Commerce pilot project: has been commenced in collaboration with UNECA within the Alibaba Electronic World Trade Platform (eWTP) to allow SMEs to export their products. Product selection has been done for the pilot and advertised for proposals to be submitted by interested SMEs.

e) Performance-based finance allocation systems

As putting a transparent finance provision administration system is crucial to address the urgent need for finance by manufacturers, prioritization of manufacturers (especially based on their export performance) has been presented to the Commercial Bank of Ethiopia. However, a performance-based incentive allocation system has not yet been developed.

f) Consolidation of the existing trading legal framework

Preparation of integrated export commodity trading legal framework: on average, about 85 percent of the trading legal frameworks preparation for pulses & oilseeds, khat, live animal, and hides & skins has been completed. The process involves conducting a manufacturing sector value chain study. The study has identified challenges and the solutions to address the challenges. The findings and recommendations of the study have been discussed with major stakeholders, and an integration plan has been developed by all implementing institutions.

Annex A.2.2. Manufacturing Incentive Mechanism Activities

To put in place incentives that motivate, attract and grow the private sector investment in the manufacturing sector, relevant documents have been reviewed and points have been identified for primary data collection to understand the situation on the ground. Conducting a study on the current manufacturing incentive system and identifying gaps, and developing incentive packages for local manufacturing investors are yet to be finalized.

Annex A.2.3. Digitization of Service Provision Activities

Lack of information in the manufacturing sector has been identified as a major bottleneck for investors to facilitate their investment decisions in the sector. Hence, the Industry Information System (IIS) has been developed to showcase data of the manufacturing industry in comparison with import and export performance of the economy. The system also compares Ethiopia with other nations and helps understand the advantage of investing in Ethiopia's manufacturing industry. As this system's source of data are different institutions, an MoU has been signed with Customs Commission and Central Statistics Services to access the relevant data for the system. With additional MoUs signing needed with EIC and MoTRI to get data on a timely manner, the IIS will be launched in the first quarter of the 2015 EFY (i.e., 2022/23). At the time of compiling this report, the system developers are handing over and providing on the job training to the data management team of the MoI. Furthermore, the Ministry is embarking on digitizing various services it provides especially the incentive management system through upgrading and finalizing the online incentive management system to avoid a long process to access the incentive packages. Accordingly, the Ministry has 10 services that it provides online to ensure accessibility and timeliness of service provision.

Annex A.2.4. Strengthening manufacturing sector support institutions

Manufacturing sector supporting institutions are focused on doing various research and development works to grow the sector's contribution to the economy. To ensure impact of research, the MoI provides technical training to the institutions and tracks research progress and implementation. The Ministry has also identified research by intuitions that are problem solving and ensured their implementation and linkage to benefiting manufacturers and SMEs. The way forward for the Ministry to promote effective product development is to find funding to change prototypes to products.

Annex A.3. Reform Measures in the Tourism sector

Annex A.3.1. Improve tourism legal framework and foster institutional capacity

Reforming the regulatory framework pertaining to the administration and operation of the tourism sector helps to relieve regulatory bottlenecks and gaps that hinder the efficient operation and development of the sector. Considering Addis Ababa is the seat of several international organizations and the Ethiopian airline is the leading passenger carrier in Africa that transits through Addis Ababa, the Ministry has prepared stopover tourism and MICE (Meetings, Incentives, Conferences and Exhibitions) tourism strategies, with the help of the IFC of the World Bank Group, to exploit such untapped tourism potential of the country. The Ministry has also prepared a domestic tourism strategy. In addition, the Ministry has been undertaking several other activities in relation to its legal reform. These include revision of the guideline for the certification of tour operators and tour guides, preparation of directives for managing tourist fees in all destinations, customization of 10 different ISO standards to be applied in the industry, and harmonization and coordination of the federal and regional level plans and monitoring and evaluation systems of Ethiopia. Ten (10) customized ISO standards that can be applied to ensure quality and maintain international standards are prepared. The federal and regional tourism development plans are harmonized and coordinated. This is important to avoid conflict of interest and duplication of efforts.

