

A Homegrown Economic Reform Agenda: A Pathway to Prosperity

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FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Disclosure: Market sensitive information has been removed from the document before publication.

Abbreviations and Acronyms

ASM	Artisanal and small-scale	LPI	Logistics Performance Index
BOP	Balance of Payments	LSM	Large Scale Mining
BPO	Business Process Outsourcing	MFI	Micro-finance Institutions
CBE	Commercial Bank of Ethiopia	MICE	Meetings, Incentives, Conference and Exhibitions
CFTA	Continental Free Trade Agreement	MSME	Micro Small and Medium Enterprise
DBE	Development Bank of Ethiopia	MoF	Ministry of Finance
EEA	Ethiopian Energy Authority	NBE	National Bank of Ethiopia
EEP	Ethiopian Electric Power	NPL	Non-Performing Loans
EEU	Ethiopian Electric Utility	OSH	Occupational Safety and Health system
EFY	Ethiopian Fiscal year	PPPs	Public Private Partnerships
EIC	Ethiopian Investment Commission	PDC	Planning and Development Commission
EMAA	Ethiopian Maritime Affairs Authority	SME	Small and Medium Enterprise
ESLSE	Ethiopian Shipping and Logistics Services Enterprise	SOE	State Owned Enterprise
FDI	Foreign Direct Investment	SSA	Sub Saharan Africa
GDP	Gross Domestic Products	STEM	Science Technology Engineering & Mathematics
GOE	Government of Ethiopia	TFP	Total Factor Productivity
GTP	Growth & Transformation Plan	TVET	Technical & Vocational Education & Training
ICT	Information and Communication Technology	WTO	World Trade Organization
IFRS	International Financial Reporting Standards		
IPDC	Industrial Parks Development Cooperation		
IMF	International Monetary Fund		
IP	Industrial Parks		
IPP	Independent Power Producer		
IPPS	Independent Power Producers		
IT	Information Technology		
ITC	International Trade Commission		

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Executive Summary

Over the past 15 years, the Ethiopian economy registered a remarkable double-digit real GDP growth and over a six-fold increase in per capita GDP to about US\$865 in 2018. This has been accompanied with a significant poverty reduction from 44.2 percent in 2000 to 23.5 percent in 2015, and improvements in access to education, health, and infrastructure.

High public investments in infrastructure and human capital development fueled the country's growth. These investments narrowed fundamental gaps in transport and energy infrastructure and human capital developments, there by laying the foundation for a sustained growth. However, the public investment led growth model had its shortcomings. While significant strides have been made, both GTP I and GTP II have not entirely been successful in achieving structural transformation and stimulating exports. The growth has also failed to stimulate private sector development to create decent jobs; gaps remain in ensuring quality universal access to basic services to all Ethiopians. Furthermore, the efforts to finance ambitious public investment programs through directing domestic financial resources and significant external borrowing, coupled with poor project execution, resulted in serious macro-economic imbalances— foreign exchange shortages, increased risk of external debt distress, growing financial sector vulnerabilities, limited access to finance for the private sector, high inflation, and potential misallocation of resources. These macro-economic imbalances, if not corrected immediately, jeopardize the journey to a middle-income economy by 2025.

On this backdrop, the GOE is launching a comprehensive and well-coordinated homegrown economic reform agenda with the goal to safeguard macro-financial stability and rebalance and sustain economic growth. The reform agenda builds on the achievements of the past decade in infrastructure and human capital developments. The primary objective of the agenda is to sustain the economic growth through creating an economic environment supportive of higher private investment and structural transformation. It encompasses three key pillars at the macro-financial, structural, and sectoral levels. Macro-financial reforms aim to reduce the risks associated with public debt, lower external vulnerabilities, arrest inflation, and enhance growth, investment, and exports. These reforms include (i) strengthening public finances including through improving the efficiency of SOEs and privatization, (ii) gradually moving towards a flexible exchange rate regime to address external imbalances, (iii) strengthening the monetary policy framework with the objective to stabilize prices and support economic growth, and (iv) enhancing financial sector development and developing capital markets. The structural reforms aim to address bottlenecks inhibiting private sector growth through (i) stepping up reforms to ease the constraints to doing business, ii) easing tariff and non-tariff barriers to international trade, iii) improving the efficiency of public institutions, and iv) improving services such as logistics, telecom, and electricity. The sectoral reforms aim to address market failures and address sectoral regulatory and investments constraints to promote investment in sectors including such as agriculture and manufacturing, and unleash new growth potentials in sectors such as tourism, ICT, mining, and the creative industries.

Successful macro-economic reform requires coordination and synchronization among forex, monetary, fiscal, financial, and capital market reforms. To balance the urgent need for addressing macroeconomic imbalances with the need to minimize potential economic costs of rapid ('shock therapy' type) reforms, the home grown macroeconomic reform agenda will be implemented in the course of three years with careful calibration of the pacing, sequencing, and timing of specific reform measures.

The reform agenda will be implemented through a structured and coordinated whole-of government approach. The Ministry of Finance will lead and oversee the implementation of the agenda through the Macro-Economic Committee, which reports to the Prime Minister. Each pillar – macro-financial, structural, and sectoral – will be coordinated through a sub-committee comprised of relevant offices. Implementing the proposed reform agenda requires mobilization of financial and non-financial resources. Enhancing domestic revenue mobilization, particularly significant improvement in tax collection, coupled with external resource mobilization will be at the core of the reform agenda's financing strategy. The concerted engagement of all segments of society— private sector, academia, and civil society— will be important; thus, broad consultations will be undertaken throughout the reform period to enhance ownership of the agenda by all stakeholders.

At the completion of the reform measures, we envision a stable macroeconomy that can sustain a rapid and inclusive economic growth setting the country on a path to prosperity. The reform measures will set the foundation for a robust, resilient, and diversified middle income-level economy through the formation of a dynamic private sector and modern policy and institutional frameworks.

1. Economic performance since the mid-2000s

1.1. Achievements— remarkable growth and poverty reduction

Prior to the mid-2000s, economic growth in Ethiopia was anemic and highly volatile. Real GDP grew only at 1.4 percent and per capita GDP fell at the rate of 1.8 percent a year, on average, during the 1970's, the final decade of the civil war. While improvements were notable compared to the prior decade, economic growth in the first decade following the end of the civil war remained weak and volatile. Consequently, per capita GDP grew at a mere 0.5 percent a year during 1992-2003 (Table 1).

The Ethiopian economy, however, registered a remarkable real GDP growth of about 10½ percent and an average per capita growth of 7.6 percent per year during 2004-17. Consequently, per capita GDP in current US dollar terms increased more than six-fold to about US\$865 in 2018. To put it in perspective, Ethiopia's real GDP growth during 2004-18 was the second highest in the world; second only to gas-rich Qatar. For this reason, Ethiopia's recent growth performance has been characterized by some as a 'miracle'.¹ Growth was not only high but also stable with a standard deviation of only 1.6 percent, compared to 5 percent during 1992-2003 and 7.2 percent during 1982-93.

Table 1 Ethiopia: GDP Growth (%)

	Average			Standard deviation		
	1982-91	1992-03	2004-17	1982-91	1992-03	2004-17
Real GDP	1.4	3.7	10.4	7.2	5.0	1.6
Real per capita GDP	-1.8	0.5	7.6	7.1	4.7	1.5

Several social indicators compiled from the World Bank's World Development Indicators database show that Ethiopia's impressive growth performance has been broadly pro-poor as it was accompanied by significant poverty reduction and improvements in access to education, health, and infrastructure.

Poverty reduction. In a matter of a decade, the poverty headcount as a percent of the population declined by 15 percentage points from 44.2 percent in 2000 to 23.5 percent in 2015. This is quite an achievement notwithstanding the fact that a poverty rate of 23.5 percent still remains one of the highest in the world. According to the World Bank, this was the second highest poverty reduction in

¹ Deloitte & Touche (2014). *Ethiopia: A Growth Miracle*; Moller, Lars Christian (2015). *Ethiopia's growth miracle: What will it take to sustain it?*, The World Bank, <http://blogs.worldbank.org/african/ethiopias-growth-miracle-what-will-it-take-to-sustain-it>.

Sub-Saharan Africa, next to Uganda. Each one percent of growth in GDP resulted in a 0.15 percent reduction in poverty.

Education. Primary and secondary education gross enrolment rates reached 100 percent and 78 percent, respectively, in 2018, from 83 percent and 37 percent a decade earlier. Similarly, enrollment in undergraduate programs increased from 263 thousand students to 825 thousand students during the same period. These indicators clearly show a significant improvement in human capital.

Health. According to the Ethiopian Demographic and Health Survey, the share of births attended by skilled health personnel increased from 5.7 percent in 2005 to 49.8 percent in 2019. Similarly, the share of pregnant women receiving prenatal care increased from 27.6 percent in 2005 to 74 percent in 2019. Consequently, health outcome indicators showed significant improvements over the same period. The under-5 mortality rate fell from 123 (per 1,000 live births) in 2005 to 55 in 2019; maternal mortality rate declined from 673 (per 100,000 live births) in 2005 to 412 in 2016; and more broadly, life expectancy increased by 10 years, to 65 years in 2016.

Infrastructure. Access to infrastructure such as clean water, road, electric power and telecommunication have also improved significantly. For instance, access to electricity has increased from 14 percent of the population in 2005 to 43 percent in 2016 and access to potable water reached 65.7 percent in 2017, from 36 percent in 2005. On the other hand, total length of all-weather roads, excluding Woreda roads, increased from 36,400km in 2005 to 121,196km in FY2017; consequently, average time taken to reach the nearest all-weather road was slashed from 5.7 hours to 1.6 hours during the same period. Similar investments in railway and air transport led to better transportation infrastructure. While still low by international standards, mobile service coverage reached 85 percent and internet data density stood at 17.5 percent in 2017.²

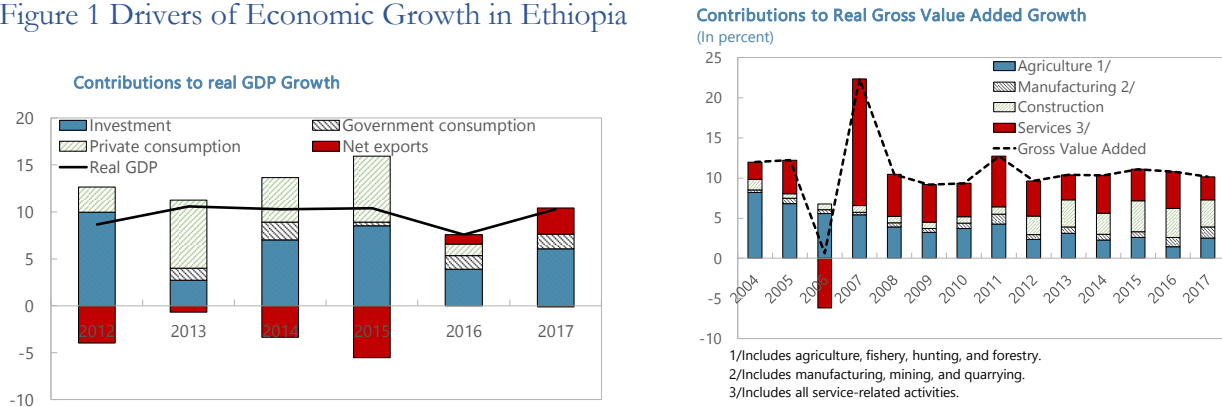
1.2. Drivers of the economic success

Ethiopia's double-digit growth in the past decade was driven primarily by investment, and to some extent consumption (Figure 1, left panel). The share of investment to GDP increased from about 25 percent in the early 2000s to a peak of about 38 percent in 2016/17. Although the National Accounts statistics does not disaggregate investment into private and public, data from fiscal and financial accounts show that a large share of the capital has been accumulated by the public sector. For instance, economic development expenditure in the general government budget accounted for about 60 percent of total capital expenditure in the past five years. Sizable investments have also been made by state-

² With the exception of data on access to electricity, which was obtained from the World Bank's database, the remaining infrastructure indicators were taken from the 2010 GTP Report (Vol 1) and the 2018 GTP II Progress Report.

owned enterprises, outside of the budget, on infrastructure (power, railways, industrial parks, and telecommunication), housing, and commercial activities such as sugar, cement, and fertilizer projects.

