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# Development Finance Effectiveness—The Case of Ethiopia

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## Abstract

This study focused on exploring the utilization of development finance effectiveness in Ethiopia as a strategic enabler to sustainable development and economic growth of the country. The research specially doweled on the background trend of development finance in Ethiopia, assessing on the effectiveness of development finance utilization and comparing development finance to foreign direct investment. In order to generate a realistic data, secondary data such as document investigation methods in soft and hard copy and personal observation has been employed. Eventually, the research findings revealed that in the past two decades, Ethiopia received development finance in billion dollars from multilaterals and bilateral donors although the effective utilization is needed to be improved immensely. The Ethiopian Home-Grown Economic Reforms which have been introduced in part I and II were instrumental to ensure sustainable development and economic growth of the country including the utilization of effective development finance. Moreover, the research revealed that in comparing development finance to foreign direct investment, Ethiopia equally received the same 3.4 billion dollars USD in the year 2023 showed that the government should pay due attention to development finance as one of the enablers for economic advancement. Finally, the study recommended establishing especial monitoring end evaluation body, encouraging and incentivizing the staffs working on development finance implementation, ensuring strong law enforcement, and depending on indigenous home-grown development programs are the recommendations so as to Ethiopia emancipate itself from foreign dependency including development finance.

## Keywords

Finance Effectiveness, Ethiopia, Ethiopian Ministry of Finance, World Bank, Development Finance

## 1. Introduction

Development Finance is an important modality in which external resources are acquired to enhance economic growth of a country especially, in the developing nations. Development finance is an approach to funding developmental outcomes which covers strategies, principles/processes and instruments employed by multiple development stakeholders to mobilize and align finance for sustainability. Principally, when it is utilized effectively and efficiently, development finance can be essential as foreign direct investment is vital for economic development of a country where external resources are in higher demand.

The bulk of development finance in Ethiopia goes towards developing infrastructure, namely road construction, agricultural productivity, improving basic services, electricity, and transport, with a focus on improving citizens' life.

Development finance is a key driver of sustainable development. The resources that governments mobilize, spend, and invest are essential for the provision of public services and investment in the national development plan, and indirectly influence the way that private actors invest and operate (http://www.un.org/).

The research "Development Finance Effectiveness—The Case of Ethiopia" is important, because it assesses the topic of development finance which is crucial to Ethiopian sustainable development so as to eradicate absolute poverty and transform the citizen to lower middle-income society. Therefore, the objectives of the research are to overview the background trend of development finance in Ethiopia, assess the effectiveness of its utilization and compare development finance to foreign direct investment in enhancing Ethiopian growth and sustainable development.

Moreover, as there are only few such kind of studies dedicated specifically on the topic of development finance in Ethiopia, this paper may contribute to bringing the issue for further discussion and inform the policy makers with some recommendations and advises.

Concerning the limitation and scope of the paper, the researcher would like to notify that the study was based on secondary data and personal observation so that it is limited in a given period of time and on some traditional development finance providers. Therefore, the study focused only on the period of the past two decades and the development finance in flows from limited and traditional development partners' sources.

## 2. Literature Review

Ethiopia recognized the importance of structural transformation and the need to accelerate the transition to modern agricultural practices. Shifting more of the workforce into agro-processing and other light manufacturing is key to linking Ethiopia into global value chains and creating lasting prosperity. International development finance plays an important role in many contexts supporting services and investment aligned to sustainable development priorities.

International development partners that have been providing development finance to Ethiopia namely the World Bank, the African Development Bank, European Union (EU), United Nations (UN) and some other bilateral and multilateral development partners have been reliable partners of Ethiopia for over half a century.

The development partners both the multilateral and bilateral have been working to support Ethiopia's development plans. The partners have been working closely with Ethiopia to promote inclusive growth by boosting the accessibility and quality of local services, creating a supportive environment for the private sector, and promoting the sustainable management of the country's ecosystems.

From sustainable development point of view development finance depends on all money eventually aligning with sustainable development that benefits people and the planet. With trillions of dollars needed to make the promise of the Sustainable Development Goals (SDGs) a reality, countries adopted the Addis Ababa Action Agenda in 2015 as a blueprint for actions by governments, international organizations, businesses and civil society to increase the financial resources available to align financing flows and policies with economic, social, and environmental priorities.

