ETHIOPIA: Country Assistance Evaluation, 1998–2006

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IEG
Independent Evaluation Group

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Acronyms and Abbreviations

AIDS	Acquired Immune-deficiency Syndrome
APL	Adaptable Program Loan
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CSO	Civil Society Organization
DAG	Development Assistance Group
DBS	Direct Budget Support
DFID	Department for International Development (UK)
DPL	Development Policy Lending
EDRP	Emergency Demobilization and Reintegration Project
EPRDF	Ethiopia People's Revolutionary Democratic Front
ERSC	Economic Rehabilitation Support Credit
ESAC	Ethiopia Structural Adjustment Credit
ESDP	Education Sector Development Program
FSC	Fertilizer Supplemental Credit
GDP	Gross Domestic Product
GNI	Gross National Income
HDN	Human Development Network
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IGR	Institutional Governance Review
IMF	International Monetary Fund
INF	Infrastructure Vice-Presidency
JBAR	Joint Budget and Aid Review
MDG	Millennium Development Goal
MOFED	Ministry of Finance and Economic Development
NGO	Non-governmental Organization
NPV	Net Present Value
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
OPCS	Operations Policy and Country Services
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBS	Protection of Basic Services
PER	Public Expenditure Review
PPAR	Project Performance Assessment Report
PREM	Poverty Reduction and Economic Management
PRGF	Poverty Reduction and Growth Facility (IMF)
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSCBP	Public Sector Capacity -Building Project
PSD	Public Sector Development
SDN	Sustainable Development Network
SDPRP	Sustainable Development and Poverty Reduction Program
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
SWAp	Sector-wide Approach
UN	United Nations
USAID	United States Agency for International Development

Foreword

This report evaluates the International Development Association's (IDA's) support to Ethiopia during the period July 1, 1998 through June 30, 2006 (that is, World Bank fiscal year (FY) 1998-2006). The overarching goal of IDA during this period was to support the Ethiopian Government's efforts to reduce poverty and improve human well-being. The IDA program focused on helping to foster pro-poor growth, private sector development, human development, post-conflict and emergency rehabilitation and improved governance.

IDA was Ethiopia's single largest development partner, providing about 22 percent of the total of US$11.6 billion in overseas development assistance (ODA) during the period 1998-2006. It was a major player not only in terms of finance, but also as a purveyor of development knowledge (in supporting high-priority structural reforms and institutional development) and as a leader in donor coordination. IDA's engagement with other development partners through the Development Assistance Group (DAG), established in Ethiopia in 2000 and co-chaired by IDA and United Nations Development Programme (UNDP), led to improved donor coordination and better alignment of the respective development partners' objectives with the Government's priorities.

The assessment concludes that IDA's strategy during the period was relevant. IDA assistance during the review period had positive outcomes inter alia in post-conflict rehabilitation, pro-poor economic growth, roads development and human development. In contrast, the outcome of IDA support was less favorable in the key areas of private sector development and governance, which are crucial to the longer-term sustainability of shared growth. The outcomes of IDA's program were mixed because some key elements of it—IDA credits and/or the policy reforms that they were intended to support—could not be implemented as planned. As a result, the overall efficacy and efficiency of IDA support were somewhat below average when measured against the envisaged goals, and considering the large volumes of IDA funding and the associated efforts.

Based on lessons from the evaluation, many of which reinforce those which IDA has learned elsewhere, IEG recommends that IDA: (i) tighten the link between the policy dialogue and resource transfers in support of particular areas; (ii) take a clearer position on governance, notably by identifying some of the most binding constraints on private sector development, and hence on the prospects for pro-poor growth; (iii) improve the knowledge base on how social, political and cultural factors can influence the effectiveness of its support, particularly at the local level; and (v) extend and deepen partnerships with a broad range of in-country stakeholders.

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Preface

This Country Assistance Evaluation (CAE) report reviews the Bank's assistance strategy for Ethiopia over the period FY98 to FY06. It examines whether: (a) the objectives of Bank assistance were the "right" ones in light of the country context and the Bank's mandate; (b) the design of the Bank's assistance program was appropriate, effective and consistent with its objectives; and (c) the Bank's program achieved its objectives. Examining these questions allows the CAE *inter alia* to draw lessons and recommendations for future Bank assistance. Appendix B describes the methodological framework.