Figure 1 Drivers of Economic Growth in Ethiopia

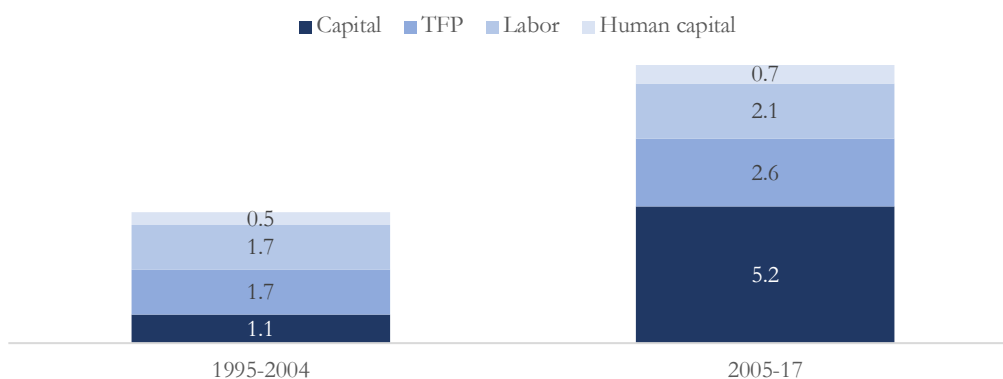


Significant investments by the public sector stimulated construction and service sector activities, which were the main drivers of growth on the supply side (Figure 1, right panel). Despite significant improvements in agricultural productivity, the contribution of agriculture to aggregate value added growth declined, reflecting the biased effects of the public investment on the construction and service sectors. Similarly, the contribution of manufacturing remained negligible at 5 percent of GDP, indicating that despite the high growth of the past decade, structural transformation to high-productivity sectors has yet to kick-off and accelerate.

The result of a growth accounting exercise also appears to provide evidence that the growth success is primarily a story of capital accumulation, and not yet one of structural transformation from low-productivity to high-productivity sectors (Figure 2). The contribution of capital accumulation to growth increased fivefold during 2005-17, compared to the decade prior to 2005. However, the increase in the contribution of total factor productivity was not overwhelming, in particular considering the potential increase in inefficiency and mismeasurement associated with such a sharp increase in capital, which get reflected in total factor productivity by construction.³

³As a residual in growth accounting, TFP could reflect not only productivity but also measurement errors in National Accounts and inefficiency in the use of factors of production.

Figure 2 Contributions of Factors of Production to Growth (in percent)



Sources: Estimated based on data from Penn World Tables 9.1.

The investment boom that fueled Ethiopia's double-digit growth was the result of the government's deliberate policy to scale up the much-needed investment on human capital and infrastructure. This investment was financed through mobilization of domestic savings, directing domestic credit to public sector projects and priority sectors, and external borrowing.

- Mobilization of domestic savings. Gross domestic savings was successfully raised from 9.5 percent of GDP to 24.3 percent during 2004-2018 through significant branch expansions by commercial banks and targeted government initiatives such as mandating pension contributions for non-government institutions and introducing housing saving schemes to finance low cost government housing. Despite such an outstanding growth in domestic savings, the saving-investment balance (or the current account balance) remained in deficit as the large investment fueled import growth while failing to stimulate exports.
- Directed lending to public sector projects and priority sectors. Credits from the Commercial Bank of Ethiopia (CBE) has been primarily directed to finance investment by state-owned enterprises. The share of total banking system credit held by SOEs increased from a mere 7.6 percent in 2002/03 to 62 percent in 2017/18, before it slows down to 59.4 percent in 2018/19 due to the government's effort to shift the balance of credit flows to the private sector. On the other hand, private banks were required to invest 27 percent of their new lending on a 5-year maturity NBE (National Bank of Ethiopia) bill. The funds raised through this bill were directed to the Development Bank of Ethiopia (DBE), which lends primarily to priority private sector projects. The budget has been financed in part through direct advances from the NBE and issuance of Treasury bills, which has been purchased mostly by pension funds.
- External borrowing. Public sector investment projects also relied heavily on external borrowing, which picked up pace in particular since 2008. Unlike in the past when the country relied primarily on concessional borrowing, the recent build-up of external borrowing involved commercial loans, including issuance of a historic US\$1 billion bond in the international capital markets in 2014.

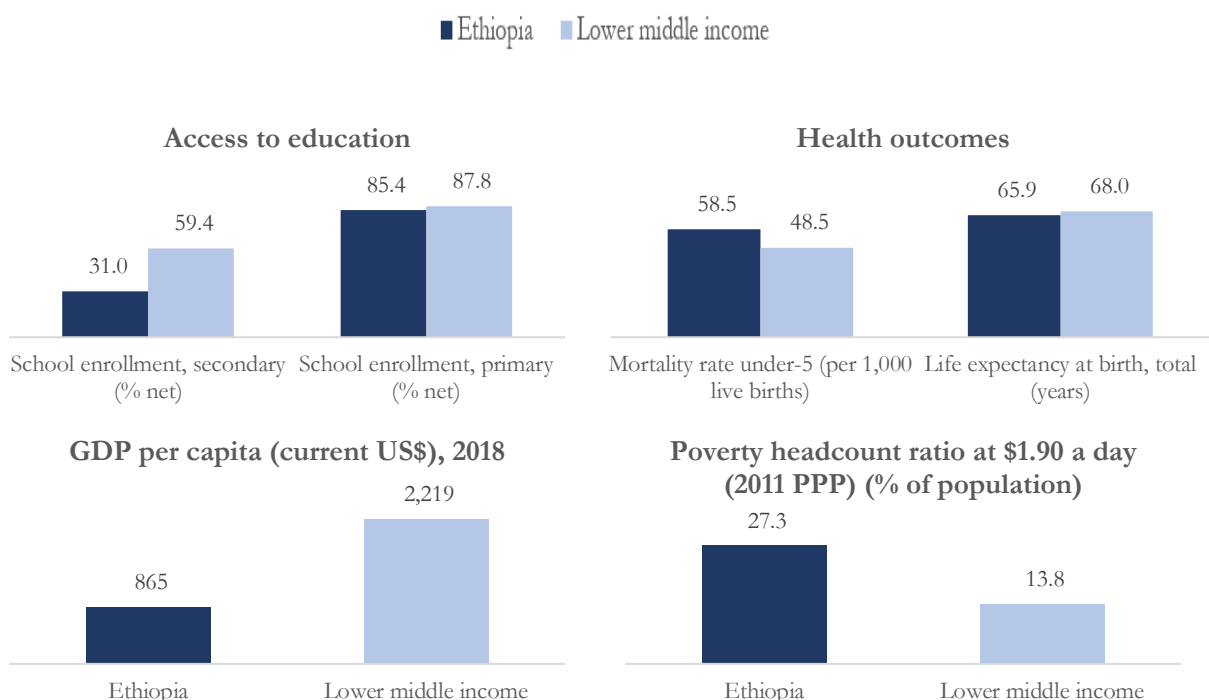
Consequently, the stock of external debt as a share of GDP tripled to about 31.6 percent in 2017/18, from 10 percent a decade earlier.

1.3. Remaining gaps to reaching a lower-middle income level

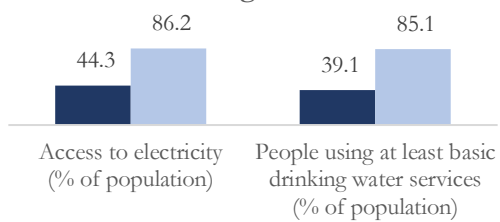
Notwithstanding the remarkable journey so far, Ethiopia still has a long way to go to achieve the goal of reaching a middle-income level by 2025. Apart from access to education and health outcome indicators, Ethiopia is still far from reaching the average for lower middle-income level on a number of economic and social indicators (Figure 3). For instance, even if lower middle income economies do not grow, on average, in per capita income terms, Ethiopia’s per capita income would have to more than double in the next 7 years for Ethiopia to reach 2,219 USD, the average per capita income of lower middle income economies.

Similarly, Ethiopia would have to cut the poverty rate in half to 13.8 percent to reach the current poverty rate of lower middle-income economies by 2025. The picture is similar, if not worse, in access to electricity, drinking water, and technology services. It is true that the goal is to reach the minimum, not necessarily the average, for lower middle-income economies. However, the threshold for reaching a lower middle income level will also shift over time as this group of economies grow, indicating that reaching a lower middle income level by 2025 will still require doubling the efforts to sustain the achievements of the past decade.

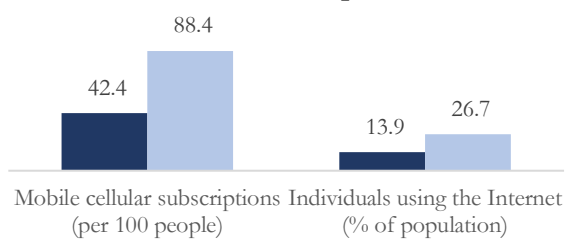
Figure 3 How far does Ethiopia need to go to reach lower middle-income level?



Access to electricity and basic drinking services



Mobile and internet penetration



2. Headwinds against economic progress

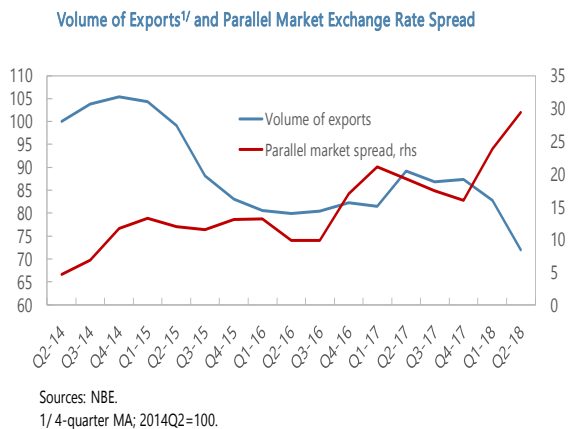
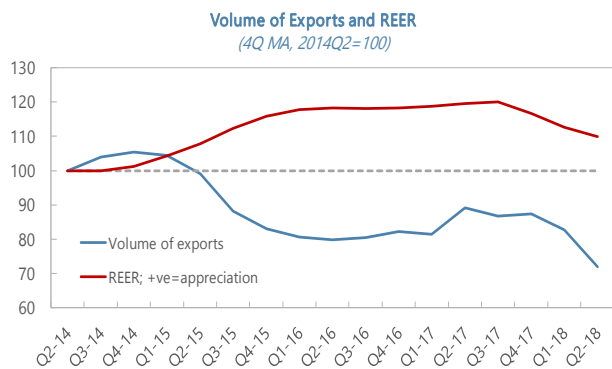
The growing macroeconomic imbalances and distortions, which are in large part the unintended consequences of the policies employed to finance public investment in the past decade, make the task of sustaining the achievements of the decade the more challenging. Efforts to finance ambitious public investment programs through directing domestic financial resources to the public and priority sectors and significant external borrowing coupled with poor project execution have brought to the fore serious macro-imbalances.