Annex A.3.2. Designing a new investment incentive package for tourism investment

The activities performed to accomplish this objective include identification of new investment areas or tourism opportunities and preparation of a national tourism investment guide. Both of these activities provide potential investors with important information about the investment prospects in the tourism industry and reduce the cost of the market assessment. Moreover, the existing investment incentives were revised and a new package of incentives was designed.

Annex A.3.3. Improve access to finance to tourism operators in the short term

Lack of finance is one of the main constraints for investment in general and in the tourism sector in particular. Therefore, enhancing the availability of finance in the tourism sector is an essential step in the development of the sector. The main activities conducted to expand financial access of the tourism industry of Ethiopia include identification of the main constraints and challenges of access to finance for the actors in the tourism sector. In this respect, key challenges in tourism financing have been identified and documented, and a common understanding has been created between the actors of the tourism industry and banks to provide sound financial support for the sector. Moreover, strategic solutions that would help to expand access to finance for the tourism investment in Ethiopia are identified, and a new tourism fund raising proclamation and regulations are developed.

Annex A.3.4. Design and implement destination development strategy

The main activity performed in relation to this focus area is the identification and documentation of the tourism resource and potential of Ethiopia. Tourism supply inventory was carried out in which tourist services, attractions and other features of destinations were assessed to improve the overall attractiveness of tourist destinations. Sub activities include recruitment of consultants and collection and analysis of data. Building on these preliminary activities, a destination development and administration strategy is prepared. A detailed profile of Ethiopian tourism resources and associated opportunities for development was prepared, and resource mapping was conducted for more than 200 tourist sites in the country.

Annex A.3.5. Tourism marketing, promotion and branding

These activities include developing integrated tourism marketing and promotion platforms involving all key stakeholders of the industry, conducting promotion campaigns through social media, networking with outbound tour operators, and developing customer feedback collection systems. An investment promotion guide that clearly indicates key tourism resources and products in the tourism industry has been prepared. Strong promotion campaigns were conducted on social media; images of important tourist attractions of Ethiopia are posted and circulated on social media. Strengthened market ties with different outbound tour operators, and created B2B networks with Ethiopian tour operators. An integrated plan of action for tourism marketing and promotion has been prepared and being implemented. Consumer feedback system is established to help tourists to lodge their appeals and comments.

Annex A.3.6. Strengthen the linkage to the agriculture sector

Activities under this goal are at the preliminary stages to promote the use of local products at hotels and restaurants. These include tourism value chain mapping and analysis, identification of key challenges pertaining to the agriculture-tourism linkages, and a plan for organizing a national cultural food festival. Building on the value chain analysis, a framework to administer agri-tourism in the country has yet to be established.

Annex A.4. Reform Measures in the Mining sector

Annex A.4.1. Developing Policy, legal framework, and institutional capacities

This includes the preparation and implementation of policy documents along with improving the regulatory framework key to creating a conducive and enabling environment for private sector participation and operations in the mining sector. The Ministry of Mining and Petroleum has finalized the preparation of revised policy documents: mining policy, petroleum policy, and local content policy. In addition, the Geological Institute of Ethiopia has been re-established by regulation and it is accountable to the Ministry of Mines. Further, capacity gaps for exploration have been identified as areas of reform. To solve the gaps in collaboration with AAU a curriculum development tailor-made Masters' programs in mining energy, petrochemical engineering, drilling, and laboratory is done. Training centers for ASM on internationalizing the sector, better production techniques, and marketing linkages are established.

Annex A.4.2. Formalize and support artisanal and small-scale mining

Artisanal and small-scale mining (ASM) dominate the mining sector in Ethiopia. Despite its significant role, the ASM faces numerous challenges. The main challenges that hinder its development include rudimentary mining practices; a high level of unlicensed, informal, operations; limited small-scale processing technology; poor market access, and the poor conditions of infrastructure. To address these bottlenecks, the HGER introduces formalizing and supporting ASM as a key reform area to increase the production of minerals thereby increasing foreign exchange earnings from the mining sector.