The CAE is based on IEG background papers covering the main building-blocks of Bank support to Ethiopia; relevant parts of recent sectoral, thematic and "corporate" evaluations; project assessments like the implementation completion reports (ICRs), ICR Reviews and project performance assessment reports (PPARs); and interviews with senior Ethiopian Government officials, representatives of the private sector and civil society (including local and international nongovernmental organizations) as well as of bilateral and multilateral development partners, and Bank and IMF staff in Washington and in Ethiopia. A list of those interviewed in Ethiopia during the IEG mission's visit in February 2007 is provided in Appendix E.

Comments from the Bank's Regional Management were received on October 26, 2007, along with the Regional response to the Management Action Record. These comments (as modified to take account of further inputs from the Region received thereafter in response to subsequent drafts), have to the extent possible been addressed in the report. A draft of the CAE was shared with the Government of Ethiopia. Comments received are reproduced verbatim as Attachment I, with IEG's reponse as Attachment II. A discussion of the report by the CODE Subcommittee was held on March 17, 2008, and a summary of the discussion is included as the Chairperson's Summary.

The report was prepared by Chad Leechor (task manager through the end of July 2007, when he took up a two-year secondment assignment) and James Sackey (task manager from August 2007 onwards), with substantive inputs from John English, John Eriksson, Eduardo Fernandez, Carolina Rojas Hayes, Vikki Taaka, Gene Tidrick, Svenja Weber-Venghaus, and Barbara Yale. This evaluation benefited from the comments of two internal peer reviewers, James Parks and Francois Nakobogo, and an external advisor, Laurie Effron. William B. Hurlbut edited successive versions of the report.

In addition, aside from the inputs of line managers, the following provided comments: Konstantin Atanesyan, Kenneth M. Chomitz, Victoria M. Elliott, Shahrokh Fardoust, Monika Huppi, Jaime Jaramillo-Vallejo, Nalini B. Kumar, Svetlana Markova, Keith Robert A. Oblitas, Thomas O'Brien, Yadviga Semikolenova, Denise A. Vaillancourt, and Fareed M. A. Hassan.

The report includes a contribution by the unit in IEG that evaluates the work of the World Bank Group's International Finance Cooperation (IEG-IFC, led by Marvin Taylor-Dormond), prepared by Asita de Silva and Victoria Viray-Mendoza.

Ethiopia: Summary of Bank Program Outcome Ratings

IEG's Country Assistance Evaluations (CAEs) assess and rate the outcomes (loosely speaking, the "results") of a given World Bank country program relative to its objectives. This differs from rating country outcomes or Bank or client government performance. The central question underlying the table that follows is "to what extent did the World Bank program achieve the outcomes that it had set out to achieve?" Distinct ratings and sub-ratings are typically assigned to each "pillar" or set of strategic goals set out in the relevant Bank strategy document(s)

BANK STRATEGIC GOALS	ACHIEVEMENT OF ASSOCIATED CAS RESULTS	BANK PROGRAM OUTCOME RATINGS
Overall Assistance	Major investment was made in people, and growth rates rose. Bank support for competition policy and privatization had limited impact, and major constraints to PSD remain. Relatively good outcomes were obtained on post-conflict support, pro-poor growth, and human development. Outcomes on public sector governance were mixed, with reasonable progress in some areas, such as public financial management and decentralization, but little progress in others, including public participation and external accountability. Given the importance of governance, accountability, and private sector development to long-run growth and poverty reduction in Ethiopia, these outcomes received somewhat higher weighting in the overall evaluation, resulting in a rating of moderately unsatisfactory for the outcomes of the country program as a whole.	Moderately Unsatisfactory
Pro-Poor Growth	Volatility in the earlier years notwithstanding, growth was significant, especially towards the end of the period under review, although sustainability is uncertain. The Bank supported pro-poor government spending. Improving trends in poverty and social service delivery (especially in the rural areas) point to some success in the Government's pro-poor strategy and the Bank's support for it, although attribution remains difficult.	Moderately Satisfactory
Private Sector Development	There was good progress in sustaining a conducive macroeconomic backdrop, as well as in road construction and management. Steps to improve the investment climate and foster PSD (through privatization and improved competition policy) showed only limited results through the review period. The outcomes with regard to infrastructure support were mixed.	Moderately Unsatisfactory
Human Development	Services were expanded in education and in health. Progress was somewhat less clear in water and sanitation as well as on broader social indicators. Service quality as well as disparities in access by gender and by region need continued attention.	Moderately Satisfactory
Post-Conflict Rehabilitation	The goals of rebuilding infrastructure and demobilizing and reintegrating ex-combatants were achieved, but progress on developing sustainable food security was somewhat less clear.	Moderately Satisfactory
Improving Governance	The public sector became better managed and decentralization brought people closer to government. However, progress toward greater local autonomy and stronger oversight and accountability in the public sector was limited. Important constraints on public debate and participation remain.	Moderately Unsatisfactory