Such sub-optimal financing system resulted in large foreign exchange imbalances, high risk of external debt distress, limited access to finance for the private sector, high inflation, and a potential resource misallocation.

Foreign exchange imbalances. The development model in the past decade has generated greater demand for foreign exchange than supply. Large-scale public investment projects have absorbed a significant share of scarce forex, while the forex revenue anticipated from the projects didn't materialize in time. High demand for imports in the context of limited export growth resulted in large current account deficits and severe forex shortages. An overvalued official exchange rate and a growing gap between the parallel and official market rates also discourage exports as the exporters' cost is likely to be affected by the parallel market rate while their revenue is determined at the official exchange rate (Figure 4, right panel). Maintaining a stable rate of exchange in the environment of relatively high inflation also means a real exchange rate appreciation, which is equivalent to a tax on exports (Figure 4, left panel).

External debt distress. The country's ambitious state-led development agenda with its limited tax base created a financing gap that needed to be filled through external borrowing. Overall public sector debt doubled in the decade prior to 2017/18 to reach 50 percent of GDP. Within this growing debt burden, external debt escalated rapidly, tripling in a decade to reach 31.6 percent of GDP in 2017/18, before it slows down to 28 percent of GDP in 2018/19 owing to the government's concerted effort to reduce the debt burden. Although the level of the external debt is not particularly high, its rapid accumulation in the context of disappointing export performance has created distress in debt service. From just 2.5 percent a decade earlier, external debt services significantly increased to 26.6 percent of exports of goods and services in 2018/19. As a result, the 2018 IMF Article IV report placed the Ethiopian external debt burden at a high risk of distress, undermining the country's credit standing and limiting the scope for further borrowing in case of critical need. Debt distress is also strongly tied to export growth.

Figure 4 Exchange rates and exports



Limited access to finance. Allocation of credit to public sector projects and priority sectors has also limited the private sector’s access to finance. Consequently, access to finance is often ranked by business surveys as one of the most problematic constraints to doing business. In the Doing Business report, Ethiopia ranked 167 out of 189 economies on getting access to credit, much lower than its overall rank of 146 and lower than its structural peers. Private sector credit stood at 12 percent of GDP in 2018/19 in Ethiopia compared to more than 20 percent in SSA. It is important to note, however, that the trend has been reversing recently as private sector credit is growing more rapidly than that of public sector credit.

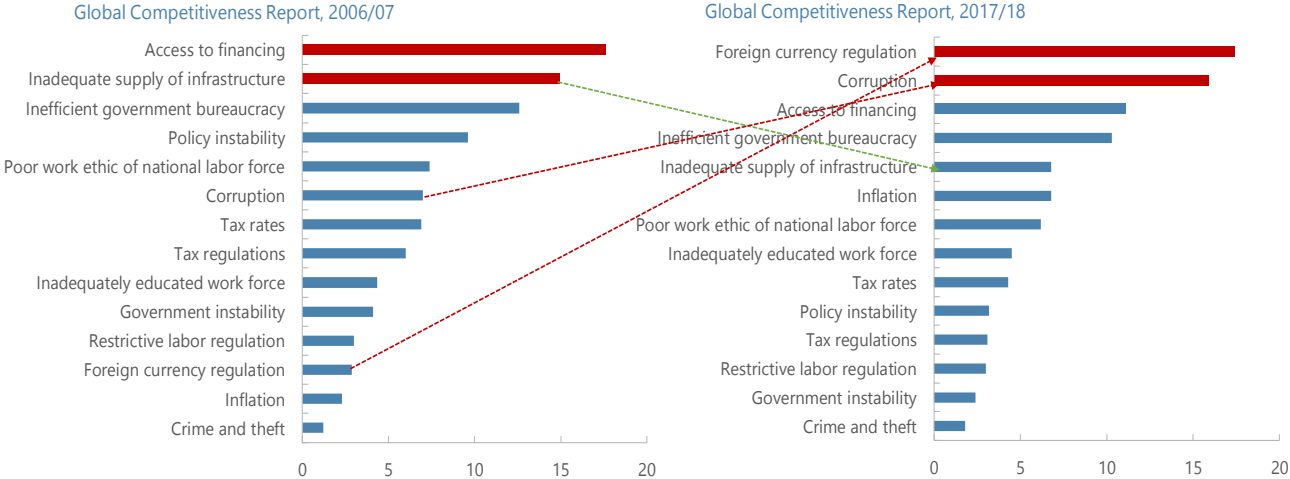
High inflation and resulting distortions. Inflation averaged 15.4 percent a year during 2005-2018, fueled in part by expansionary fiscal and monetary policies. Annual inflation accelerated to 16.8 percent in June 2018 against a target of 8 percent. It has since decelerated to 10.9 percent in January 2019 as monetary policy was tightened. Such a high rate of inflation has wide-ranging negative consequences to the economy. It erodes the purchasing power of the population – with severe effects on the poor—from realizing real gains from the country’s economic growth. High rate of inflation also disincentivizes savings by rendering real interest rates negative. Finally, a rapid inflation in the context of slow moving nominal exchange rate leads to real exchange rate overvaluation, which in turn erodes the country’s external competitiveness.

Resource misallocation. As noted previously, the large-scale public investment stimulated construction and service (primarily non-tradable) sectors at the expense of agriculture and manufacturing (tradable) sectors. This shifts incentives and factors of production from the tradable (exports and import competing) sectors to non-tradable sectors, with two potential macroeconomic consequences. First, it reduces incentives for investment in exportable and import-competing agricultural and manufacturing products. Second, it increases inequality between people engaged in sectors with declining income shares and those engaged in growing sectors. According to a 2019 World Bank study, the real consumption expenditure of rural households grew only by less than 1 percent per year during 2011-16, compared to a 6 percent growth per year for urban households. In particular,

the rural poor (bottom 15 percent of the rural population) did not experience real consumption growth during the entire decade (2005-16).

Large scale public projects have also the tendency to suffocate the capacity of public institutions and create opportunities for corruption. Indeed, most of the high-profile public projects such as hydroelectric dams and sugar factories have proved to be too big for the capacity of the corresponding SOEs and have faced significant delays with increasing project costs. On the other hand, business surveys show that perception of corruption has increased and become one of the main obstacles to doing business (Figure 5). A comparison of the Global Competitiveness Report survey results for 2006/07 and 2017/18 clearly illustrates the achievements and unintended consequences of the public-investment driven growth model over the past decade. While easing infrastructure constraints, which improved from being the second most to fifth most ranked problem, the public-investment led growth brought to the fore forex shortages and corruption as the most problematic factors to doing business (Figure 5).

Figure 5 Most problematic factors to doing business



Source: Survey of the Global Competitiveness Report, World Economic Forum.

3. Problems of continuing with the status quo

The public investment led model of the past decades has led to successful economic growth in the past. However, the financing model has reached its limits, leading to growing macroeconomic vulnerabilities and imbalances that jeopardize the sustainability of growth and stability of the economy. Given the current macro-economic imbalances, the country cannot mobilize the required resources to continue with its high public investments.

- Both external and internal financing sources are drying-up unless major macro-imbalances and financial sector vulnerabilities are addressed rapidly. With a high debt distress risk and limited export growth, the public sector has limited scope for additional borrowing from external creditors. Domestic banks have faced vulnerabilities due to the sub-optimal financial policies for the past decade.
- The prevailing forex imbalances and overvalued real exchange rate could continue to suppress exports and official remittances.
- The double-digit inflation effectively hinders the financing of a large share of the budget through direct advances from the NBE.

In this context, trying to achieve and sustain the GTP II growth target of about 11 percent through the financing models of the past decade has become neither feasible nor desirable. Achieving real GDP growth rate of 11 percent over the coming years requires mobilizing significant external financing to pay for the needed imports. This would not be feasible as external lenders would unlikely be willing to finance the status quo. Even if the external financing was to be secured, continuing with the demand-driven growth model of the past decade would not be desirable due to heightened internal and external imbalances. Without sufficient supply response, additional external borrowing would aggravate the external imbalances and heighten the external debt distress. Internally, high inflation will further undermine the purchasing power of the middle class and the poor and erode public confidence on the stability of the monetary system.

After investing so much on infrastructure and human capital, with notable achievements, it is time for the government to slow down its investment and leverage its past achievements for private sector development. It is only through private sector-led growth that the government would be able to reap the dividends of its past investment, both in terms of generating fiscal resources to service its debt and creating job opportunities for the rapidly growing population.

4. Rebalancing and sustaining growth through a homegrown economic reform program

Sustaining economic growth, creating job opportunities for the growing population and setting the foundation for prosperity for all requires correcting macroeconomic imbalances and rebalancing the sources of growth; from demand-driven to supply-driven, from debt financing to saving and equity financing, and from public sector-led to private sector-led.

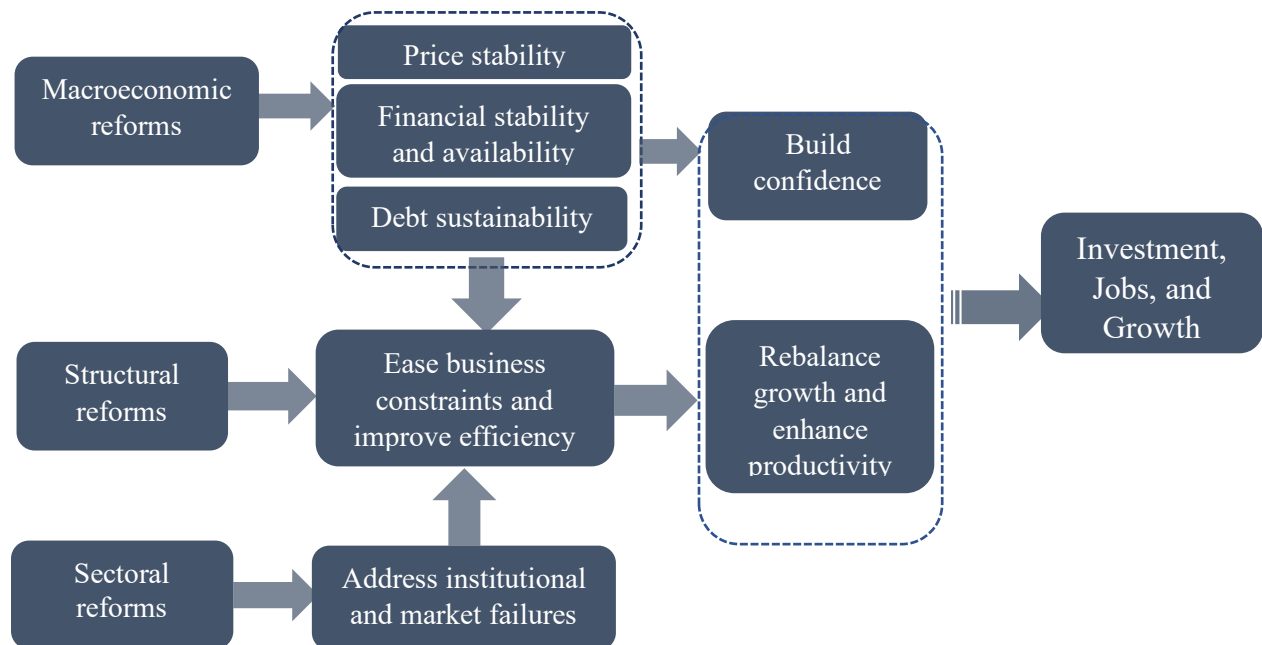
4.1. Reform Objectives

- Ensure macro-economic stability to sustain the rapid economic growth
- Rebalance the public and private sectors' role in the economy
- Unlock new and existing growth potentials

This in turn requires launching a comprehensive and well-coordinated economic reform agenda, encompassing (Figure 6):

- macro-financial measures to stabilize the macroeconomy and arrest financial sector vulnerabilities;
- structural reforms to alleviate business constraints to create an enabling environment for private sector investment; and
- sectoral policies to address sector-specific institutional and market failures and enhance productivity in key economic sectors.

