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Country programme document for Ethiopia (2020-2025)

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I. Programme rationale

1. Ethiopia is building on an impressive foundation of development progress. The country's Human Development Index rose to 0.470 in 2018, an increase of 35.8 per cent in less than a generation. Annual real growth of gross domestic product (GDP) averaged 9.5 per cent during the period 2010 to 2018, one of the highest rates globally, leading to a six-fold increase in per capita income but without a dramatic increase in income inequality: the Gini coefficient rose from 0.28 to 0.33 between 2005 and 2016.¹ The incidence of poverty declined from 38.7 per cent in 2005 to 23.5 per cent in 2016,² equivalent to lifting 15 million people out of poverty. The multidimensional poverty index fell in absolute terms from 0.545 to 0.489 between 2011 and 2016, with deprivations receding across all 10 indicators and regions (except Somali). The under-five mortality rate declined by over 55 per cent between 2005 and 2019³ and net primary school enrolment reached 100 per cent in 2018.⁴ At the same time, infrastructure investments have, among other things, lifted the rate of access to electricity from 14 to 43 per cent between 2005 and 2018.⁵

2. Despite a generally positive development trajectory, significant structural challenges, reflecting a country in transition, will determine future development potential and achievement of the Sustainable Development Goals. The first key challenge is demographic, with multiple facets: an impending demographic transition, with a potential demographic dividend;⁶ a youth bulge, with over 70 per cent of the population below 30 years of age, that makes the task of human capital development, achieving higher labour productivity and job creation difficult; and accelerating urbanization, starting from a low base, with a doubling of the urban population expected between 2013 and 2035, affecting both growth potential and sustainability.

3. A second structural challenge has to do with gender inequality. Ethiopia has made substantial progress in reducing maternal mortality,⁷ narrowing gender disparity in primary education⁸ and increasing women's representation in national parliament and the Federal cabinet. Yet Ethiopia scores 0.846 on the Gender Development Index, one of the lowest in the world, and stands at 117 of 129 countries in the Sustainable Development Goals Gender Index. Women have markedly lower access to essential productive inputs and services: only 51 per cent of women farmers are estimated to have access to agricultural extension services;⁹ 8 per cent have access to credit;¹⁰ and just 40 per cent of married women own land with only 19.5 per cent holding a land title. These disadvantages are compounded by negative social norms that hold back women's voice and participation in community life and traditional practices such as child marriage and female genital mutilation.

4. A third structural challenge emerges from the State-led development model pursued in the past which has yielded important gains in human development and infrastructure but also inhibited the emergence of a thriving private sector playing a leading role in job creation, productivity growth and diversification of the economic and export base. This is evident, among other things, in a 'missing middle' of active small and medium-size enterprises (SMEs). Private sector development is stymied as well by a range of other factors: macroeconomic imbalances, originating in part from debt service obligations, which have limited access to vital foreign exchange; a small capital market and banking

¹ Planning and Development Commission, *Poverty and Economic Growth in Ethiopia (1995/96 – 2015/16)*, 2019.

² Ibid.

³ Ministry of Health and United States Agency for International Development, *Ethiopia Demographic and Health Mini Survey Report*, 2019.

⁴ Ministry of Education, *Education Statistics Annual Abstract, 2016/17*.

⁵ Government of Ethiopia, *Home-Grown Economic Reform Programme (2019-2022)*.

⁶ Central Statistical Agency (CSA), *Population Projections of Ethiopia*, unpublished, 2013.

⁷ CSA, *Ethiopia Demographic and Health Survey*, 2016.

⁸ Ministry of Education, *Education Statistics Annual Abstract, 2016/17*.

⁹ Food and Agricultural Organization of the United Nations, *Ethiopia National Gender Profile of Agriculture and Rural Livelihoods*, 2019.

¹⁰ United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) and CSA, *Ethiopia Gender Statistics Report*, 2017.

sector; low skill levels in the labour force; absence of an innovation ecosystem; and lack of access to energy.

5. A fourth structural challenge stems from the current governance model, albeit on the cusp of change, which faces significant stresses on issues of voice and participation, identity, justice and the rule of law, transparency and integrity, and the nature of the Federation, especially the appropriate balance between the centre and regions. Furthermore, even as regions begin to play a stronger role, their capacities, for example, to plan for and deliver services and local development, are very limited. All of these factors can cause latent tensions to emerge as violence and displacement and could play out strongly as Ethiopia heads into elections in 2020, a pivotal step in its transition to a democratic polity.