Evaluation Summary

Ethiopia Country Assistance, 1998-2006

Ethiopia is among the World Bank's largest IDA-eligible borrowers in Sub-Saharan Africa, with a country portfolio comprising 22 active projects for a total net commitment of US$2 billion as of end-FY07. The Bank's overarching objective during the period under review (FY98-FY06) was to support the Government in its efforts to reduce poverty by helping to: (i) promote pro-poor growth, (ii) advance private sector development, (iii) enhance human development, (iv) respond to the needs of post-conflict and emergency rehabilitation, and (v) improve governance.

The evaluation finds that IDA's country strategy for Ethiopia and the associated program during the period under review were relevant to the country's development needs, which included the need to manage (and over time reduce the country's exposure to) frequent exogenous shocks and a fragile socio-political environment, especially following the post-election violence in 2005. IDA's strategy and program were also aligned with those of other development partners (DPs). The efficacy of the program was somewhat below average when measured against the goals envisaged at the outset. There were positive outcomes *inter alia* in post-conflict rehabilitation, economic growth, roads development, education and health. In contrast, the outcomes were less favorable in the key areas of private sector development and governance, which are crucial to sustaining growth over the longer-term and ensuring that its benefits are widely shared.

In hindsight, the efficacy of the program might have been greater had more attention been paid to: (a) developing and sustaining consensus among country team (CT) members around key policy issues and directions, (b) more candidly recognizing differences with the Government on certain key issues of policy and seeking ways to bridge gaps, and (c) ensuring a more comprehensive and occasionally more demanding approach to the governance dialogue, especially during the post-election turmoil in 2005. Finally, the efficiency of the program was not always commensurate with the volume of financial support or the efforts expended. Overall, the outcome of IDA assistance during the review period is rated moderately unsatisfactory.

Going forward, IEG recommends that IDA: (i) tighten the link between the quality of the policy dialogue and resource transfers in support of particular reform areas; (ii) take a clear and consistent position on governance, including binding governance-related constraints on private sector development and hence on prospects for sustaining pro-poor economic growth; (iii) improve its knowledge base on how social, political and cultural factors can influence the effectiveness of its support, notably at the local level; and (iv) extend and deepen partnerships with non-traditional in-country stakeholders.

Background

Ethiopia is Sub-Saharan Africa's second most populated country (after Nigeria) with 71.3 million inhabitants, and it is endowed with a rich and distinctive cultural heritage. The economy has been subjected to frequent shocks (including conflicts and natural disasters). Ethiopia's per capita income of US$160 (Atlas method) is about one-fifth of the average for Sub-Saharan Africa (SSA). A recent poverty assessment by the Bank suggests that the incidence of consumption poverty fell from 45.5 percent in 1996 to about 37 percent of the population in 2006.

Ethiopia joined the World Bank in 1945 and is also a member of IFC and MIGA. Beginning with two credits for roads and the financial sector in 1950, a total of 103 credits and grants have been approved to date for about US$5.8 billion in commitments. As of end-FY07, the Bank's active portfolio comprised 22 projects with commitments of US$2 billion, making Ethiopia one of the World Bank's largest borrowers in SSA.