Figure 6 Pillars of the economic reform program



The reform agenda builds on various macro-financial reforms launched in the past year. Most notable among the already launched reforms include (i) lifting the limit on diaspora foreign currency accounts, (ii) adjusting the exchange rate at which commercial banks surrender forex to the NBE, (iii) raising the interest rate on NBE bills from 3 percent to 5 percent, (iv) allowing foreign exchange transactions in industrial parks, (v) reducing the budget deficit from 3 percent in 2016/17 to 2½ percent in 2018/19, (vi) adjusting electricity and fuel prices towards cost reflective levels to reduce fiscal burden, (vii) reprofiling external debt to lessen the burden of immediate debt service obligations, (viii) implementing doing business reforms to reduce red tape and bureaucracy, (ix) efforts to open the logistic and telecommunication sectors to domestic and foreign investors and fully and partially privatize SOEs; and (x) ratifying CFTA and resuming WTO accession to improve access to foreign markets and support exports. These macro-financial reforms are steps in the right direction, yet are insufficient to address macroeconomic imbalances and ensure sustainable growth.

The current reform program augments these macro-financial measures by adding depth and breadth. The macro-financial reforms are complemented with broad structural and sectoral reforms to unleash the potential of the private sector in sectors such as agriculture, manufacturing, mining, tourism, and ICT. These structural and sectoral reforms will enhance the productivity growth and job creation.

4.2. Macro-financial reforms

Macro-financial stability and availability of finance (both local and foreign currencies) are the foundations for economic growth and job creation. Stable monetary and financial systems allow savers to deposit their financial assets in the financial system with confidence, provide investors the predictability and finance they need to invest in long-term projects, and enable consumers to smooth their income and consumption intertemporally. In this context, the economic reform program aims to correct macroeconomic imbalances and ensure macro-financial stability through stepping up ongoing efforts to improve public sector finances, easing forex controls and correcting the exchange rate misalignment, modernizing the monetary policy framework, strengthening the financial system, and developing capital markets.

Successful macro-economic reform requires coordination and synchronization among forex, monetary, fiscal, financial, and capital market reforms. To balance the urgent need for addressing macroeconomic imbalances with the need to minimize potential economic costs of rapid ('shock therapy' type) reforms, the home-grown economic reform program will be rolled over in the course of the next three years with careful calibration of the pacing, sequencing, and timing of specific reform measures as discussed below.

4.2.1. Strengthening public sector finances and SOE reforms

Rationale. Public investment on infrastructure and human capital will continue to address remaining gaps towards reaching a middle-income economy level. The financing model for public investments will pursue a sustainable means to ensure debt sustainability, and avoid inflationary pressures and the crowding out of the private sector's access to critical financial resources such as credit and forex.

Controlling the budget deficit and streamlining public sector capital spending will be among the key reform measures. Strengthening public sector finances entails measures to maintain the general government deficit as well as enhance the finances of SOEs. To maintain macroeconomic stability, important efforts would be needed to raise government revenue through tax policy and tax administration reforms, review of subsidies, further prioritization of public projects, and strengthening SOE governance.

These measures will build on the earlier strides in managing the budget deficit, SOE reforms and privatization, and maintaining and consolidating the achievements made so far. Fiscal policy will focus on supporting high quality growth and ensuring debt sustainability through revenue mobilization and improving efficiency of public spending. More specifically the following reform measures are envisioned:

Maintain the current general government fiscal policy stance. With a fiscal deficit of about 3 percent of GDP, the general government budget stance is considered as adequate and no further consolidation is considered necessary at this stage. Financing of the budget will depend on enhanced domestic resource mobilization, concessionary external loans, and gradually on raising funds from local markets as capital markets develop and deepen (see below). Domestic resource mobilization measures will be enhanced through reforms in tax policy and administration as well as improvements in the efficiency of public investment. Measures will be taken to reverse the declining tax to GDP ratio and utilize the country's potential tax capacity of up to 20 percent of GDP. Existing VAT and excise laws will be overhauled, and tax expenditure and exemptions will be rationalized. Tax administration reforms including enhancing information technology capabilities, moving to e-filing and e-payment systems, and strengthening tax audit and tax education will be top priorities. The revenue raised from these measures will be used to increase public investment on infrastructure and human capital without changing the fiscal policy stance.

Measures will also be taken to enhance the efficiency of public expenditure and investment. Explicit and implicit subsidies will be reviewed and rationalized. A monitoring system for public expenditure to ensure that the budget is utilized as intended and contributes to the achievement of priority objectives will be put in place. Project approval procedures will follow strict feasibility and value for money assessments. Institutional capacity for the preparation, selection and execution and monitoring of public investment projects will be enhanced. Public investment financing modalities will be expanded to reduce the burden on the government. Innovative modalities to crowd-in private sector

involvement in public investment projects such as Public Private Partnerships (PPPs) will be implemented.

SOE reforms to enhance efficiency of public investments. In line with efforts to enhance the efficiency of public investments, the SOE reform agenda will be accelerated and deepened. SOE reform measures will include ownership restructuring including partial and full privatization, strengthening of legal and institutional frameworks to enhance SOE governance and management, and completion of ongoing SOE projects to harvest the return from prior investments. The SOE portfolio will be assessed and optimized for value creation. SOE reforms to improve operational efficiency, enhance transparency, and strengthen their finances will continue; SOE oversight and regulatory institutions such as the Public Enterprise Holding and Administration Agency will be strengthened, and the Ministry of Finance will enhance its fiscal oversight role. Measures will be taken to reprofile SOE debts and enhance the debt service repayment capacity of SOEs. Ongoing SOE projects will be finalized through already committed loans, privatization proceeds, and borrowing from the domestic market to the extent possible. A prudent SOE investment plan and an SOE specific debt management strategy will be prepared and implemented.

Ensure debt sustainability. Limits on non-concessional loans will be maintained as per the last two years. Non-concessional loans will be limited to previously contracted loans. To complement the prudent external borrowing policy, debt reprofiling will be undertaken to the extent possible to lessen near-term debt service obligations and forex strains. This would allow to improve the risk of the country's external debt distress from 'high' to 'moderate' level by the end of the reform period. The Ministry of Finance will develop a medium-term debt management strategy to guide the government's annual borrowing including marketable debt financing. Efforts will be undertaken to enhance transparency in the total government debt including SOEs. Envisioned export performance improvements will also contribute the improvement of debt sustainability.

4.2.2. Addressing the foreign exchange imbalances

Rationale. A sustainable solution to the forex imbalances requires removing policy distortions in the forex market and allowing the exchange rate to be determined on the basis of economic fundamentals. This will be complemented with streamlining the activities of SOEs to ease forex demand.

The government will take gradual measures towards a market-based exchange rate regime. Efforts will be undertaken to institute a mechanism where there are no controls on current account transactions (e.g. imports) and the value of the exchange rate reflects market fundamentals. This does not mean a free-floating exchange rate regime. It only means that the NBE will achieve its exchange rate policy objectives through intervening (buying and selling forex) in the interbank market, and not through determining the exchange rate by itself regardless of market conditions. The transition into such market-based or flexible exchange rate policy will follow a gradual path in conjunction with

accompanying measures to mitigate potential adverse consequences. The transition process will involve the following measures.

- **Mobilizing less-costly forex resources to meet immediate forex needs and build the level of international buffers**
- **Correcting the prevailing exchange rate overvaluation**
- **Gradually easing FX controls and availability of FX to the private sector**
- **Promoting exports, tourism, and FDI through macroeconomic and structural reforms**
- **Improving the FX management and functioning of the interbank market**

4.2.3. Strengthening the monetary policy framework and financial regulations

Rationale. Monetary policy will be strengthened to address inflation and support the transition to a private sector led growth. Given the potentially inflationary impacts of the exchange rate depreciation, the transition to a flexible FX market will be accompanied by a strong commitment by the NBE to tighten monetary policy as needed. Monetary policy under the home-grown reform aims to address elevated domestic inflation while complementing efforts to address forex shortages and reduce real overvaluation. The key reform measures include the following.

- **Gradually reduce direct advance to the budget and contain the growth of reserve money**
- **Introduce market-based monetary policy and liquidity management instruments, such as term deposits (non-tradable) and certificates of deposits (tradable)**
- **Strengthen the NBE's capacity so that it can effectively carry out its mandate of ensuring price and financial stability**
- **Make transition to interest rate based monetary policy as the effectiveness of quantitative monetary targeting will inevitably decline with increasing monetization**

4.2.4. Reforming public financial institutions and dealing with vulnerabilities at public banks

Rationale. A series of institutional reforms will be undertaken to strengthen public financial institutions. These will include asset quality review and implementation of international finance and governance standards such as IFRS, and measures will be taken to enhance their capacity to conduct financial viability analysis before extending loans. The operations of CBE and DBE will be modernized to the level of industry best practices. While conducting further analysis to determine the resources and modalities through which legacy problems at the CBE and DBE will be resolved, it is important to safeguard the balance sheets of these banks from further deterioration. Key reform measures are outlined below.

Unravel the CBE-SOE debt nexus to improve the financial viability of CBE. SOEs account for a significant share of CBE's total credit extension, exposing CBE's balance sheet. Measures will be taken to expedite the servicing of SOEs debt to CBE. These will entail the government assuming the distressed portion of SOEs' debt, enhancing the SOE governance and operational efficiency, and expediting completion and operationalization of ongoing projects to allow them to service their debts in a timely manner.

Enhance the capacity and sustainability of DBE. Complete the ongoing study with the reform options for DBE and design a sustainable financing mechanism for DBE's lending operation. In light of plans to gradually repeal the NBE bill, DBE's reliance on NBE financing will be unsustainable. Hence, alternative and sustainable financing models for DBE will be identified and implemented. DBE's capacity to conduct financial viability analysis before extending loans, and track and collect mature loans in a timely manner will be enhanced. The Bank's overall business model and credit policy will be revised. While waiting for the ongoing study to come up with reform options for the future of DBE, it is important to ensure that DBE honors its prior commitments or already approved projects.

4.2.5. Enhancing financial sector development and developing capital markets

Rationale. Improving financial intermediation and releasing the potential of the financial sector to support economic growth will require easing repressive financial sector policies and facilitating market-based determination of interest rates and allocation of funds. A modern financial system is important to support the rebalancing of the role of the public and private sector. The development of bond and stock markets will also provide investment opportunities for pension funds and other financial investors, as well as an alternative source of funding for long-term investment projects. On the other hand, interbank money markets would allow banks to lend to each other to bridge short-term liquidity needs. Interest rates from money markets can serve as anchors to monetary policy thereby facilitating the transition into interest-rate based monetary policy framework. The following measures are aimed to contribute to the development of a well-capitalized, profitable, and liquid banking system. Key reform measures are outlined below.