Annex A.4.3. Strengthen geological information accessibility and promotion of the sector

Ethiopia has promising geology with more than 50 years of history. Despite this, Ethiopian geological science lagged far behind many countries. For instance, there are only a few operating large-scale mines and advanced stage exploration in Ethiopia. As a result, the government has considered undertaking reforms in this area to improve geological information of mineral resources in Ethiopia. In this regard, various activities have been carried out consisting of full-fledged operationalization of IGMIS (Integrated Geoscience Information Management System), conducting geo-hazard study and notification, and conducting research on mineral occurrence and deposit.

Annex A.4.4. Enhance local community engagement

Sustainable development of the mining sector requires a strengthened relationship between mining enterprises and the local community. Mining benefits need to be reasonably shared and wide-ranging negative impacts of mining activities sufficiently mitigated. This requires the establishment of a national corporate social responsibility policy and local content policy. In this regard, the enhancement of a community development fund has been started to ensure local society benefits from mining activities.

Annex A.4.5. Reduce incentives for contraband trade

Illicit mining trade activities are highly practiced in border areas. This significantly reduced export revenue from the mining sector as well as undermined environmental impact management. Various factors contribute to illegal mining trading activities such as the absence of marketing centers, low law enforcement, lack of incentive packages, and weak institutional structure (mainly at regional, zonal, and district levels). As a result, various reform measures have been undertaken to reduce illegal trading activities. For instance, the introduction of incentive packages to encourage formal mining trade; the improvement in law and order enforcement in collaboration with relevant stakeholders to control contraband trade; and the establishment of market centers' (e.g., opening of commercial banks near mineral sites).

Annex A.5. Reform Measures in the ICT sector

Annex A.5.1. Pro-innovation and ICT regulatory and business environment

Due to the disruptive nature of ICT, existing traditional regulatory approaches have often a constraining impact on the sector's innovation and growth. The HGER agenda considers Laissez-faire and concerted policy actions are needed to expand and strengthen the participation of the private sector to ensure the rapid development of ICT and ITes. Accordingly, under this reform area, the government aims to adopt a consultative approach to policy making and explore sandbox regulatory approaches to support technology start-ups and incumbents, including facilitating access to alternative financing sources. However, the sandbox regulatory framework needs a mandated regulator. In view of this, the MInT aims to design strategies, proclamations, directives, and related legal frameworks that can guide the development of ICT as per the national reform directions. Some of the main reform activities carried out to create a pro-innovation and ICT regulatory frameworks includes: establishment of a Digital Transformation Program Office for the implementation of the national digital transformation strategy; the national digital transformation strategy (Digital Ethiopia 2025); the startup and innovation fund proclamation; the e-transaction regulation; and personal Data Protection Proclamation. All these proclamations, regulations and guidelines drafts are finalized. Concerning stakeholders (Ministry of justice, Ministry of peace, attorney general, law enforcement agencies) were engaged in enriching the draft law documents.

Annex A.5.2. Promote the use of ICT for modernizing the civil service and public services

Promoting the use of ICT for modernizing the civil service and public service with the aim of enhancing the efficiency and effectiveness of service delivery is one of the key ITC sector reform areas identified under the HGER agenda. As part of this reform area, the government has a plan to scale up the ongoing government ICT initiatives such as e-governance, WoredaNet, the rural connectivity program, and the rural public internet access centers. Modernizing and scaling up these ICT initiatives will not only improve service delivery and the ease of doing business but also onboard a large segment of the population to the digital economy. In relation to this reform area, MInT aims to interconnect all public institutions at all levels and anchor community organizations with reliable, high speed, and affordable service by leveraging the existing infrastructure as much as possible. Since one of the objectives of this reform measure is to provide connectivity to large segments of the population in a short period of time, for sites that do not have readily available fiber access at the moment, the initial last-mile connectivity is expected to be high speed fixed wireless access. The MInT expects the high-speed fixed wireless to be a stopgap solution that will eventually be replaced by fiber, which is the preferred last-mile connectivity.