Bank assistance during the FY98-FY06 period was delivered under two Country Assistance Strategies (CASs) and two interim strategies. The CASs and interim strategies, developed by the Bank between 1997 and 2006, reflected in large measure the Bank's efforts to adjust to major events. The 2000 Interim Support Strategy (ISS) responded to the 1998 Eritrean war, which had rendered the 1997 CAS obsolete. The 2003 CAS was developed in close collaboration with the Government and was anchored to the Sustainable Development and Poverty Reduction Program (SDPRP), Ethiopia's Poverty Reduction Strategy Paper (PRSP). But the post-election crisis in 2005 once again necessitated the development of an Interim CAS (ICAS). Despite the lack of specificity in selected benchmarks and targets, the major pillars of IDA assistance were relatively clear and were relevant to the country's needs throughout the evaluation period. They consisted of supporting the Government in its efforts to reduce poverty by helping to (i) promote pro-poor growth, (ii) encourage private sector development, (iii) enhance human development, (iv) respond to the needs of post-conflict and emergency rehabilitation, and (v) improve governance.

Lending and Portfolio Management. During the period FY98-FY06, IDA committed a total of about US$3.3 billion in new financial support to Ethiopia, compared to a planned amount of US$3.4 billion in the high case scenarios of the 1997 CAS and the 2003 CAS taken together. The minor shortfall was the result of wartime disruption of the 1997 assistance program and the post-election turmoil of 2005, which resulted in the cancellation of the third Poverty Reduction Support Credit and in the scaling down and restructuring of a few other projects. Part of the shortfall was made up through additional commitments under the 2000 ISS and the 2006 ICAS.

The IEG ratings of Ethiopia's closed projects were close to the average for the Africa Region (taking into account both outcome in terms of the realization of development objectives and sustainability) but below the Bank-wide average. During FY98-06, IEG reviewed 21 closed IDA-financed projects in Ethiopia, representing US$1.95 billion in commitments. Outcome was rated satisfactory for 72 percent of the closed projects (by commitment), lower than the Bank-wide average of 80 percent but above the average of 67 percent for the Africa Region. Fifty-six percent of operations (again by commitment) was rated sustainable, compared to 61 percent for the Africa Region and 78 percent Bank-wide.

Analytic Work. In several cases, analytical work was highly relevant and served as the basis for IDA's country dialogue and project development. The share of IDA's administrative budget allocated to economic and sector work (ESW) for FY98-FY06, at about 10.7 percent, was slightly below that of the Africa Region's 12 percent, although this does not seem to have affected either the scope of ESW or its quality, as significant co-financing was made available by other DPs. Nevertheless, while ESW was generally of good quality, it could have been used more effectively to flag and address policy disagreements with the Government.

Aid Coordination. IDA's engagement with other development partners (DPs) has been strengthened substantially since the creation of the Development Assistance Group (DAG) in 2000 (co-chaired by IDA and UNDP). Coordination among DPs has improved, as has the extent of alignment with the Government's priori-ties. But in the process, IDA's and DPs' leverage does not appear to have increased in reform areas where dialogue is more challenging, such as governance. Beyond bilateral and multilateral DPs, IDA has begun to strengthen its contacts with local organizations (universities, think-tanks, CSOs, etc.). Building on this initial effort to forge durable partnerships with such organizations could also help strengthen IDA's knowledge of local conditions and how they have evolved over time, including the extent to which rural communities have "voice" and are able to hold local officials accountable for public service delivery.

Key Findings of the Evaluation

IDA assistance during the review period had positive outcomes in several areas, including post-conflict and emergency rehabilitation, roads development, education and health, public financial management and donor coordination. In contrast, the outcome of IDA support was less favorable in private sector development and governance. Conclusions regarding Bank program outcomes are, however, sensitive to the data source used, as inconsistencies in data between the Government and other sources (notably of cross-country data) appear to be relatively frequent. To address these issues, the Government could consider enlisting support from a suitable source of statistical expertise to review and certify its data compilation methods.