In a broad sense, development finance includes public and private resources, spent by governments, businesses, and households, among others. It involves funds generated within countries, such as through taxation, as well as finance provided by one country to support another in reaching its development goals, such as through grants and low-cost loans (Ibid).

Although scaling up financing for sustainable development has become more challenging, money is available. UN Secretary-General António Guterres has called for an SDG Stimulus of at least $500 billion US dollars to significantly increase affordable, long-term financing for development. He has also stressed the need for deeper and longer-term reforms to the international financial architecture, which currently fails to serve as a safety net for all countries.

Aggressively mobilizing SDG financing will certainly require creative approaches, bold policy decisions, and new sources of funding. The High-level Dialogue on Financing for Development on 20 September 2023 at the UN marked a critical moment to review the implementation of the Addis Agenda and showcased innovative and practical solutions to unlock better financing and tackle the great finance divide between developed and developing countries..

The Financing for Sustainable Development Report 2023, issued by the UN Secretary-General's Inter-Agency Task Force on Financing for Development, looks at progress made in implementing the Addis Agenda, other Financing for Development outcomes as well as the means of implementation of the 2030 Agenda on Sustainable Development such as finance, capacity building and technology and innovation. This report is issued annually.

The High-level Dialogue on Financing for Development on 20 September 2023 at the UN marked a critical moment to review the implementation of the Addis Agenda and showcased innovative and practical solutions to unlock better financing and tackle the great finance divide between developed and developing countries.

Sustainable development prospects continue to diverge between developed and developing countries. The 2023 Financing for Sustainable Development Report finds that SDG financing needs are growing, but development financing is not keeping pace. If left unaddressed, a "great finance divide" will translate into a lasting sustainable development divide.

Development finance supports global public goods such as physical infrastructure, nurtures emerging industries such as renewable energy, and uses concessional finance to further policy goals such as economic diversification, public health, climate change mitigation and adaptation. While private actors play a crucial role in international financial markets, development finance can help determine the direction of the global economy and lay the groundwork for sustainable and inclusive economic growth. The Global Economic Governance Initiative's program on Development Finance explores the roles of development finance institutions, including multilateral, regional and national development banks and export credit agencies, in facilitating economic stability, human well-being and environmental sustainability (http://www.bu.edu/ Boston University).

The Organization for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) a forum to discuss issues on aid, development and poverty reduction in developing countries describes itself as being the "venue and voice" of the world's major donor countries. The concept of ODA (Official Development Assistance) or aid was defined over 50 years ago that refers to financial support, either grants or "concessional" loans from OECD-DAC member countries to developing countries. These funds are provided to advance development in areas such as health, sanitation, education, infrastructure, and strengthening tax systems and administrative capacity, among others (http://www.oecd-dac.org/).

## 3. Research Methodology

The researcher utilized secondary data from documents investigation and relevant websites. Moreover, personal observation was highly utilized because the researcher was a director for 20 years in the Ministry of Finance where he oversaw all development finance information and participant of development finance negotiation.

In order to answer the research objectives, the researcher employed document investigations which are relevant and appropriate to development finance both in soft and hard copies. Documents such as performance reports from the Ministry of Finance and Ministry of Plan and Development were highly utilized. Accordingly, the secondary data that have been collected is presented in descriptive method to clarify the research objective.

Data collected from the documents has been cross-cheeked and analyzed with the data obtained from personal observation method. In order to come up with a textured result, and produce realistic policy advice and recommendation to those who are responsible to utilize development finance effectively the researcher tried to be more encouraging and less critical in tone to the higher officials who are genuinely working to pullout their country and people out of absolute poverty.

## 4. Main Sources of Development Finance to Ethiopia

From development finance perspectives there are traditional sources of development finance to Ethiopia both from multilateral and bilateral sides. Here we may discus about some of the main development partners which are greater stacks in development support to Ethiopia.