Under the Ministry's "Ethiopian Electronic Government Services Development" reform area activities that the Ministry indicated are designing e-services around citizens; providing orchestrated services regardless of organizational boundaries; minimizing the number of visits to government offices; ensuring faster service turnaround time and reduced service delivery cost; promoting transparency and efficiency during service provision; and improving the ease of doing business as its major objectives. The major reform activities under this reform include mainstreaming mass media outlets and the social media to promote the digital agenda of 2025.

Annex A.5.3. Promote e-commerce and digitization of the financial and logistic sectors

Ethiopia is poised to benefit from the opportunities of e-commerce. Ethiopia's large population and market size can be leveraged for e-commerce development. To exploit the opportunities of e-commerce in the country, significant reforms and improvements in the financial and logistics sectors including e-payments, national addressing system, and geospatial enabled logistics modernization are important. Furthermore, reforms in the areas of policy and regulatory frameworks can drive the development of the digital payment ecosystem, and increase investments and startups in e-commerce businesses. The reform activities implemented include; preparation of the startup and innovation fund proclamation by adding all the stakeholder's inputs and suggestions and waiting to be ratified by the ratifying body, promoting e-commerce companies were undertaken by the DTP office since its operation started in 2013 E.C., and further digitizing the financial and logistic sectors with the help of a push to realize the digital Ethiopia agenda 2025.

Annex A.5.4. Expand ICT infrastructure throughout the country and ensure it is accessible

This reform measure aims at improving both quality and access to IT infrastructure. The document underscores the need to expand access to services through broadband networks and other infrastructure developments to unlock the country's potential in the digital economy and IT enabled services (ITes). The HGER agenda considers expediting the telecom sector reform, the digital ID system, refreshing the ICTpark as initial efforts needed to kick-start the ITes in the short run. In relation to this, the Ministry plans activities including liberalizing the telecom sector to increase reach, removing the regulatory bottlenecks and encouraging the private sector players to get into the Ethiopian Telecom market via an international bid, and plan to conduct feasibility study and project development to achieve access to multiple high capacity routes to first mile international connectivity and improve National fiber backbone connecting the entry point international connectivity to major population centers.

Annex A.5.5. Investing on ICT literacy and advanced trainings

The planned activities under this reform include; Developing Local online training platforms with Local content; developing National Digital Inclusion and Literacy Strategy, trainings the entrepreneurs in collaboration with Allibaba, trainings for regional ICT professionals on city portal management, cyber security, different advanced trainings for internal staff of MINT, starting the digital learning platform development, making an agreement with IBM digital nation Africa to access contents from IBM's platform for advanced training content by MINT.

Annex A.5.6. Promote the export of IT-enabled services

Given its pool of young ICT graduates and the increased availability of high-quality and reliable telecommunications and power supply, Ethiopia has a great potential to be a destination for Business Process Outsourcing (BPO). Accordingly, this reform aims to promote the export of IT-enabled services by adopting targeted BPO-friendly regulations and policies, encouraging private investment, and branding and marketing Ethiopia as a BPO-primed site. The planned activities include launching IT enabled services and making payment integration efforts, measuring the economic contribution of the ICT sector to the GDP, promoting the private sector exporting value created, and exporting this created value of skill in business process outsourcing (BPO) companies.

Annex B. Appendix Tables

Appendix Table 1: Directives endorsed or on the process of endorsement to enhance access to inputs

Ministerial Directives			
No	**Topic**	**Date Submitted**	**Current status**
1	Seeds / Directive No. 1/2007 for Quality Declared Seed (QDS)	January 2014	Under implementation
2	Seeds / Directive No. 2/2017 for issuance and administration of Competency Certificate (COC) to engage in seed production and business	2016	Under Implementation
3	Seeds / Directive No.3/2015 for utilization and excluding of rejected seed of non-conforming to quality requirements	October 2016	Under implementation
4	Seeds /Directive NO.-007/782/2018 for Seed Marketing	December 2018	Under implementation
5	Seeds/Directive for import & multiplication of unregistered varieties seed exclusively for export purpose N0 003/2012	August 2018	December, 2012 (December 2019)
6	Directive to administer public crop and forage EGS, No 005/782/2012	May 2018	Endorsed on May 20, 2020 by MoA.