Repeal the NBE bill. The requirement for banks to invest 27 percent of their portfolio on the NBE bills, which has a return well below the minimum deposit rate, will be repealed. The reserve requirement on banks was used to finance the budget without causing monetary expansion. The liquidity released from this reform is expected to allow banks to improve the provision of credits to the market. Following the government's establishment of competitive government securities (T-bills), private banks can also invest on treasury bills which is expected to gradually replace direct advances as a source of budget financing.

Operationalize a competitive T-bills market. A competitive T-bills market will be initiated starting from the current fiscal year. The number of issuances in the first three years will be determined based

on three considerations: (i) the financing need; (ii) the fiscal cost of higher interest rates; and (iii) availability of liquidity in the financial system.

Facilitate the development of inter-bank money markets. The interbank money market plays a key role in the execution of monetary policy. In addition to balancing daily liquidity fluctuations and mitigation of liquidity risk, it facilitates a transparent price setting mechanism. A developed, active, and efficient interbank market enhances the efficiency of the NBE's monetary policy and its links to the economy. The interbank market will be developed in conjunction with the development of the T-bills market, improved liquidity management by the NBE, and modernization of the payments and settlement system.

Establish a stock exchange and secondary bond market. A stock exchange will be launched in collaboration with the private sector. This will be followed by establishment of a secondary T-bills and T-bond market.

Build analytical capability at NBE's Credit Reference Bureau. Credit bureau coverage in Ethiopia is less than 5 percent of the adult population. The NBE has issued directives for the establishment and operations of a credit reference bureau to enhance access to finance and to provide credit rating to financing instruments and capital seekers. Although the NBE has made progress in setting up a credit reference bureau, the bureau's ability to facilitate extension of credit to underserved segments, such as individuals and small and medium enterprises (SMEs), remains constrained. Measures will be taken to enhance the NBE credit bureau's capacity and expand the credit registry to MFIs and leasing companies. Furthermore, the government will explore options for allowing private credit analysts and rating companies to support capital market developments.

Promote financial inclusion. The government aims to enhance financial inclusion. In this regard, earlier measures for financial inclusion will be deepened and measures to promote mobile technology will be accelerated. The current restriction against mobile payment technology service providers and the requirement for financial institutions to own the technological platform will be re-evaluated to allow closer partnership between financial institutions and technological companies, thereby accelerating market penetration of digital payment systems. Other targeted measures will be undertaken to develop other segments of the financial sector such as leasing and insurance. Requisite regulations to use moveable assets and expand the range of eligible collateral will be developed. A financial education strategy will be launched to bring the under-served part of the population to the banking system.

4.3. Structural reforms

Rationale. While macro-financial stability is necessary for restoring confidence and building a solid foundation for economic growth, success in rebalancing and sustaining productivity growth and job creation will depend on creating an enabling environment for businesses and sufficient incentives for investment.

Cumbersome bureaucratic and regulatory procedures, corruption, barriers to international trade, poor logistics, and limited access to reliable electricity, in addition to forex shortages and limited access to finance, are often cited as the key bottlenecks to doing business in Ethiopia. On the other hand, monopolistic and hoarding practices in some domestic markets have complicated efforts to stabilize prices. Poor and inefficient logistics and transport services are key constraints to economic competitiveness and export enhancement. Ethiopia ranks low in starting a business (176th out of 189 economies) and in trading across borders (166th) in the Doing business ranking.

The government has recognized the weaknesses in the key enabling sectors in energy, logistics, transport and communications, and is developing strategies to increase competition and enhance efficiency through market reforms and greater private sector participation. Recent reforms on the regulatory process have led to a significant reduction of business licenses (by 30 percent) and the requirements of competence certificate (by 50 percent). These improvements on the bureaucratic process and the provision of key services are expected to lead to a multitude of gains in the investment climate, firm productivity, and overall economic growth.

The structural reforms outline measures to improve business regulations and policy, address market failures, and enhance the efficiency of key enabling sectors to fully unleash the potential of the private sector.

4.3.1. Speedup ongoing reforms to ease constraints to doing business

Ongoing structural reforms aimed at streamlining bureaucratic and regulatory procedures and improving governance in public institutions will ease business constraints and promote private sector-led growth.

The excessive requirements of licensing obligations, unnecessary competency certifications, uncertain policies subject to different interpretations by different institutions, and lengthy tax administration and customs procedures are some of the key hurdles in the business environment. The administrative burden for firms to exit in the case of failure are equally challenges for the private sector. In this line, streamlining the business licensing requirements, simplifying procedures, clarifying mandates of different agencies, and improving inter-agency coordination are identified as key reform measures. This would include undertaking a review of regulatory requirements to enter and exit a market and cut regulations that don't have a clear and justified purpose. Regulations will be overhauled to promote transparency and efficiency, and clearly define the division of responsibilities among different supervisory, regulatory and enforcement authorities.

4.3.2. Ease tariff and non-tariff barriers to international trade

Easing tariff and non-tariff barriers would help improve external competitiveness and enable the export sector to reap the benefits of the broader macro-economic, structural, and sectoral reforms. On average, Ethiopia continues to levy high tariffs, increasing the cost of intermediate inputs as well as consumer goods. High tariffs on intermediate inputs creates a bias against exports.⁴ According to a World Bank (2014) study, Ethiopia has more trade restrictions in place than peers (ranking 109th out of 125 economies on tariff trade restrictions). Trade, and especially exports, is also constrained by a range of non-tariff measures. A 2018 survey by the ITC found that 96 percent of trading companies in Ethiopia report facing burdensome situations related to the application and implementation of trade-related rules and regulations. Exporters appear to be more affected than importers, with 90 percent of exporting companies reporting facing burdensome non-tariff measures and 56 percent of importing companies reporting such problems. Furthermore, Ethiopia is characterized by lower rates of firm entry into exporting due to high fixed costs that constrain entry into exporting and learning by exporting.

Key reform measures in this line include revisions of tariffs to remove disincentives to exporters, and improvements in the implementation of regulations to reduce the time to import and export, including the application of standards and conformity assessments. Ratifying CFTA and WTO accession will also improve access to foreign markets and support exports. WTO accession will also enhance the transparency and predictability that membership brings, which in turn provides confidence to investors and trading firms over a range of trade and trade-related policies.

4.3.3. Improving governance and capacity of public institutions

The inclusive structural change agenda requires capacity and coordination in government institutions, improved transparency and accountability, and a sustained consultation and understanding between the public and private sectors. The reform of public institutions, will be undertaken while viewing all institutions (public, private, political, social, civic, the media) as an integrated whole.

Measures will be taken to address capacity weaknesses and coordination failures between different ministries and agencies of government, and between federal, regional and local governments. Public institutions efficiency and transparency and accountability will be enhanced through the adoption of ICT tools and measures. Furthermore, the past system of mutual skepticism between the public and

⁴ The duty draw back scheme that reimburses firms for duties on imported inputs offsets the impact of high tariffs on intermediate goods. However, such schemes remain cumbersome and costly to implement. Exemptions or reduction in tariff would simplify procedures for exporters.

private sector must be overcome. Moving forward, it is important to develop a shared vision of the national development strategy between the government and the private sector.

4.3.4. Ensure efficient logistics services

Coordinated and efficient logistics and transport services are critical to address the current bottlenecks to domestic and international competitiveness of the economy. While Ethiopia has invested heavily in transport and logistics infrastructure, the country ranks 126 out of 160 countries on the Logistics Performance Index (LPI) in 2016. The cost of shipping is much higher than in comparator countries. The challenges faced by businesses, exporters, and manufacturers include a heavy bureaucratic customs process and inadequate logistics services, under-developed transport systems, inadequate terminal facilities, limited utilization of ICT systems, and an inefficient regulatory framework. Logistics services necessary to serve modern manufacturing and agricultural supply chains, are missing or inadequate. Improvements are aimed to reduce transit time for import and export items, enhance competitiveness of agricultural and manufactured exports, and address inflation and distribution challenges in the domestic market.

Logistics is both a sector in its own right and also an input to most other activities; thus, logistics sector reform has substantial sector and economy-wide impacts. Key reform measures are outlined below.

Enhance logistics sector competitiveness and efficiency. Improving the competitiveness of the logistics sector requires enhancing the existing services in the sector and expanding the range of value-added services as well as improved coordination among actors. This will require both modernizing the corporate governance and improving operational efficiency of logistics enterprises and attracting a range of investors into the sector.

The operational efficiency of the Ethiopian Shipping and Logistics Services Enterprise (ESLSE) needs significant improvements in the different areas of operations including shipping, freight-forwarding and terminal and port operations, to engender performance improvement and lower costs. The government has announced measures to liberalize the sector and is assessing options to restructure the ownership of the ESLSE including options for private sector participation in the enterprise. There is also a need for clear separation between the state's ownership and regulatory functions, and hence the need for reforms at the Ethiopian Maritime Affairs Authority (EMAA).

The liberalization of the sector would allow to increase the capacity, efficiency, and quality of existing services, which are focused on transportation and customs clearance. It's also important to expand value added services and bring in private providers in a range of logistics services to serve modern manufacturing supply chains, including distribution, packaging, warehousing services, transport management services, supply chain consulting services, consolidation and deconsolidation and inventory management.

Enhance coordination across the logistics sector actors. Logistics is a network industry where efficiency is impacted by multiple regulations and requirements defined by a range of regulatory bodies (maritime transport, road transport, rail, ports, customs, finance, etc.), all with different objectives. Hence, regulatory coordination is essential in supporting efficiency in the sector and preventing fragmentation of supply chains. Establishing a robust logistics sector coordination structure will be among the key reform measures.

Digitalize logistics and related services. Under-utilization of ICT constrains the logistics sector. The IT software and systems that track cargo and report on customs processes are not fully operational or integrated. The use of ICT will be enhanced to include automated customs clearance system at the customs authority and the integration of these services in checkpoints along trade routes, where traders and service providers can access the web-based portal.

4.3.5. Improve power reliability and access

The electricity sector is a key priority for the country's socio-economic growth. Electricity demand has grown continuously in Ethiopia for the past 20 years, and installed generation capacity has increased from less than 2 GW in 2007 to 4.5 GW in 2018. However, per-capita consumption of electricity remains low at 70kWh (2014), which is far below the average level of per-capita consumption across African countries of 500kWh.

The power sector reforms include measures to improve the reliability of services, expand access and generation capacity, and achieve efficiencies in investment and operation. Key reform measures are outlined below.

Strengthen institutional and regulatory framework of power sector entities. The basis for improved power sector reform is a credible and effective institutional framework, which promotes efficiency, transparency, and accountability. Currently, the Ethiopian Electric Power (EEP) and Ethiopian Electric Utility (EEU) suffer from a lack of efficiency and capacity, which leads to below optimum standard operations and a technical loss in the transmission and distribution lines. In this line efforts will be undertaken to modernize the corporate governance and improve the operational efficiency of power sector institutions including through ownership, organizational, and management restructuring of the above mentioned enterprises. A comprehensive improvement to enhance operational efficiency of EEU and EEP to improve their service delivery and reduce technical and commercial losses will be implemented. Regulatory framework strengthening of the Ethiopian Energy Authority (EEA) will be undertaken to develop a transparent and effective rules and standards to promote performance and investment in the sector. With the envisioned increase in private sector engagement, the regulatory body will be strengthened to ensure a conducive and competitive business environment.