### 4.1. The World Bank

The World Bank Group consists of five organizations. The organizations are:

- The International Bank for Reconstruction and Development (IBRD)
- The International Development Association (IDA)
- The International Finance Corporation (IFC)
- The Multilateral Investment Guarantee Agency (MIGA) and
- The International Centre for Settlement of Investment Disputes (ICSID).

Ethiopia became the founding member of the International Bank for Reconstruction and Development (IBRD) in 1945. Ethiopia was the first African Country to receive funding from the World Bank in 1950. The first two funding for Ethiopia were a US$5 million credit for rehabilitation and maintenance of roads and a US$2 million credit for the establishment of a Development Bank (The World Bank, 2014).

Ethiopia joined The International Development Association (IDA) in 1960, The Multilateral Investment Guarantee Agency (MIGA) in 1990 and The International Finance Corporation (IFC) in 1997 respectively (Ibid).

Thus, starting from this time, Ethiopia received development aid and loan from International Financial Corporation, International Development Association, and other multilateral financial institutions (A Brief History of Ministry of Finance, 1984, Unpublished).

Since then, the economic cooperation and development partnership between the two parties has been increasing in depth and width in major economic sectors such as in infrastructure, agricultural development, and basic services just to name a few of the main areas of cooperation.

The economic cooperation and development partnership between Ethiopia and the World Bank have been guided by mutual frameworks with a shared development agenda and common understanding. The World Bank's two goals (The World Bank, 2014) have been fundamental as guiding lines in accomplishing its mission and vision at the global level. Two fundamental goals of the World Bank are:

❖ **To end extreme poverty**: at the global level within a generation, so that the percentage of people living with less than $1.25 a day to fall to no more than 3 percent globally by 2030.

- ❖ **To promote shared prosperity**: that is a sustainable increase in the well-being of the poorer segments of society, specifically to foster income growth of the bottom 40 percent of the population in every country.

Moreover, the cooperation and partnership has been guided by the Country Partnership Strategy (CPS) which is developed to serve in a given period of time by the World Bank in line with Ethiopia's strategic plan. Throughout the long-standing economic cooperation and development partnership between Ethiopia and the World Bank, the strategic objectives of both parties are generally aligned with each other.

For instance, in a report (The World Bank, 2014) to assess the Country Partnership Strategy (CPS) the World Bank asserted how the Country Partnership Strategy goes in line with the poverty focused strategy of the Ethiopian Government as follows:

> "WBG country strategy is well aligned with these ongoing drivers of poverty reduction: 46% of commitments (US$2820 million) are focused on agricultural growth and helping the poorest meet their basic needs, and a further 38% (US$2354 million) in dimensions that make such spending more effective in increasing the capacity of the government to provide basic services and creating an enabling environment for growth".

### 4.2. The Africa Development Bank (AfDB)

When we look at the development finance from the AfDB (Africa Development Bank) perspective in the past 40 years, the Bank had been one of the leading providers of development finance in support of Ethiopia's national development agenda, with 118 projects at a total value of $4 billion (AfDB, 2015). The lion's share of the support goes into infrastructure, particularly electricity supply, water and sanitation and transport, including regional connections. The Bank also has projects in the agriculture sector and in governance, as well as several multi-sector interventions. The support was closely aligned with Ethiopia's national development strategies.

The Africa Development Bank (AfDB) investments have made a substantial contribution to expanding Ethiopia's road infrastructure. Over the past ten years, the Bank has built or rehabilitated 389 km of roads, while helping to create the institutional capacity to maintain them. Major investments included the Wach-Maji road upgrade and improvements to the road between Butajira and Sodo. The investments have provided farmers and businesses with year-round access to inputs and markets, bringing more economic activity into rural Ethiopia. The Bank is also contributing to constructing or rehabilitating 345 km of cross-border roads, helping to improve Ethiopia's connections to regional markets and to the port at Mombasa. Overall, AfDB helped to provide over 7.5 million people with improved access to transport (Ibid).