7	Seeds/ Cooperatives based Seed Production Directive	December 2017	At the Director General's Office- Federal Cooperative Agency
8	Fertilizers/ Fertilizer Demand Assessment, Procurement, Supply and Distribution Guideline	January 2018	At the State Minister's Office- Ministry of Agriculture
9	Fertilizers / Fertilizer Registration Directive	November 2018	At Seed Regulatory Directorate- Ministry of Agriculture
10	Fertilizer/Fertilizer Competency Certificate (COC) to engage in fertilizer production and business Directive	December 2018	At Seed Regulatory Directorate- Ministry of Agriculture
12	Agricultural Inputs/Directive No. 002/782/2018 for issuance and administration of Competency of Certificate to Agricultural Input Supply & Service centers	December 2018	Under implementation
13	Cereals cross-border trade /Directive on Cereals Export Ban- Ministry of Trade and Industry	December 2018	At the Ministry of Trade and Industry
14	Guideline on the distribution of fertilizer through Agricultural One-Stop Centers	May 2019	Endorsed on May 15, 2020 by MoA
15	Plant Breeder's Right Directive 769/2021	NK	Endorsed on February 27, 2021 by MoA

Appendix Table 2: Productivity for ACC commodities

	Unit/details	2012 Actual Performance1	2013 Actual Performance1	% Change from 2012 to 2013	RF % Target increase from Year 1 to Year 2
Increase in yield	Tef (kg/ha)	1,985.33	2,334.67	+17.60%	+8.20%
	Maize (kg/ha)	5,540.22	5,767.20	+4.10%	+6.90%
	Sesame (kg/ha)	376.92	432.34	+14.70%	+12.30%
	Malt Barley(kg/ha)	3,682.02	3,963.90	+7.66%	+8.40%
	Wheat(kg/ha)	3,774.77	3,761.98	-0.34%	+8.50%
Average increase in yield per farm	Tef (kg/ha)	1,617.26	2,240.31	+38.53%	+9.20%
	Maize (kg/ha)	3,165.53	3,407.58	+7.65%	+10.10%
	Sesame (kg/ha)	1,098.09	845.54	-23.00%	+20.00%
	Malt Barley(kg/ha)	1,641.01	2,467.94	+50.39%	+21.40%
	Wheat(kg/ha)	2,547.72	2,930.63	15.03%	+10.10%