6. Finally, the long-term and wide-ranging impacts of climate change pose a growing and structural risk to poverty eradication and sustainable development, not least given a high level of dependency on rain-fed agriculture and forests for food security, livelihoods and access to energy. As much as 10 per cent of GDP may be lost annually due to climate change¹¹ as increasing natural disasters, loss of water resources, forests and biodiversity, and population displacement, especially from ecologically fragile lowlands, take their toll. Impacts on social cohesion and peace are also likely to be considerable.

7. In every aspect, there is the additional factor of dynamics in the Horn of Africa and beyond, whether on peace and security, management of natural resources, infrastructure development or trade and investment. The onset of the coronavirus disease (COVID-19) poses a new challenge with profound implications.

8. National development policy is responding proactively to these structural challenges and COVID-19. The Homegrown Economic Reform Programme (HGER) calls for building a resilient and diversified middle-income economy, driven by the private sector; eradicating extreme poverty and hunger; building human capabilities; creating a modern policy and institutional framework; and creating an efficient, resilient and well-functioning financial market. The HGER will implement a forthcoming 10-Year Perspective Plan which is based on five strategic pillars: macroeconomic stability; quality of economic growth; productivity and competitiveness; implementation capacity at all levels; and a resilient green economy. Underpinning both, a national jobs plan aims to create 14 million jobs by 2025 by building a vibrant local private sector, especially SMEs. Major action is also underway to address COVID-19.

9. In step with the Government, UNDP needs to address structural challenges and promote transformational change if it is to remain relevant in Ethiopia. The evidence demonstrates that it is well positioned to do so.¹² During the previous programme, UNDP demonstrated particular strengths in creating an enabling environment and/or advancing action in three key areas: job creation; environmental sustainability; and democratic governance. UNDP advised on the creation of Ethiopia's flagship industrial parks and was an early investor and pioneer in job creation through youth-led entrepreneurship; supported formulation of the national Climate Resilient Green Economy (CRGE) strategy; helped establish a CRGE facility that has already mobilized over \$200 million; and emerged as the largest channel of Global Environment Facility (GEF) funding, building a \$90 million portfolio. UNDP was also a first mover in the area of democratic governance, a decision that has paid off in deep relationships with key institutions and rapid response to new reforms. Fresh opportunities have emerged in electoral support¹³ and peacebuilding, where UNDP has quickly established a strong presence.

10. Future work, however, also requires learning from the past. Multiple evaluations and a portfolio review¹⁴ have shown that UNDP engagement requires a clearer focus and logic and a higher level of

¹¹ Government of Ethiopia, *Climate Resilience Strategy*, 2015.

¹² UNDP, Independent Evaluation Office, *Independent Country Programme Evaluation*, 2019. Terminal Evaluation, *Mainstreaming Incentives for Biodiversity in Climate Resilient Green Economy of Ethiopia*, 2019; Midterm Review, *Creating Opportunities for Municipalities to Produce and Operationalize Solid Waste Transformation*, 2019; Midterm Review, *Implementing Climate Resilient and Green Economy Plans in Highland Areas*, 2019; Midterm Review of *United Nations Development Assistance Framework*, 2018.

¹³ With the Government of the United Kingdom as the anchor contributor in a coalition with 12 other donors.

¹⁴ Op. cit. footnote 12; UNDP Ethiopia, *Country Portfolio Review*, 2019.

ambition commensurate with the scale of changes underway in Ethiopia. The portfolio has become fragmented,¹⁵ with insufficient connection among related interventions. The sustainability of results varies, and not enough attention has been paid to scaling-up and exit strategies. UNDP remains focused on federal institutions but stronger partnership with regions is now essential. Systematic use of data and evidence is another key area for improvement. All of these issues, in turn, go to the heart of delivering on the UNDP role as integrator of the United Nations development system.