From infrastructural point of view, the Africa Development bank also has made a substantial contribution to Ethiopia's impressive results on electrification. The development finance has provided nearly 40,000 people with electricity connections. Another 140,000 people are expected to benefit in the coming years from the Bank's ongoing energy projects. The Bank supported the development of the East Africa regional power pool, which enables the countries of the region to trade power and achieve substantial cost savings. It financed a 283 km high-voltage transmission line between Ethiopia and Djibouti, providing Djibouti with cheaper, renewable electricity and generating revenues for Ethiopia's electrification program. Moreover, the bank invested in a 1045 km transmission line between Ethiopia and Kenya, with substantial economic benefit to both countries (AfDB, 2015).

AfDB's support for national water and sanitation programs has made a major contribution to health outcomes, while reducing the heavy burden on rural communities, especially women, of fetching water. Since 2005, the bank has achieved the target of providing improved water and sanitation to 250,000 people in Ethiopia. It built piped water systems for Harar and four neighboring towns and helped to build the institutional capacity required to operate and maintain them. In rural areas, the bank has rehabilitated the water supply, built latrines for schools and health centers and promoted better hygiene practices. The Bank has made a particular effort to engage Ethiopian women in the management of community water supply, which helps to promote sustainability.

The development partners have supported successful private sector projects in Ethiopia. For instance, AfDB's strategic investment in the cement industry helped to lower costs for the construction sector, promoting more foreign and domestic investment; and the investment in Ethiopian Airlines helped it to sustain its strong performance and become one of Africa's top three international carriers. They also provided financial services to the many Ethiopians who run small and micro businesses. Microfinance, which is supported by the partners in skills training and business management, has benefited nearly 2 million people.

Ethiopia is one of the largest recipients of African Development Fund resources, with an active portfolio of $1.7 billion at the end of 2014 (AfDB, 2015).

### 4.3. The European Union (EU)

Among the development partners, the European Union (EU) is worth mentioning. The cooperation between Ethiopia and the European Union has been a long-standing collaboration that covers almost five decades before it reached such a magnitude that could be estimated in hundreds of million Euros development assistance.

The cooperation between the two parties has been widening since the signing of Lome I in 1975. Thus, they have been development partners for almost half a century. Ethiopia is one of Africa, Caribbean, and Pacific (ACP) member countries that benefited from European Union development assistance under the

Lome Convention and the Cotonou Partnership Agreement. The cooperation between the two parties has grown from protocol to protocol in scope and coverage enabling the country to implement tremendous programs and projects which contributed to the improvement of the lives of a significant number of our people.

Ethiopian performance in implementing European Union Development Fund (EDF) has been promising and on the right track. Due to this track record in the previous EDFs, Ethiopia secured 745 million Euros an indicative allocation of the development assistance resource availed by EU in the 11$^{th}$ EDF which ran from 2014-2020.

The European Union is one of the major donor partners of Ethiopia that contributes for about 230 million Euros a year, representing 10% of the total annual Official Development Aid received by Ethiopia. Jointly with the EU Member States support, the European Union makes available around 34% of the total aid assistance, which makes on the average 800 million Euros, to Ethiopia.

The 11$^{th}$ EDF (European Union Development Fund) National Indicative Program (NIP) which covered 2014-2020 was aligned to the broad objective of the national strategic Plan and the Climate Resilient and Green Economy (CRGE) strategy. Moreover, it deals with the specific objectives of sector plans in the focal areas of cooperation. This National Indicative Program constitutes the response of the EU to Ethiopia's medium term development vision outlined in the strategy and is aligned to its broad objectives. It considers the long-term vision of Ethiopia and the continuity of its development policies.

Taking into account the strategic priorities and the medium-term development objectives of Ethiopia, as well as the priorities driven from the EUs "Agenda for Change", the three focal sectors are Sustainable Agriculture and Food Security, Health and Roads and Transition to Energy.

Taking in consideration of 80% of Ethiopia's workforce engaged in agriculture, mostly rain-fed, the development partners focused on agricultural development support on improving water-harvesting techniques, small-scale irrigation, and the management of local ecosystems. Though the achievements fell somewhat short of their targets, they promoted improved water management and reforestation. In a joint initiative with the African Union Commission to boost livestock production, Especially, AfDB developed programs to eliminate tsetse fly from areas in six African countries, including Ethiopia.