Pro-poor Growth. Economic growth averaged about 6 percent a year during the review period, just shy of the seven percent envisaged in the SDPRP. There are signs that the underlying trend is improving, with the last three years of the review period (and a further year after it) witnessing very substantial growth, although questions remain regarding the consistency of the data. While it is difficult to attribute this outcome to IDA support, the fact that recent growth has been driven *inter alia* by the rural sector, one of the focal points of IDA assistance, suggests at least some likelihood that the Bank played a role in the growth.

There appear to be some favorable elements in the fundamentals, though the signs are not always clear. Changes over time in agricultural productivity, a key driver of pro-poor transformation of the sector, remain unclear because of inconsistent data sources. Ongoing reforms in land certification and decentralization are likely to have a positive effect in support of pro-poor transformation, though of uncertain timing and magnitude. Expenditure in pro-poor sectors (especially health and education) increased rapidly during the period, largely with the support of the IDA and other DPs.

Overall, the declining poverty rate (especially in the rural areas) and improvements in key social indicators linked to service delivery point to some progress under the Government's pro-poor growth strategy, which IDA and other DPs have supported. Nevertheless, there are important question marks on the longer-term sustainability of the newfound growth. One is that the last few years have been spared major droughts, which history suggests will strike again, pulling down growth averages over time. Another is to what extent the pace of economic growth is being fueled by overseas development assistance (ODA), as the sustainability of this is unclear. Given the uncertainty about the sustainability of growth, the outcome of IDA support for promoting pro-poor growth is rated *moderately satisfactory*.

Private Sector Development. The Bank sought to encourage private sector development (PSD) through support for a stable macroeconomic framework, improvements in the investment climate (including strengthened competition and privatization), and the expansion of infrastructure. The latter was directed mainly at strengthening transportation (through improvements in the road network), energy and telecommunications.

The Government maintained prudent macroeconomic management, which likely supported faster economic growth towards the end of the review period. However, it is unclear how much of the improved macroeconomic management owes to IDA support rather than the IMF's.

As regards the outcome of Bank Group assistance for improvements in the investment climate, there was some progress during the review period in business licensing, customs clearance, the tax regime, and labor and other business regulations. Nevertheless, there was little progress during the review period on some of the most binding constraints to the expansion of private sector activity (such as unevenness of the "playing field" and the dominance of parastatals in certain areas). Although a Competition Commission was established and began functioning, there are few signs to date that it is tackling the reportedly common problem of preferential treatment by the Government of "party-statals" (that is, privately owned but party-affiliated businesses). Similarly, while the pace of privatization may have accelerated after 2005/06 following a streamlining of procedures and guidelines, the outcome falls short of original expectations.

Finally, although there were gains in the expansion of road infrastructure and in its management, the outcomes of IDA support for other areas of infrastructure (power, water, transport, telecommunication, etc.) were less clear-cut. Overall, because some of the binding constraints facing PSD (competition, barriers to entry and infrastructure) were at best only partially addressed, the outcome of IDA assistance for private sector development during the review period is rated *moderately unsatisfactory*. This said, there are signs that beyond the review period (that is, in the last two years) the pace of reform may be picking up.

Human Development. IDA assistance helped the Government meet several of its goals in terms of extending access to health and education services. IDA support for health facilitated progress consistent with the benchmarks in both government and Bank strategy documents, although significant shortcomings under two of IDA's main interventions (the Health Sector Development Project and the Mulitisector HIV/AIDS Project) cast doubts on the outcome of IDA assistance, which as a consequence is rated only moderately satisfactory. The expansion in educational enrolment was striking, although several challenges relating to low quality as well as regional and gender disparities have yet to be resolved. The outcome of IDA support for education is rated satisfactory. In water and sewerage, IDA support facilitated some improvements in access to potable water and sanitation services, but it remains unclear (owing to inconsistent data sources) whether there has been sufficient progress towards meeting the relevant MDGs. The outcome of IDA support for water and sewerage is rated moderately satisfactory. Overall, the outcome of IDA support for human development is rated *moderately satisfactory.*

Post-Conflict and Emergency Rehabilitation. IDA responded in a timely manner to Ethiopia's needs following the two-year war with Eritrea and a severe drought in 1998/99 by developing the Emergency Demobilization and Reintegration Project (EDRP) under the 2000 Interim Support Strategy. The EDRP achieved most of its objectives of demobilization and re-integration of veterans. IDA support also helped develop instruments to enhance food security, including the use of public works and income support initiatives, but the precise gains in terms of lowering families' exposure to food insecurity remain unclear. In addition, without access to significant off-farm income sources and alternative coping mechanisms, the sustainability of food security improvements is unlikely to be assured. The outcome of IDA support for post-conflict and emergency programs is rated *moderately satisfactory*.