II. Programme priorities and partnerships

11. Aligned fully with the HGER and guided by the UNDP Strategic Plan, 2018-2021, the emerging UNDP strategic offer for Africa and the United Nations Sustainable Development Cooperation Framework (UNSDCF), the next programme will assist Ethiopia to overcome its structural challenges as it strives to become a democratic, peaceful and prosperous middle-income country. UNDP will support a successful transition to democratic governance, address drivers of conflict to consolidate and build peace, foster enabling conditions for expanded job creation by the private sector (especially SMEs) and accelerate the transition to a green economy resilient to climate change. Gender equality and women's empowerment will be embedded across all areas of work. These priorities capitalize on strengths demonstrated under the past programme while adapting to new realities and opportunities, retaining an ability to respond flexibly to COVID-19 and other unforeseen developments.

12. Across all of its priorities, UNDP will apply principles drawn from the human-rights based approach that are strongly embedded in the 2030 Agenda for Sustainable Development, namely:

- (a) Inclusion, targeting those left behind, as defined in the Common Country Analysis, especially women and youth (15-30 years) and among them, those below the national poverty line who are unemployed, exposed to violence, displaced, facing discrimination, have a disability or are marginalized in civic and political spaces. Location targeting will focus on poorer secondary and tertiary urban settlements and rural zones in three to four regions, identified with the Government, that are representative of the highlands, rift valley and lowland pastoralist areas.
- (b) Resilience of individuals, especially women and youth, (female-headed) households and communities, emphasizing increased capacities to foresee, prepare for and bounce back stronger from a wide variety of shocks.
- (c) Sustainability, ensuring that any development gains made are within the capacity and resources of the country and do not compromise prospects for future generations.

A. To support a peaceful transition to a democratic polity, UNDP will contribute to an enabling framework, deepening of critical capacities, strengthening of norms and practices and greater voice and empowerment of those left behind, especially women.

13. UNDP will help entrench democratic governance and protection of human rights at both federal and regional levels, focusing on core institutions. This effort will target effective oversight and accountability; increased transparency; continued policy, legal and regulatory reform that is gender-responsive; follow-through on electoral support; implementation of the Civic Engagement Policy; and strengthening of federal-regional linkages. Supporting institutional reform and renewal will be critical to delivering on these transformational objectives. In addition, UNDP will target research, skills development and outreach initiatives to increase the influence of women and youth on public policies and legal frameworks.

14. UNDP will pursue a step change in the rule of law and access to justice, based on a sector-wide approach that triggers a comprehensive change process delivering major advances within four to five years, with clear benefits accruing to women. To this end, UNDP will build upon the recommendations of a proposed justice sector assessment to be conducted jointly by Government and United Nations agencies. UNDP will emphasize research, strengthening of core systems and civic education and

¹⁵ Ibid. Over 50 projects in the portfolio at present, ranging in size from \$100,000 to \$40 million.

outreach. It will partner with civil society organizations (CSOs) and universities to provide legal aid services for underserved groups (such as women) and areas of the country.

15. UNDP will improve the transparency, accountability and integrity of public institutions to support the fight against corruption. It will develop a biennial corruption perception survey to identify policy priorities that can be reflected in the national anti-corruption strategy and will help set up the legislative and policy framework for a national whistle-blower system. In parallel, UNDP will enable review and modernization of the Civil Service Code of Conduct with integrity as a core principle; support strengthening of systems and mechanisms for transparency and asset declaration; and promote citizen monitoring.

16. UNDP will respond to changing federal-regional dynamics through a local governance programme designed to strengthen presence, capacity, civic engagement and accountability of local institutions. UNDP will help develop the database for development planning at local level, working closely with sister agencies/entities. It will also strengthen and, where needed, develop participatory planning, budgeting, management and monitoring standards and processes, building in a strong element of public input and engagement, especially of women and youth, ensuring that capacities built are sustainable. UNDP will test South-South partnerships to offer timebound 'surge' expertise in priority areas. Underpinning the above, analysis will look at expanding fiscal space at regional level, extending ongoing work on the estimation of regional GDP.

17. UNDP will integrate social cohesion and peacebuilding in its work on democratic governance, to mitigate risks and where needed respond effectively to conflict and sustain peace, addressing the humanitarian-development-peace nexus. UNDP will provide policy advice and technical support to articulate a gender-responsive national peacebuilding strategy, based on a comprehensive and participatory conflict analysis, and help design and set-up a national peace architecture bringing together state and non-state institutions at federal and regional levels. A key consideration will be the roll-out of a national youth service. Another will be to collaborate with CSOs to enable groups such as ethnic minorities, women and youth to become agents of change and to build the capacities of community leaders to resolve disputes peacefully, promote dialogue and build trust.