Implement a sustainable financing model for the power sector. The traditional model of public financing of new investments in the power sector combined with non-cost reflective tariffs has

compromised the financial health of the energy sector enterprises, with effects on service delivery. Current energy sector tariffs are below cost recovery levels, where electricity tariffs remained nominally constant for nearly a decade. Restoring cost recovery through tariff reforms such as by implementing differentiated tariff rates between households and commercial/industrial users will be essential to allow the sector shift from its debt-based financing model. Improved management efficiency and increased participation of the private sector in energy sector will help enhance the sector's financial sustainability and there by enhance the reliability and expansion of access to power. Expansion of power exports to neighboring countries such as Kenya would also help improve revenue to the sector.

Encourage independent power producers (IPPs) and public-private partnerships (PPPs). In line with the National Electrification Program's goal to achieve universal access to electricity by 2025, efforts will be taken to expand electricity access to 65 percent of the population through grid connection and 35 percent through off-grid solutions with private sector participation. The sector is now starting to see strong interest in off-grid projects from private companies. The development of the off-grid connections will include revisions of regulations which hamper investments and measures to enhance the value chain and the availability of off-grid infrastructure components. Efforts will be undertaken to enhance and incentivize up-take of off-grid connection by consumers. Regulatory framework reviews will aim to ensure a conducive environment for private sector engagement and ensure a level playing field in the power sector.

4.3.6. Implement the telecom sector reform

Telecom services are an area where the country lags behind its peers. Limited telecom service coverage, costly access, poor quality, and lack of local content and services in the telecom sector are becoming a binding constraint to private sector development and firm growth. Improved telecom services are expected to facilitate efficiency gains and market linkages across economic sectors.

The ongoing telecom sector reforms aim to modernize telecom services and enhance the efficiency, reliability and affordability of services. Access to information and communication is at the core the inclusive economic development agenda, where it promotes improved global connectivity, better service efficiency, and enhance innovation and technology adaption. Telecom services are also essential to exploit Ethiopia's digital economy aspirations.

The reform measures will include liberalization of the telecom sector to promote private sector participation and competition and the development and strengthening of sector regulatory institutions. Liberalization measures will include the issuance of additional telecom service licenses to operators and the partial privatization of the state-owned Ethio-telecom. The participation of private sector will foster competition to lead to increased investment in infrastructure and services, increased choice and innovation for consumers, and better, more affordable service. The development of the telecoms sector is critical to meet the country's inclusive development aspirations.

4.4. Sectoral reforms

Sectoral reforms will complement macro-financial and structural reforms to address sector-specific market failures to exploit opportunities in a range of traditional and non-traditional sectors, such as tourism, mining, ICT and creative arts. Sector specific policies and regulations, access to improved inputs, finance, and market systems, and skills and technology are needed to drive diversification of both products and markets across sectors. Efforts will be geared towards facilitating and enhancing private sector engagement and exploring new sources of productivity and jobs.

4.4.1. Agriculture

Rationale. Although Ethiopia is diversifying its economic base, agriculture accounts for more than three quarters of employment, 36 percent of output, and more than a third of total exports. The predominance of agriculture in the economy indicates that agricultural growth will remain an important driver of economic growth and poverty reduction.

Agricultural productivity has grown rapidly in the past decade due to intensification of modern seeds, fertilizer use, and farm management techniques. Productivity improvements in the past few years were limited on key crops, with limited investments and productivity improvements in a range of sub sectors. Furthermore, yield growth remains insufficient to meet domestic food security and industrial needs, and underdeveloped markets continue to prevent farmers from realizing returns on their investments on inputs.

Some of the major constraints in the agriculture sector revolve around land use and administration system, access to high-quality inputs and finance, efficient market systems, and research and extension services. The agricultural sector reform focuses on addressing specific issues prioritized under each of the major constraints. 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. To support this, the government will closely work with smallholder farmers, cooperatives and private actors. Key reform measures include the following.

Develop legal frameworks to enhance land use and administration and allow farmers to lease land use rights. There are a number of policy and regulatory challenges that have contributed for unsustainable land administration and use in the country. Land resources are being used inefficiently without considering their potential and sustainability. Land fragmentation is a challenge that hinders smallholder farmers from graduating into medium and large farms.

Legal frameworks that protect farmer's land use rights (rights of current farmers to farm and pass on farms to children, and grazing rights for pastoralists), facilitate land lease and exchange (e.g., leasing and other mechanisms which would promote consolidation/ aggregation of farms into larger units), and promote voluntary based land consolidation will be developed and implemented. These measures will encourage farmers to implement modern farm management techniques, adopt modern technologies, inputs, and machineries, which in turn increase production and productivity, improve the quality of produce and reduce post-harvest losses. Land consolidation will also encourage the formation of medium and large farms

A national land use policy and integrated land use planning will be developed to transform the agriculture sector. This measure would be coupled with the establishment and strengthening of both urban and rural land administration.

Enhance productivity of small-holder farmers and pastoralists through provision of modern inputs and services. Small holder farmers account for close to 95 percent of total crop production and more than 64 percent of them produce their crops on less than one hectare of land. Enhancing the productivity of smallholder farmers plays a crucial role to transform the agriculture sector and improve the living standards of the rural population.

Capacity building of smallholder farmers through enhancing farmer training centers through the provision of the necessary equipment and modernizing and expanding agricultural extension services including through the use of ICT will be key measures to improve the productivity of smallholder farmers. Developing mechanisms to integrate smallholder farmers with commercial nucleus farms, through the development of farmer out-grower schemes, and broader measures to support aggregation and distribution of agricultural outputs to industries will also be facilitated.

Modernize livestock production through improving veterinary infrastructure and establishing linkages with other industries. Livestock accounted for about nine percent of the GDP in 2017/18. Ethiopia holds key advantages in the livestock sector, including a large livestock and consumer market, low cost of production, and investment incentives. However, the livestock value chain suffers from structural challenges.

Building the capacity of national veterinary institutions to produce sufficient quality and quantity of vaccines for priority diseases and promoting private sector investments in veterinary infrastructure development and production of vaccines are primary steps towards improving the health of the livestock population in the country. Enhancing animal health inspection and certification will also be undertaken to promote export of livestock products.

The livestock sector is also a key source of raw materials for the agro-processing industry as well as the leather industries. In addition to challenges with animal health, poor production and management systems hinder the production and processing of livestock products for industrial inputs. Measures will be taken to improve the hide and skin raw material supply, which is currently inhibited by low quality stemming from the improper handling practices. Capacity building of livestock producers,

abattoirs, and collectors will be undertaken in a comprehensive manner. Meat processing and poultry value chains will be enhanced to strengthen linkage to the emerging agro-processing industry.

Establish effective linkage between agriculture producers and commodity markets as well as the commercial value chain. Despite the significant growth in farmers' production and productivity over the past few years, the volume of produce that is sold as marketable surplus has increased at a slower pace. The lack of effective market infrastructure, price instability, and limited amount of market linkages between farmers and potential buyers such as cooperative unions and agro-processors, are identified as challenges in the market system. There is also a limited processing capability and promotion of products to penetrate the local and international market. This requires interventions that ensure that farmers become better informed about market demand and pricing to make more informed decisions and to strengthen their negotiating position. Measure will be undertaken to develop and implement efficient output market system addressing quality and traceability of produces and build the institutional capacity of market actors to facilitate market linkages between producers and buyers including promotion and branding of agricultural commodities. Specific measures will be taken to build technology-based trading system (including e-payment) to link aggregators and off takers. The grading, certification and traceability system for agricultural produce will be strengthened.

Accelerated growth in agricultural production with a focus on strategic crops for import substitution and exports. In 2017, Ethiopia imported over \$700 million of food and animal products, including wheat and other staple grains, fruit juices, vegetable oils, and raw sugar— goods for which the country has sufficient domestic production capacity.

Efforts will be made to achieve a varying degree of import substitution of wheat, cotton, rice, and oilseeds (i.e. for agro-industries), and sufficient and high-quality production of lowland pulse commodities as well as sesame for the export market. Irrigation based small-scale commercial production of select commodities will be supported. All actors in the value chain, particularly investors, pastoralists, semi-pastoralists, and youth groups involved in lowland irrigated crop production will be mobilized. A lowland irrigation crop development strategy will be developed.

Measures will be undertaken to improve export competitiveness on coffee, horticulture, livestock and livestock products, oilseed, and pulses. Export commodity diversification will be supported to promote high value commodities. Research and extension services and innovative input supply system will be strengthened to enhance the quality, productivity & sustainable supply of strategic commodities. Significant improvements on product safety and regulatory framework will be undertaken to increase consumer confidence on the produce.

Develop a legal framework for agriculture focused financial services. Agriculture accounted for 10 percent of the outstanding credit in the past three years, with the bulk reaching the more developed export sub-sector. The under provisioning of credit to agriculture could be a factor behind the low productivity of the sector. The sector is also exposed to diverse risk factors including rainfall

variability, droughts, floods, pests and disease outbreaks, which necessitate provision of insurance to farmers.

Improving access to agricultural finance includes both the availability of agriculture suitable products in the formal banking sector as well as formalizing and strengthening the rural savings and credit cooperatives sector. Initial efforts will include formalizing the cooperatives sector, developing liquidity linkages with commercial banks and microfinance institutions, and building a modern management capability & financial control system to appropriately serve the rural population. Further efforts to identify and create agricultural financial institutions including agricultural and cooperative banks will be explored. Tailored efforts to promote agricultural finance products also include enhancing micro-lending and forward contracts through the building of institutional capacity of market actors. Collateralized commodity financing system (Warehouse Receipts System) will be enhanced to enable farmers better market their output. Current banking sector regulations will be reviewed to enhance the sector's use of technology such as mobile banking to deliver services and expand financial inclusion to the rural population. Farmers' better access to financial products and services would allow them to save, borrow, and transfer money more easily. They could acquire agricultural inputs more easily, improve yields, and consequently incomes.

4.4.2. Mining

Rationale. Ethiopia has vast and diverse mineral resources which can generate forex and substitute imports for industry. Though the existing data regarding mining sector's contribution to GDP is not exhaustive, currently its contribution is at 1 percent of output, 0.5 percent of employment and 10 percent of exports. In the past few years, the sector has showed promising growth, and holds a high growth potential. Ethiopia has diverse mineral reserves, including gold, platinum, copper, multi-color marble and granite, cement raw minerals, potash, gemstone (sapphire, opal and emerald), coal, oil and natural gas.

The mining activity has been traditionally limited to gold, yet new reform measures aim to expand mining to other minerals that are proven to be commercially viable. During the GTP I period, delineation of potential areas of industrial and metallic minerals exploration and evaluation increased from 48 percent to 73 percent in the plan period. This intensified exploration has resulted in a series of new discoveries, including of gold, tantalum, multi-color marble and granite, and potash—once these come online, there is potential to increase exports of gold and base metals, industrial minerals, construction and dimension stones and energy minerals and to kick-start Ethiopia's large-scale mining development.

The mining sector is dominated by artisanal and small-scale mining (ASM), which suffers from low productivity and limited value addition. Limited exploration of available resources due to poor regulatory framework and exploration capacity, and lack of promotion have limited the growth of the

large-scale mining industry. Going forward, concerted effort is needed to improve the policy and regulatory framework, boost investment promotion efforts and enhance stakeholder engagement in the governance of the sector. Furthermore, large scale mining (LSM) projects that have been initiated during the past few years, but dragged due to bureaucratic hurdles, will be completed. Key reform measures include the following.