Just last week, December 15, 2023, at 19th Ministerial Meeting of the Horn of Africa Initiative (HOAI) in Belgium-Brussels Ministers of Finance of the Horn of Africa region and development partners had a discussion on regional integration that includes infrastructure development and trade facilitation.

During the event, Minister of Finance of Ethiopia and current Chairperson of the Horn of Africa Initiative H.E Ahimed Shide, signed a 83 million Euro development finance agreement with EU representing HOAI as part of the EU Global Gateway partnership targeting to boost trade and economic integration as well enhances resilience to the Horn of Africa region.

### 4.4. The United Nations

The United Nations has been the reliable development partner of Ethiopia starting from the era of the let Emperor Haile Selassie. From development finance point of view, there had been tremendous instance of cooperation between Ethiopia and the UN in the past several decades. In order to show how the two parties' development cooperation is strong and sustainable it is better to highlight a significant program known as The United Nations Development Assistance Framework.

The United Nations Development Assistance Framework (UNDAF) 2016-2020 is the fourth UNDAF in Ethiopia and represents the strategic response of the UN Country Team to the national development priorities. Under the joint leadership and partnership of the Government and the UN system, the UNDAF 2016-2020 has been developed in a widely participatory manner. As part of the Delivering as One process in Ethiopia, which requires all members of the UN family to work together in an integrated manner. Following the mainstreaming of the Sustainable Development Goals, the UNDAF is also directly linked to the SDGs relevant to the Ethiopia context.

The UNDAF 2016-2020 is strategically focused on supporting Ethiopia's continued growth and transformation in five areas including inclusive growth and structural transformation, building resilience and green economy, investing in human capital, and expanding basic social services, good governance, participation and capacity building, and equality and empowerment.

For implementing UNDAF a total estimated US$3.038 billion was required. It has five pillars, 15 outcomes, 63 outputs, and 313 indicators.

The UNDAF takes into account the effect of population dynamics, in particular migration, fertility and urbanization, on development outcomes. Many developing countries, including Ethiopia, are at various stages of a demographic transition in which declining levels of fertility combined with a very young population structure can be turned into a demographic dividend with adequate policies and resources. Ethiopia, too, has a population of which 48 per cent are under the age of 18. The ongoing demographic transition highlights the importance of supporting adolescent girls and boys to develop the skills to lead healthy and productive lives and contribute to building prosperous, safe, and peaceful communities. While the vast majority of the world's poor still live in rural areas, urbanization is one of the key factors influencing developing outcomes in many parts of the world, including in Ethiopia. The UNDAF seeks to strengthen the Government's capacity to manage the risks and challenges associated with rapid urbanization.

Finally, the UNDAF is responsive to the increasing importance of transnational issues that shape development contexts. In particular issues related to climate change, migration, radicalization, conflict and global epidemics, require partnerships and responses that transcend national boundaries. Ethiopia is affected by a number of transnational issues and the UNDAF seeks to strengthen regional mechanisms and bodies to respond to these challenges. In line with the SDGs, the UNDAF is based on the principle of sustainability and building communities' resilience through linking development and humanitarian programming.

Under the UNDAF, the United Nations system continues to collaborate with the Government of Ethiopia as a partner in the country's quest to become middle income and carbon neutral by 2025. Based on the Delivering as One (DaO) approach, the 2030 Agenda and the SDGs, the joint Committee comprising the Government, the UN, and development partners, provides strategic direction and oversight to the achievement of planned UNDAF results.

UNDAF has implemented three flagship joint programs on

1) Gender equality and women's empowerment,

2) Maternal and newborn health, and

3) Support to the four Developing Regional States.

Collaborative programming and joint programs on priority themes such as social protection, resilience, migration and financial inclusion will continue to be prominent modalities to ensure that the UNDAF delivers tangible and sustainable development results.

## 5. Ethio-China Economic Cooperation

Ethio-China economic cooperation is one of the biggest economic cooperation that Ethiopia engaging with from bilateral relation perspective. These days cooperation has been expanded into holistic approaches such as financing development projects and programs, foreign direct investment (FDI), trade and construction. Thus, starting October 2023, the Ethio-China cooperation has further developed from Comprehensive Strategic Cooperation Partnership to all Weather Development Cooperation.