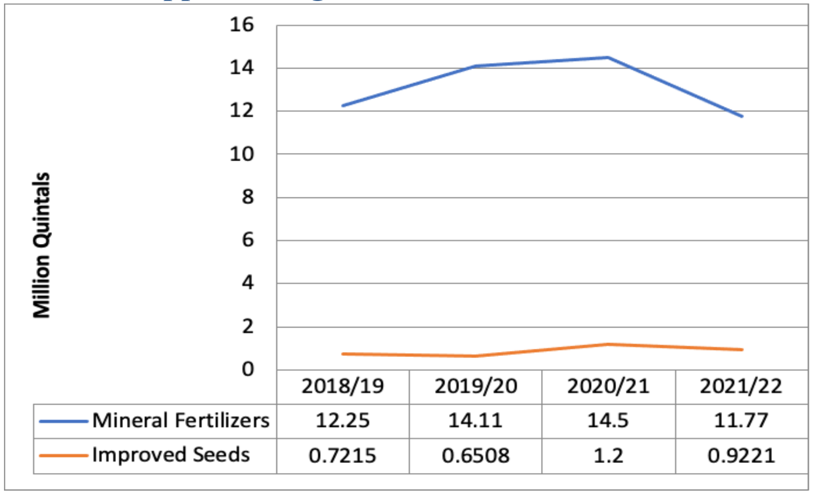
Source: ACC program management office

Appendix Table 3: Export performance of Selected Mining products

Output indicators	Indicator	Baseline (2018/19) (2011 EFY)	2019/20 (2012 EFY)	2020/21 (2013 EFY)	2021/22 (2014 EFY)
Gold (companies)	k.g	270.307	678.39	788.253	2662.97
Gold (Artisanal)	k.g	582.84	2620.87	8596	5798.82
Gold (total) (in mil USD)	USD	29.236	198.3	672.3	536.45
Tantalum (companies)	tone	-	-	-	-
Tantalum (Artisanal)	tone	161.582	102.46	80.01	111.89
Tantalum (total) (in mil USD)	USD	11.547	6	5.29	10

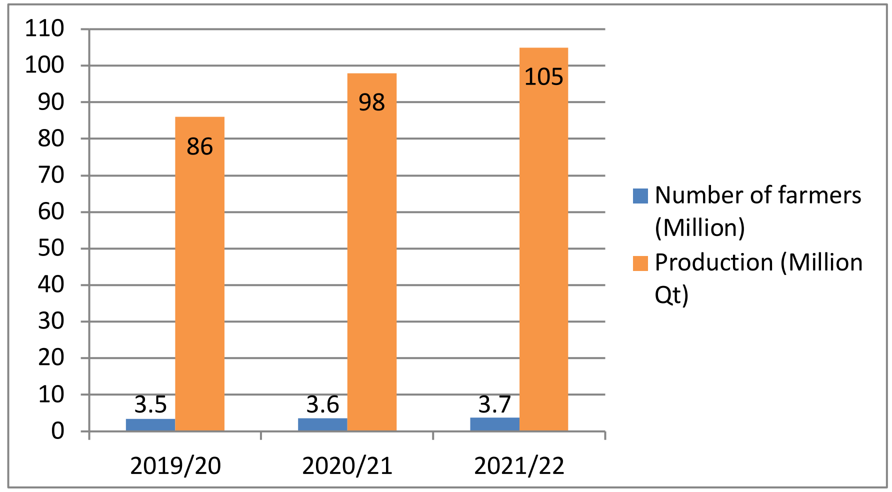
Source: Authors compilation using data obtained from Ministry of Mining and Petroleum

Annex C. Appendix Figures

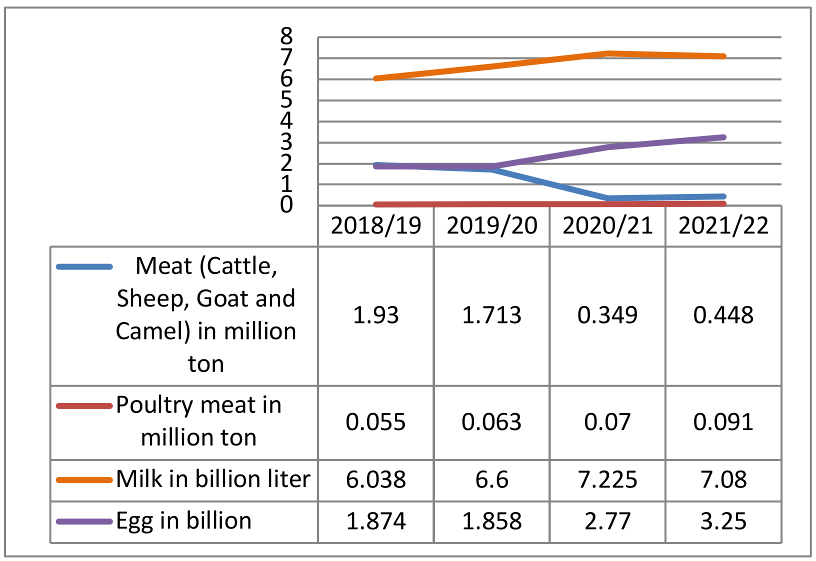


	2018/19	2019/20	2020/21	2021/22
Mineral Fertilizers	12.25	14.11	14.5	11.77
Improved Seeds	0.7215	0.6508	1.2	0.9221