18. Given the dynamic context in Ethiopia, UNDP will retain the flexibility to respond to emerging needs. Three are on the horizon: a targeted institutional development programme supported by development partners; support to the Prime Minister's Office, potentially based on a shared platform with foundations; and e-governance.

B. To help achieve shared prosperity, UNDP will narrow its focus to financial inclusion and the ecosystem for entrepreneurship, targeting youth, especially young female entrepreneurs.

19. UNDP will offer market-based solutions for growth and development of SMEs in six dimensions: policy advice; skilling; business development services; enterprise development; project preparation and development; and finance. The focus will be on connecting elements of the ecosystem into one whole and transforming them. This component will tackle credit rationing for SMEs, ensuring that women gain access to financing. Special attention will be paid to linkages with supply chains connected to large industrial and agro-industrial parks. Much of this work will happen in partnership with the United Nations Capital Development Fund (UNCDF) and link with complementary support from international financial institutions and bilateral donors, creating scope for new partnerships to scale up and accelerate action. South-South cooperation is expected to play a key role.

20. The same partnership with UNCDF will involve a major push on digital finance as a launchpad for financial inclusion. Taking advantage of impending liberalization processes, particularly in telecommunications, and the Government's focus on innovation, the partnership will take an ecosystem development approach to unlock policy and regulatory challenges, work with providers to tackle network and distribution infrastructure challenges, and tackle demand-side issues like access to phones, digital and financial literacy and behavioural change. This work will have a strong focus on innovations that

foster inclusivity and reduce the digital divide for young female entrepreneurs, migrants and smallholder farmers, among others.

21. Two broader initiatives on the innovation ecosystem and innovative finance will underpin the work on entrepreneurship and digital finance. UNDP will deepen its partnership with national institutions, MASHAV (Israel Agency for International Development Cooperation), Korea International Cooperation Agency (KOICA), sister agencies and local incubators/accelerators to strengthen the innovation ecosystem by addressing policy, regulatory and institutional gaps, enhancing linkages among stakeholders and improving access to finance and government services. An innovative finance lab will target research and policy advocacy, model development and small-scale experimentation to facilitate introduction and application of innovative sources of financing, including insurance.

C. To sustain development gains and increase resilience, UNDP will promote leapfrogging to a green economy and faster adaptation to climate change.

22. UNDP will support efforts to adapt to and mitigate the impacts of climate change and build resilience through piloting, learning and scaling-up of tested adaptation practices in the ecosystems of the highlands and lowlands that address the poverty-environment nexus. Strategies will include the integrated landscape approach for natural resource management and food security, use of innovative models and tools for monitoring and gender mainstreaming, and integration of climate resilience into policies and strategies. UNDP will continue to engage in implementation of gender-responsive community action plans to ensure integrated adaptation and mitigation responses that simultaneously tackle sustainability and poverty. Support will be provided for upscaling weather index-based and risk insurance systems. At a broader level, UNDP will help update Ethiopia's nationally determined contribution as part of the Climate Promise Initiative, and support preparation of the third national communication under the United Nations Framework Convention on Climate Change and biennial reports.

23. UNDP will sustain and scale up its assistance for natural resource management and conservation of biodiversity. UNDP will support implementation of the Government's 10-year Forest Sector Development Plan (FSDP), the REDD-plus mechanism and strengthening of forest sector institutions to enhance conservation and development of forests for multiple benefits, building on partnerships with the Governments of Denmark, Norway and Sweden. Preventing forest loss, promoting restoration and integrating sustainability into major commercial crops such as coffee will be priorities to raise productivity, boost livelihoods and reduce poverty. UNDP will partner closely with regional and city administrations on implementation of the FSDP and intensify private sector engagement in the sustainable use of forest resources for value addition and job creation, utilizing, among things, an emerging partnership with KOICA to tap Ethiopia's major bamboo forests. UNDP will support measures to improve conservation of biodiversity resources and sustainably manage protected areas. Action on combating desertification, a growing threat, will be accelerated.

24. UNDP will focus on access to renewable, affordable and clean energy as a major catalyst for the transition to a jobs-rich green economy, ensuring that women and female-headed households benefit from this investment. UNDP will work at the three levels of policy analysis, advocacy and advisory services to de-risk and create an enabling environment for the emergence of a market at scale for renewable energy services; prototyping of business models and technologies with private sector participation; and development of bankable projects to crowd-in investment. Partnerships with sister agencies will be emphasized as will South-South cooperation, tapping ongoing collaboration with the Government of China and others.