The two-country economic cooperation strategically focused on the development of infrastructures. Regarding Ethiopia's development priorities they are highly coherent with Chine's development initiatives of Forum on China Africa Cooperation (FOCAC) and Belt and Road Initiative (BRI).

When we talk about Ethio-China economic cooperation and its seasoned increment both in size and quality, the development finance in flow from China to Ethiopia between 2006 and 2018 is tangible evidence. During this time, to implement 70 mega projects in Ethiopia, the Chinese government and financial institutions allocated about 14.83 billion USD loans.

Moreover, the areas of cooperation are of investment in industries and trade are paramount. Presently, Chinas foreign direct investment to Ethiopia reached about USD 4 billion and 1844 projects have been implementing by Chinese companies in the country.

Ethio-China cooperation from development finance point of view has an important aspect when we deal with grant, interest free loan and concessional loan where development finance geared towards infrastructure development, livelihood and medical support, capacity building and urban road development.

Starting 2000, the Chinese government provided about USD 1.63 Billion assistance in terms of grant for the implementation of Ethiopia development programs and projects. Moreover, until 2018, the Chinese government provided USD 175.5 Million interest free loan for Ethiopia projects.

## 6. Development Finance versus Foreign Direct Investment

These days, foreign direct investment (FDI) is becoming one of economic growth and development enablers by boosting productivity, export, job creation and maintaining balanced macro-economy situation in a country. As foreign direct investment is vital for economic growth and development of a nation, development finance is equally important to a country, especially in the developing nations.

When we look at the Ethiopian case, we may find that development finance is equally important to foreign direct investment in size and quality. Earlier, in this document it has been mentioned how the development finance portfolio was huge that the multilateral financial institutions and donors provided to Ethiopia.

In a recent annual performance report of the last Ethiopian Fiscal year (2022/2023) the disbursement of development finance (including grant and loan) from multilateral and bilateral external sources was 3.4 billion USD. During the same period, the foreign direct investment in flow to Ethiopia was exactly 3.4 billion USD.

Therefore, when we talk about development finance, we are dealing with a crucial issue that mater economic growth and development of a country when especially the country is in a transformational period aspiring to join middle income nations like Ethiopia. Although it is apparent that to the nation that aspire to next level of development, it is expected gradually reducing the dependency of development finance including loan and assistance and focusing on the foreign direct investment which is a natural and ideal form of growth and development vehicle.

However, as long as the development finance is in a central position of a country where its debt is 40 percent of the GDP and 30 percent of the annual budget is in deficit, development finance could be very crucial and sensitive issue that must be managed prudently in effective and efficient manner.

## 7. Realizing Development Finance Effectiveness

In realizing development finance effectiveness, there should be a clear and pragmatic road map that insures the effective utilization of development finance. When we look at data presented in the above description of resources Ethiopia obtained from traditional multilateral and bilateral development finance providers in the past two decades, the county required huge amounts of external resources for its sustainable development in particular and economic growth in general.

In the current world order where development finance is dimensioning and demands are more increasing than supply, development finance effectiveness is becoming a crucial point of discussion both from doners and recipients group point of view. Therefore, the question of what should be done is a crucial question to be asked. The answer to such a question can't be one and easy.

In the case of Ethiopia to utilize development finance effectively and to ensure sustainable development, there have been introduced grand programs such as Ethiopian Homa Grown Economic Agenda I and II.

The GOE (Government of Ethiopia) 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 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:

1) Strengthening public finances including through improving the efficiency of SOEs and privatization,

2) Gradually moving towards a flexible exchange rate regime to address external imbalances,

3) Strengthening the monetary policy framework with the objective to stabilize prices and support economic growth, and

4) Enhancing financial sector development and developing capital markets.

The structural reforms aim to address bottlenecks inhibiting private sector growth through:

1) Stepping up reforms to ease the constraints to doing business,

2) Easing tariff and non-tariff barriers to international trade,

3) Improving the efficiency of public institutions, and

4) 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 (Ibid).