Appendix Figure 1: Supply and distribution of mineral fertilizers and seeds

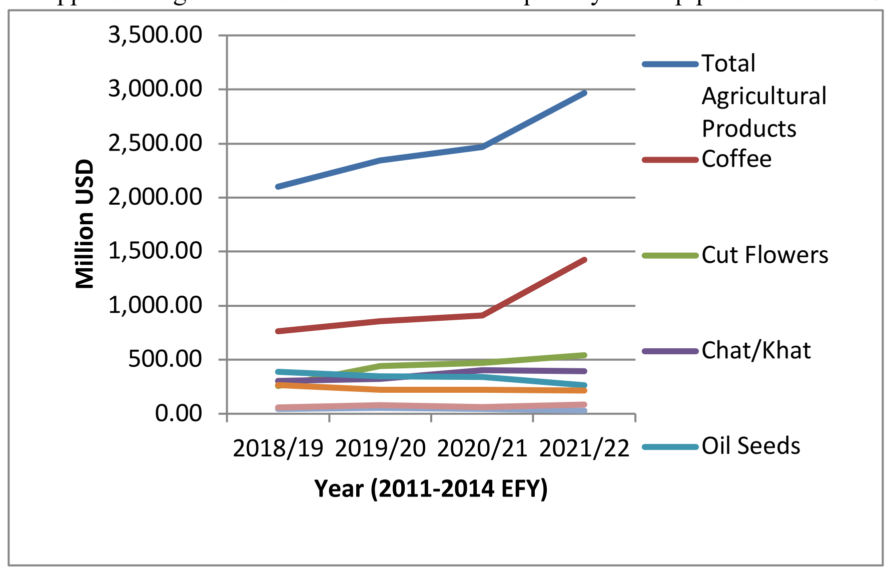


Appendix Figure 2: Number of farmers and quantity of crop production in ACC

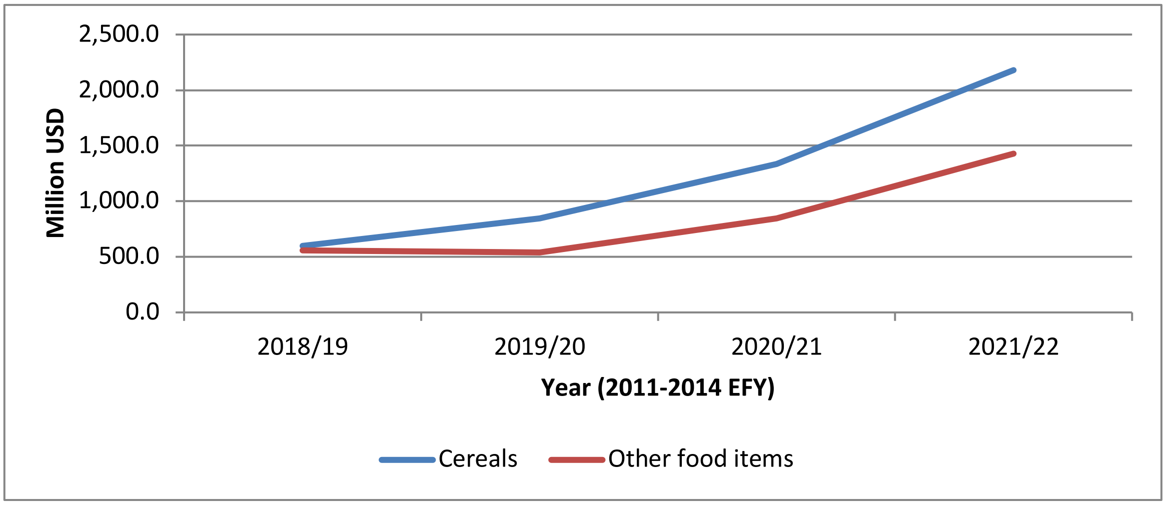


	2018/19	2019/20	2020/21	2021/22
Meat (Cattle, Sheep, Goat and Camel) in million ton	1.93	1.713	0.349	0.448
Poultry meat in million ton	0.055	0.063	0.07	0.091
Milk in billion liter	6.038	6.6	7.225	7.08
Egg in billion	1.874	1.858	2.77	3.25