25. UNDP will build up its portfolio on sustainable urbanization, continuing work on urban waste management, combining livelihoods improvement, development of urban greenery and climate change mitigation. Building on continued support to the Beautifying Sheger Project in Addis Ababa, a Smart Cities Hub will focus on solutions using digital and analogue technologies to boost inclusion, sustainability and resilience, with a special focus on the role of women in advancing the New Urban Agenda.

26. UNDP will invest in early warning and risk management systems to deal with the rising threat of natural disasters.¹⁶ Early warning systems will be developed in vulnerable regions, linked to contingency planning. UNDP will support the generation of gender-disaggregated, multi-hazard disaster risk assessments and information products with increased emphasis on hazard specifics and calculation of associated damage and loss potential vis-à-vis various risk scenarios. UNDP will generate a climate and disaster risk governance baseline and strengthen disaster risk governance, including for recovery; integrate disaster risk reduction into national planning, budgeting and accounting systems; promote and support tracking of disaster risk management investments; and draw attention to gender-differentiated impacts and responses.

III. Programme and risk management

27. This country programme document outlines UNDP contributions to national results and serves as the primary unit of accountability to the Executive Board for results alignment and resources assigned to the programme at country level. Accountabilities of managers at the country, regional and headquarter levels with respect to country programmes is prescribed in the organization's programme and operations policies and procedures and internal control framework.

28. The programme will be nationally executed. If necessary, national execution may be replaced by direct execution for part or all of the programme to enable response to force majeure. The harmonized approach to cash transfers will be used to manage financial risks. Cost definitions and classifications for programme and development effectiveness will be charged to the concerned projects. The government coordinating authority will be the Ministry of Finance.

29. Programming by UNDP will emphasise its integrator role entailing a comprehensive approach: policy analysis and research that bridges gaps between sectors and backs advice and action with evidence; cross-sectoral development planning, dialogue and coordination that applies a 'whole-of-economy' and 'whole-of-society' lens; solutions that are integrative in design and partnership-building;¹⁷ innovation across policy and interventions; capacity development for institutional transformation; and cross-border collaboration.

30. Successful implementation of the country programme will be affected by several risks: potential disruptions linked to the 2020 elections and COVID-19; an uncertain macroeconomic environment; public sector capacity challenges; weak integration of work between federal and regional levels; exposure to natural disasters; and potential conflict and displacement.

31. To manage risk, UNDP will promote greater risk analysis using its policy research effort; develop early-warning mechanisms in addition to maintaining project-specific and portfolio-level risk logs and contingency plans; undertake risk-informed programming; apply the UNDP social and environmental safeguards and accountability mechanisms; increase flexibility by reserving up to 5 per cent of its annual Trac1 allocation in a 'rapid response facility'; and expand its presence at regional level.

IV. Monitoring and evaluation

32. Key references will be the Government-United Nations national monitoring and evaluation (M&E) guideline and programme implementation manual and the results and resources framework. UNDP will rely primarily on country-level data sources and the gender marker will be used systematically. UNDP will set aside a minimum of 5 per cent of project budgets for M&E, aiming to strengthen systems in partner institutions rather than establish parallel arrangements. The approved evaluation plan will be the

¹⁶ In line with the Sendai Framework for Disaster Risk Reduction, 2015-2030.

¹⁷ For example, the New Way of Working and Durable Solutions Initiative and partnerships that bring together non-traditional actors from the Gulf and elsewhere in the Middle East, foundations, the tech sector and volunteer community (through United Nations Volunteers (UNV)).

basis for decentralized evaluations, the next independent country programme evaluation and input into the midterm and final evaluations of the UNSDCF.

33. A key shift will be to invest in better country statistics. UNDP will work with sister agencies and development partners to strengthen the national statistical system to significantly improve coverage as well as to strengthen the granularity, quality, reliability and timeliness of data, e.g., by age, sex, location and characteristics such as disability, in order to create a stronger foundation for tracking those left behind and refine targeting in programmes and projects. UNDP has already committed to supporting the development of a comprehensive M&E system for the 10-Year Perspective Plan and the existing Aid Management Platform.

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