Formalize and support artisanal and small-scale mining. Informal and artisanal mining employs at least 1.5 million people (74% of miners) and accounts for 65% of mining foreign exchange earnings. The ASM sector, due to both its size and significance, as well as the distinct challenges and issues it faces must receive policy attention. Challenges that are more particular to artisanal mining include rudimentary mining practices; high levels of unlicensed, informal, operations; limited small-scale processing technology; poor market access and the poor conditions of infrastructure. ASM could be promoted through both a favorable legislative regime and targeted capacity building measures to upgrade knowledge, skills and technologies. Formalizing ASMs and enforcing the existing legal framework to promote artisanal miners, to facilitate government provision of business development support, and improving the ease of access to and adoption of technology will be key instruments. Measures to develop and strengthen ASM associations, improve access to credit including through a small grant and revolving loan facilities, and access to market via local and international linkages will be enhanced.

The current legislation limiting ASM licenses for two years, with no renewal, encourages illegal mining activities. The legislation will be revised to allow longer-term mining licenses; these could be complemented by the designation of geologically suitable areas for ASM.

Develop policies and institutional capacities to create a sustainable and inclusive mining sector. A regulatory overhaul to simplify the regime for acquiring exploration and mining licenses and clarification and development of the institutional structures would be a vital first step to encourage the growth of the sector as well to manage the sector sustainably. Development of legislation and regulations aimed at eliminating uncertainties, reducing discretion and streamlining regulatory detail will be undertaken. Despite the commissioning of a computerized mining cadaster system in 2011, technology problems as well as changes to licensing rules have restricted the effectiveness of the system. Establishing and upgrading the modern cadaster system for licensing and administration will be undertaken to standardize regulations and procedures and enhance transparency and accountability.

Regional mining sector regulatory offices will be restructured and capacitated to improve local capacity, along with strong co-ordination mechanism between federal and regional government. Measures will also be taken to address technical and institutional barriers that are delaying large-scale mining projects.

Strengthen geological information accessibility and promotion of the sector. Ethiopia has a promising geology but there are only few operating large-scale mines and advanced stage exploration projects compared to other countries with prospective geology. The implementation of an integrated geological data and information management system will be an important element in the development

of mineral resources. Geological information is also a key component of mining sector promotion to private investors. A ‘Mining Investment Promotion Strategy’ will be implemented to expand exploration and investments in the sector; the promotion strategy includes the use of geological data published online as well as participation in international investor events. The sharing of “success stories” is also key to attract interest, and draw investors to the country. The mining sector also stands to benefit from private mining explorers sharing their detailed geo-data obtained in exploration to the Ministry of Mining & Petroleum.

Enhance local community engagement. Mining sector development will require the institution of robust mechanisms for community engagement and social responsibility. Community engagement is essential both to provide adequate benefit streams and mitigate the negative impacts of mining on the community. This would include development of a National Corporate Social Responsibility policy to provide guidance on all points of interaction between the mining industry and society— to hire and buy local and invest in community initiatives. Strengthening dialogue mechanism for investors and local stakeholders, and establishing a community grievance management process are key reform measures. Communities will be engaged at earlier opportunities by both companies and government; and LSM will be required to provide and share information throughout the lifecycle of the mine.

Reduce incentives for contraband trade. Illegal mining trade activities lead to reduced incomes and loss of export revenue, and undermine good environmental management and labor practices. Illicit trading and smuggling are facilitated through regulatory gaps and poor pricing. Improving horizontal and vertical integration in the mining sector and with other stakeholders (Law enforcing entities, customs authority) by simplifying the licensing requirements for ASM, improving the accessibility of licensed buyers to artisanal miners, providing competitive prices for gold and similar precious stones are measures aimed to reduce incentives for contraband trade.

4.4.3. Manufacturing

Rationale. Development of the manufacturing sector is the path towards the structural transformation of the economy and the creation of jobs for the growing population. Despite efforts to develop the manufacturing sector through various initiatives, such as industrial parks, notable investment promotion, and generous fiscal incentives to investors, in the past decade, the manufacturing sector remains underdeveloped with an output of only 6 percent of GDP. Limited productivity and product diversification, shortage of inputs and forex, high cost of finance, electricity and logistics constraints, and industrial relations have been cited as key constraints for the development of the sector.

For manufacturing to become an engine for the growth and transformation of the economy, creating effective backward and forward linkages, providing comprehensive support to MSMEs, and enhancing the productivity of firms and workers will be essential. Key reform measures include the following.

Revisit and enhance the role of IPs in the manufacturing sector development. The Government is implementing an industrial parks (IP) development program to address investment-climate-related issues to land access, infrastructure, and logistic and customs processes, and to further the attraction of Foreign Direct Development (FDI). The performance of operational IPs to date has been encouraging, albeit mixed in some areas. Challenges remain in the timely completion of IPs across the country, and operational parks are operating below potential and are yet to fully integrate to the local economy. The success of IPs depends on their linkage to the overall economy; this will include the access to quality raw materials and trainable labor force, and network facilitation and enhancing productivity of workers. Measures will be undertaken to enhance the linkage of IPs to the overall economy, including through the improvement of the business climate to SMEs outside of the parks.

The commercial viability and sustainability of IPs also necessitates the need to assess and redefine the business strategy of the Industrial Parks Development Cooperation (IPDC). Reform efforts aim to guide the IPDC towards a service oriented and corporate (financial viability) approach to the development of IPs. Private sector engagement in the development and management of IPs will be explored to position them as commercially sustainable ventures. It's not viable for the government to independently develop IPs in the long-term without the private sector participation; thus, to pursue a successful industrial zone model, reforms measures will be explored to promote a mix of IP development options including private, PPPs, and public development.

Strengthen the backward linkage of emerging manufacturing value chains and promote import competing industries to leverage large domestic market size. Ethiopia prioritized light manufacturing and agro-processing industries due to their linkage to the agricultural sector. However, this envisaged linkage has not been realized. Manufacturers rely on imported raw materials, including cotton, yarn, accessories, chemicals and packaging and promotion materials, due to poor quality standards or unavailability of local inputs and products.

Improving the production of agricultural inputs, by improving input provision and seed variety, encouraging large-scale commercial production of agro-industrial inputs, encouraging contract-farming, building the aggregation and processing capacity of unions and MSMEs and enhancing linkages to industrial parks will be key measures to address the raw material shortage of manufacturers and substitute imports. The completion of the integrated agro-industrial parks (IAIPs) along the major agro-ecological zones of the country will receive priority attention to address the gaps in agriculture and manufacturing sector linkages. Investment in auxiliary industries, encouraging the establishment of local chemical plants, packaging, cold chain, and transport services will further be promoted and facilitated. In addition to production of industrial inputs, consumer goods production will be promoted to leverage the large domestic market size.

Enhance productivity of firms and workers. Manufacturing labor productivity had a moderate growth rate of 4.6% per year over the last two decades. However, productivity is seen to have grown better in capital intensive industries than in labor intensive industries, which shows that economy wide growth in TFP was limited. The limited gains in TFP is more concerning given Ethiopia's abundant labor force and its comparative advantage in the labor-intensive industries. Lack of appropriate

trainings and industry knowledge, low compensation, and poor working conditions and overall business climate challenges are factors behind the poor labor productivity in the country. Ethiopian workers are identified to be easily trainable in technical skills, however gaps exist in soft skills.

In addition to measures to improve the overall investment climate in the country (elaborated in section 4.3 on Structural reforms), targeted measures to meet industrial labor needs will be critical. Incentivizing firms to invest in worker skill acquisition and skill-intensive production can boost productivity in labor-intensive sectors. Technical & Vocational Education & Training (TVET) will be augmented to provide managerial, technical and vocational skills for identified subsectors. TVET centers will receive support to upgrade program quality, teachers capability and equipment. A reinforced mechanism to integrate the industry and training institutions to provide support in terms of internships and job placement will be promoted. Improving working conditions by encouraging and incentivizing industrial parks and large firms to provide integrated services, including housing, childcare, catering, etc., will also be explored.

Deepen Ease of Doing Business initiatives. Manufacturing sector development calls for addressing cross-cutting challenges in the business climate including business licensing and registration procedures, logistics and power constraints, weak policy and regulatory government support institutions and support systems for industrial parks. (See Section 4.3. on Structural Reforms and Ease of Doing Business for envisioned reform measures).

Develop an industrial relations framework to achieve fair pay and minimize disruptions. In order to enhance the productivity of workers and working conditions for workers, the government will promote and enhance institutions to nurture sound labor relations practices and stakeholder dialogue. An industrial relations framework is essential to develop a common vision among stakeholders and strategies towards a socially responsible manufacturing sector in the country.

Efforts will be undertaken to enhance awareness and capacity for better industrial relations frameworks at the regional and federal labor administration structures, employers and employees at all levels. The currently under revision labor law will be reformulated in accordance with the international conventions and other legal commitments to which Ethiopia is a party. Studies will be conducted to reinforce decent work and strengthen the support of Occupational Safety and Health system (OSH) to guide the implementation of concrete measures to enhance the industrial relations framework in the country.

Strengthening manufacturing sector support institutions. Specialized research & sector institutions are established to support the country's industrialization and enhance private sector development. However, the institutions have lagged behind in building internal capabilities and proactively promulgating sector specific know-how and skills. It is therefore, important to strengthen the institutional structure and capacity and enhance the relationship and synergy among these institutions. In addition, reforming the existing mechanisms for private-public sector dialogue will be key to create an environment of trust and mutual confidence to align the aspirations of the private sector and the government. Measures will be taken to create an effective mechanism for a regular dialogue between the private sector and the government.

The articulation of policy and regulatory measures is also essential to create an enabling environment for the private sector. Current industrial policies and strategies will be examined for conduciveness to accelerated development of the domestic private sector and reorient the focus of industrial policy towards private sector development.

4.4.4. Tourism

Rationale. Ethiopia has a great – and largely unexploited – tourism potential. Its tourist attractions are many and varied— cultural, historical, eco-tourism and the now growing conference tourism. Tourism can be an effective tool for job creation and private sector development. However, many of the country’s resources have not been developed into productive assets or are functioning below their full economic potential.

Diversifying tourism products to target low to mid-budget tourists, enhancing the use of digital marketing tools and improving tourism infrastructure are low hanging fruits that Ethiopia can utilize to enhance the tourism sector in the short term. Promoting domestic and international private investment in the sector and strengthening market linkages, by tapping into diverse art products, supporting the development of MSMEs engaged in handicrafts, and strengthening the linkage to the agriculture sector will have a cascading effect on other areas of economic activity. Strengthening forward and backward linkages makes tourism a more effective vehicle of poverty alleviation, job creation, and economic growth. Experience shows that tourism is an inclusive economy that creates productive employment for women and young people.

Recent efforts— mainly visa-on-arrival for African nationals— have increased revenues from tourism by 25 percent in 2018. In addition, ongoing and planned investments on upgrading existing sites and developing new sites are expected to sustain the growth in tourism revenues. Successful tourism sector can change perceptions of the country and create a positive national image. The tourism feel-good factor enhances investor confidence, increases national pride, and serves as an engine of growth. Key reform measures are outlined below.

Develop and improve the attractiveness of and access to tourist sites. Exploiting Ethiopia’s untapped tourism potential entails both the development of new and diverse tourism products, as well as the improvement of infrastructure and support services in existing sites.