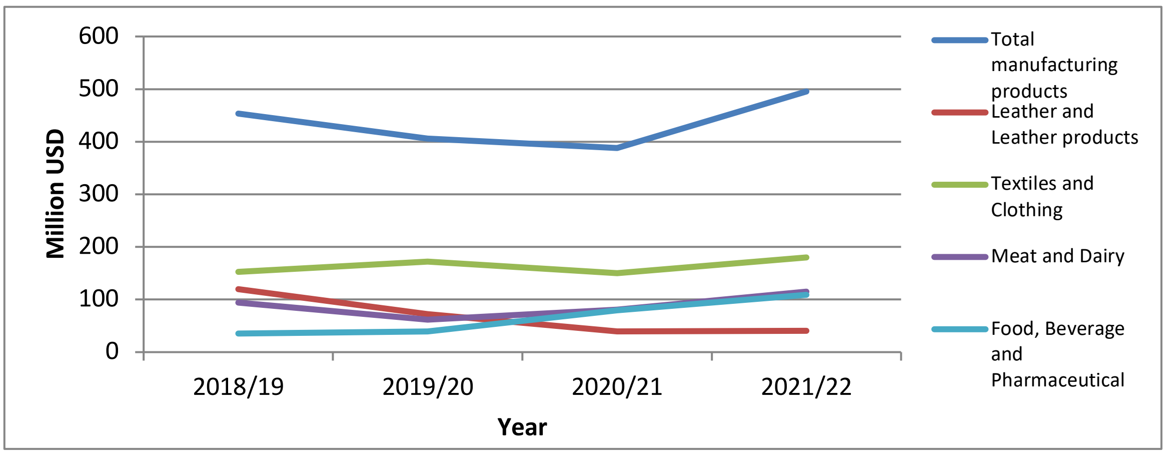
Appendix Figure 3: Trends in production of livestock products



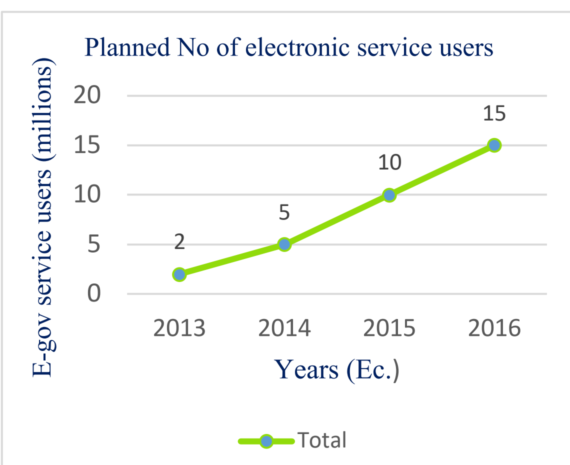
Appendix Figure 4: Ethiopia's agricultural exports

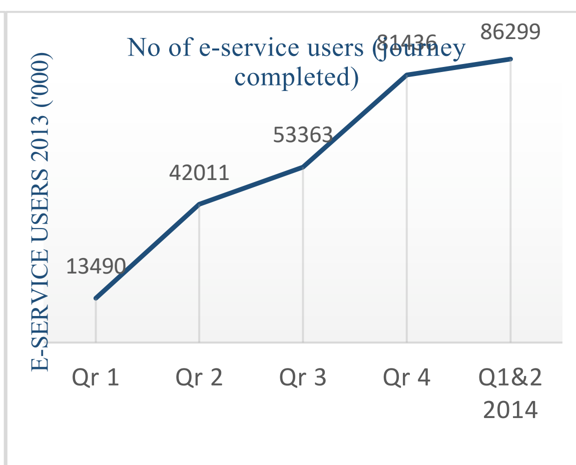


Appendix Figure 5: Import of food items



Appendix Figure 6: Ethiopia's manufacturing exports





Appendix Figure 7: Planned number of e-service users

Appendix Figure 8: Number of e-service users