The second Ethiopian Home Grown Economic Reform Agenda has been formulated to further strengthen home based economic reform and to establish on the achievement from HGER I.

Here are some important key points from HGE II.

HGER II is crucial for the following four strategic goals and objectives:

1) To establish a modern and sound macroeconomic policy framework that supports and ensures stability, resilience, and sustainability,

2) To transform investment and trade environment to boost competitiveness through a favorable environment and opportunity that promotes and enhances innovation and entrepreneurship,

3) To expand productive capacity and productivity growth by increasing investment and unlocking economic growth potentials, and

4) To improve public sector capability that enhances the government's capacity to ensure quality and efficient service delivery.

HGER 2.0 is built on four pillars:

1) Macroeconomic reforms,

2) Investment and trade sector reforms,

3) Productive sector reforms, and

4) Public sector reforms.

These HGER 2 key pillars are subdivided into programmatic reform areas (sub-pillars), with clear expected strategic results (outputs, outcomes, and impacts) to be achieved under each sub-pillar, augmenting the strategic goals and objectives of the reform agenda.

From external resource mobilization point of view the HGER II document clearly put the global challenges of economic stability as follows:

> "An array of economic and geopolitical trends is casting a shadow on the outlook of the global economy. From developing economies' perspective, as highly dependent on and vulnerable to the external economy for borrowing, attracting investment, and trade, the most immediate risk is the spike in external borrowing costs, rising international commodity prices affecting trade flows, and declining capital inflows mainly through FDI inflows" (page, 19)

In order to bring realistic and pragmatic economic growth and development the government of Ethiopia formulated home based economic reform agenda with fundamental strategic goals and pillars which may help achieve holistic economic advancement including development finance effectiveness so as to utilize the external resource geared towards of the reform agenda.

However, development finance effectiveness needs more specific and focused system with structured evaluating and monitoring scheme so that utilize the development finance effectively to achieve sustainable development and economic growth that benefited the society at large. Therefore, the researcher would like to forward some policy advice in the next recommendations section.

## 8. Conclusion and Recommendations

As stated in the introduction section of this research paper, the objectives of the study are to overview the background trend of development finance in Ethiopia, assess the effectiveness of its utilization and compare development finance to foreign direct investment. Thus, in the past two decades, Ethiopia received development finance in billion dollars thanks to international development partners both the multilateral and bilateral donors.

From the development finance effectiveness point of view, although Ethiopia utilized the development finance for very important projects that contributed to the overall development of the country, there is still a huge gap between development need and supply of development finance. In spite of the fact that there is scarcity in provision of development finance, utilizing the available external resources in appropriate manner is a focus of discussion.

Ethiopia formulated Home Grown Economic Reform Agenda to transform the country to a better position using both the internal and external finance for the improved lively hood of the people and economic growth of the country. The agenda paid great attention to development finance effectiveness, because it is one of the important tools to achieve the desired development strategic goals.

In comparing development finance to foreign direct investment in 2023, the data showed that the country obtained exactly equal amount of dollars, which means 3.4 billion dollars each annually for development finance and FDI showed that the government should pay attention to development finance too and give due focus for effective utilization.

Regarding Ethio-China economic cooperation, it is one of the biggest bilateral cooperation Ethiopia has established ever and needs to put special focus both from economic and diplomacy perspective.

The researcher would like to forward some recommendations that may help the concerned bodies as input to policy advice.

- **Establishing especial monitoring end evaluation body**. Although there are several monitoring and evaluation bodies in every aspect of development programs, a special monitoring and evaluation entity specialized for development finance is crucial that involves both the recipient and the donor side.
- **Encouraging and incentivizing the staffs working on development finance implementation**. Lack of encouragement and incentive in implementing in development projects and program may result poor performance that hinder the effectiveness of project implementation.
- **Ensuring strong law enforcement**. There should be strong law enforcement on those who embezzle, and miss used development finance at varies level of government and non-government positions.
- **Depending on indigenous home-grown development programs**. As East Asian countries development history witnessed, Ethiopia should depend on indigenous knowledge and practice so as to emancipate itself from foreign dependency including development finance.

## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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