Much of Ethiopia ‘s tourist-related infrastructure is in poor condition and lacks investment. Investing in the upkeep of attraction sites and the infrastructure around these sites, and encouraging federal and regional incentive packages to promote private investment in tourism will be key measures to unlock the potential of the tourism sector. Private investors will be encouraged to engage in the management of key national tourism sites such as national parks.

Building pro-tourism infrastructure and services, by notably enhancing tourism mobility and improving infrastructure at tourist sites, investing in seamless services such as online booking, online customer services maximize access to the market.

Promote tourist sites through marketing, branding, and packaging based on customer segmentation. Marketing and destination promotion will be modernized including through branding and building Ethiopia's international image, curating and promoting key destinations and experiences.

Tourism is an information-sensitive industry. To take advantage of the new internet market access, tourism service providers need an online presence to drive people to the product and broker a relationship with their customers. E-commerce provides a low-cost method to directly access millions of potential travelers worldwide. Efforts will be undertaken to enhance the media marketing and online transaction capability of tourism institutions.

Modernizing the standards for tourism and related services. The linkage between a professional and skilled tourism workforce and a successful tourism sector is explicit. Improving the capacity of tourism institutions and service providers to maintain professionalism in the development and management of destinations, and promoting the development of formal, integrated, and quality tourist services is essential. Measures will be reinforced to promote tourism professional development institutions and build the capacity of professional associations to facilitate effective service provision and private sector development. The links between tourism businesses and training institutes will be strengthened to help improve the relevance of tourism courses and ensure that new tourism graduates are sector-ready and equipped with appropriate customer service and business skills.

Promote stop-over and meetings tourism. Ethiopia can leverage its advantage as the political and air transport hub of Africa to promote stop-over and Meetings, incentives, conference & exhibitions (MICE) tourism. Tourism institutions, in partnership with Ethiopian airlines, can craft packages and deals for transit passengers and business travelers to visit tourist sites in Addis Ababa and across the country. Flagship projects in Addis Ababa, such as the Unity and Sheger parks, which provide a glimpse of Ethiopia's historical and cultural heritages along with a green space and hospitality services will contribute to meetings and stopover tourism. Tourism institutions and actors will be supported to institute specific and targeted regulatory and marketing instruments to develop the MICE sub-sector.

Strengthen the linkage to the agriculture and creative sectors. Beyond the visible tourist service, in travel and hospitality, tourism has multiple opportunities for households and micro, and small enterprises. There are significant opportunities for improved linkages to the agriculture sector by promoting use of local produces at hotels and restaurants. Measure will be undertaken to develop select local products (horticulture, produce, crafts, entertainment, transportation) with a focus to supply to the tourism industry.

4.4.5. ICT and Digital Economy

Rationale. Information Communication Technology (ICT) is an integral and essential part of Ethiopia's growth strategy. It has a catalytic potential, both as an industry in and of itself, and as an enabler of socioeconomic transformation. Ethiopia's ICT endeavors include telecommunications, IT services, and IT enabled services (ITes), including as destination for business process outsourcing (BPO). Investing in ICT will enable Ethiopia to start the transition into an inclusive digital economy and to create sustainable job opportunities for youth across the country.

Unlocking the potential of ICT services in the economy requires an enabling policy, regulatory environment, infrastructure, and human capital. During this reform period, a digital momentum can be built by taking advantage of low-hanging fruits such as the country's growing Science Technology Engineering & Mathematics (STEM) graduates, the telecom sector liberalization, revitalization of the existing ICT park, and necessary regulatory reviews. Key reform measures are outlined below.

Promote the use of ICT for modernizing the civil and public services to enhance efficiency and effectiveness of service delivery. E-government is a comprehensive measure that will improve effectiveness and efficiency of service delivery, while onboarding large segments of the population to the digital space. Despite the challenges of infrastructure and connectivity, the government has launched a number of e-governance initiatives. Scaling up ongoing government ICT initiatives such as e-governance, WoredaNet, the rural connectivity program, and rural public internet access centres will be key. ICT is also at the backbone of and will be utilized to boost measures to improve the Ease of Doing Business and expand service delivery (e.g. education, health, agricultural extension services).

Promote e-commerce and digitization of the financial and logistic sectors. E-commerce adoption brings opportunities for market expansion across the country as well as internationally. Ethiopia's large population and market size can be leveraged for e-commerce development. Exploiting e-commerce in the country calls for improvements in the financial and logistics sector including e-payments, national addressing system, and geo-spatial enabled logistics modernization. During the reform period, measures will be undertaken to accelerate the development of a digital payment's ecosystem and promote e-transactions. Investments and start-ups to drive e-commerce will be encouraged through policy and regulatory reforms.

Expand ICT infrastructure throughout the country and ensure it is accessible. Despite rapid expansion in ICT infrastructure across the country, both access and quality of services remain limited. To unlock the country's potential in the digital economy and ITes, it's important to expand access to services through infrastructure development including broadband networks. Expediting the telecom reform agenda and ongoing work on digital ID system and revitalizing the ICT-park (concept, management, infrastructure and readiness for services to attract investors) would be initial efforts to

kick-start ITes in the country in the short-term. The development of specialized ICT parks will further be explored.

Investing on ICT literacy and advanced trainings. Ethiopia has a significant advantage when it comes to ICT and digital skills. Over 250,000 new university graduates enter the labor force every year, and over 65 percent are in STEM fields. This youthful human capital can be exploited and further developed through expanding short-term training programs on digital literacy for ICT-enabled jobs and promoting applied work experiences and internships. Furthermore, ICT teaching curriculums will be revised and digital literacy will be integrated within formal and informal education systems.

Pro-innovation and ICT regulatory and business environment. The ICT sector is disruptive by its nature, making regulation difficult. Existing traditional regulatory approaches have limited understanding of the ICT sector and are often constraining and prescriptive to match the sector's innovation and dynamics. Expanding and strengthening the role of the private sector to ensure the rapid development of ICT and ITes requires a concerted policy action along with some degree of laissez-faire to promote innovation in an organic way. In this line, the government will adopt a consultative approach to policy making and explore sandbox regulatory approaches to support technology start-ups and incumbents. It will explore initiatives to facilitate access to alternative financing sources and risk capital for technology start-ups.

Promote the export of IT-enabled services. ITes include services that are performed via information technology infrastructure. Ethiopia can exploit the ICT sector to become a destination for BPO, allowing the labor force to tap into global labor markets.

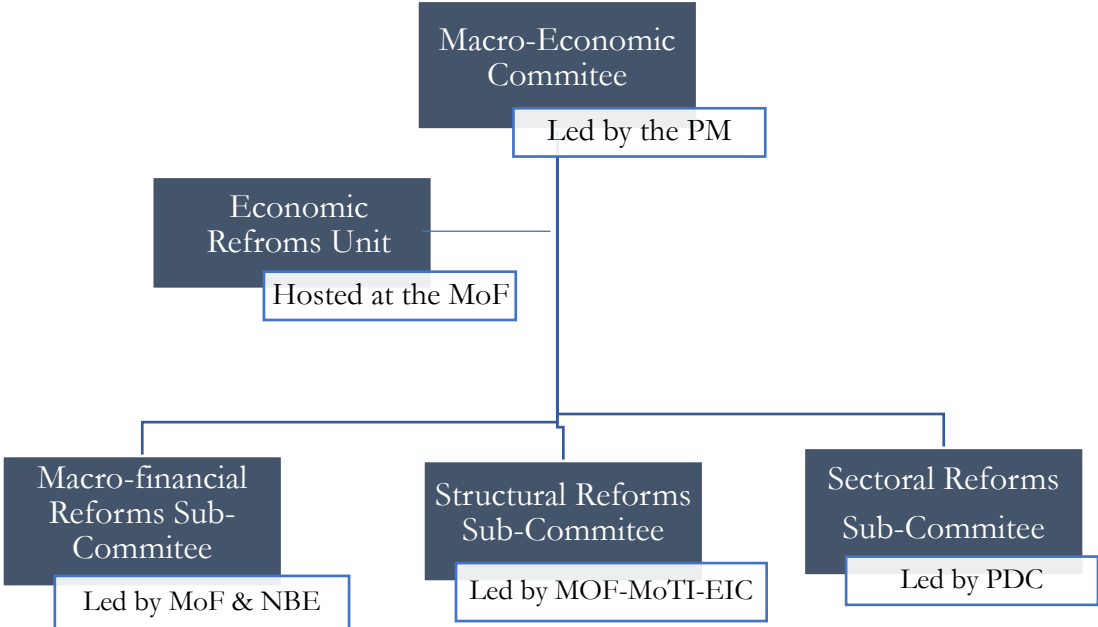
The BPO industry requires a good talent pool, low labor costs, and the availability of high-quality and reliable telecommunications and power supply. Ethiopia's large STEM graduates can be exploited to cater to the BPO industry. Despite the concerns with connectivity and power issues, the development of BPO in Ethiopia can be promoted by adopting targeted BPO-friendly regulations and policies, encouraging private investment, and branding and marketing Ethiopia as a BPO-primed site. The young STEM graduates can be better exploited through short term advance courses in relevant skills.

5. Implementation arrangements

The Reform agenda guides the overall direction of the economy towards a balanced macro-economy, the development of a dynamic private sector, and improved regulatory and institutional frameworks to sustain the rapid economic growth and pave the journey to prosperity. The details of the reform implementation measures will be elaborated by the relevant implementing offices, while ensuring coordination and alignment across the pillars of the reform.

The agenda will be implemented in whole-of-government approach through a coordinated institutional structure within the government, and a stronger consultative framework with the private sector, academia and development partners. Each ministry and relevant office will set-up a reform secretariat to develop a detailed policy and regulatory reform plan along with an investment plan for required interventions. The figure below depicts the reform coordination structure.

Figure 7 HGER implementation oversight and coordination structure



Macro-economic Committee: The Committee, led by the Prime Minister, will oversee and guide the overall implementation of the home-grown economic reform agenda. The Committee is comprised of ministers from the macro-institutions including the Ministry of Finance, the National Bank of Ethiopia, and the Planning and Development Commission, as well as senior advisors from the Office of the Prime Minister.

Macro-financial Reforms Sub-committee: The Ministry of Finance and National Bank of Ethiopia will jointly lead macro-financial reforms.

Sectoral Reforms Sub-committee: The Planning and Development Commission will lead and coordinate the sectoral reform efforts. The sub-committee will be comprised of ministers of agriculture, manufacturing, tourism, mining and ICT.

Structural Reforms Sub-committee: The Ministry of Finance, Ministry of Industry and Trade and the Ethiopian Investment Commission will co-lead and coordinate the structural reforms. The Investment Commission will lead the doing business reforms, the Ministry of Trade will lead trade and private sector development reforms, and the Ministry of Finance will lead the reform of strategic enabling sectors such telecom, logistics, and electricity in collaboration with relevant entities. The committee will be comprised of the aforementioned offices and other relevant entities.

Economic Reforms Unit: A Unit hosted at the MOF will serve as a secretariat for the coordination and oversight of the reform implementation. The Unit will oversee and guide the implementation of the reform agenda and facilitate cross-sectoral engagement for a coordinated and sequenced policy making. The Unit will consolidate HGER implementation plans, monitor and evaluate performance, and provide overall technical backstopping for the comprehensive implementation of the agenda. It will provide timely reports to the Macro-Economic Committee and engage stakeholder for the implementation of the reform agenda.

Economic Advisory Council: An independent economic advisory council comprised of members of the private sector, academia, and political actors will be convened to provide independent and objective policy advice to support the successful implementation of the reform agenda.