Governance. IDA intended to support Ethiopia's governance program by helping to (i) improve public sector management, (ii) support the empowerment of communities, and (iii) strengthen accountability mechanisms. IDA support for public sector management reforms was substantial and involved considerable effort and ingenuity. Many intermediate outputs/outcomes were achieved, including the establishment of a sophisticated framework of intergovernmental fiscal arrangements, a major increase in the transfer of revenue to local governments, and a large amount of training at all levels. The outcome of IDA support for public sector management reforms is rated satisfactory.

As regards IDA support for "the empowerment of communities in the utilization of public resources" (2003 CAS), progress in channeling increased resources to communities was achieved through support for the decentralization process, and more specifically through IDA's post-2005 lending modalities. Nevertheless, it is not clear to what extent local control of resources and civil society involvement have increased, as envisioned in the CASs, and to what extent these vary by region. More importantly, progress towards IDA's main objective of supporting the empowerment of communities through improved quality of representation, increased accountability, and greater participation of civil society was only partially achieved at best. Few direct measures to bolster citizen demand for accountability, essential for improved service delivery, were taken, although there may have been some indirect advancement in decentralization during the review period. In sum, IDA assistance for civil society empowerment fell short of achieving its goals for enhancing citizen participation and is rated unsatisfactory.

Given the importance of strengthening accountability mechanisms for effective long-term governance reform, including public financial management and decentralized service delivery, it is unclear to what extent the progress achieved during the review period in public sector management is sustainable without deeper governance reforms. Balancing the uneven achievements across the various areas, it is IEG's judgment that the overall outcome of IDA support for governance reform has been *moderately unsatisfactory.*

In arriving at an overall rating for the outcome of Bank assistance, IEG weights the ratings for the individual strategic goals according to their relative importance to country outcomes. Governance has consistently been considered as a key goal in the Bank's country strategy documents for Ethiopia, and IEG also considers it as a key goal, as it underlies the achievement of the other goals and is closely intertwined with private sector development and public service delivery. Given the importance of governance and accountability, as well as private sector development, to sustained long-term growth and poverty reduction in Ethiopia, these outcomes received somewhat higher weighting in the overall evaluation, resulting in a rating of *moderately unsatisfactory* for the outcome of IDA's country program as a whole.

Lessons

IDA's experience in Ethiopia over the past decade suggests several lessons, consistent with those learned elsewhere:

- Achieving pro-poor growth depends in large part on the creation of income-generating opportunities for the poor. In this regard, it would have been advisable to put greater emphasis on improving the policy environment in order to enhance non-farm income-earning opportunities in rural areas, where the majority of Ethiopia's poor live. Similarly, constraints on PSD and therefore on pro-poor growth could have been identified more centrally as governance concerns.

- IDA's effectiveness is hampered in the absence of consensus with the Government on the needed direction and pace of reform. In Ethiopia, the Bank Group would likely have been significantly more effective had it been more candid about major policy differences with the Government and put forward realistic ways of managing these differences (*inter alia* through ESW), rather than making the unrealistic assumption that the Government would proceed to implement reform measures about which it was expressing reservations. This could have avoided repeated deferral of key actions, most notably in the key areas of private sector development and governance covered by the PRSC program.

- Where major—and unbridgeable—differences of view constrain broad-based engagement by the Bank Group, it may still be possible to make progress in selected areas if committed counterparts ("champions") can be found who can sustain momentum and see reform programs through to fruition. In Ethiopia, instances of this arose with the roads program as well as with the framework for fiscal transfers to local governments. Identifying such entry points while remaining realistic about prospects for broader agreement is a key challenge for country programs in weak or difficult governance environments.

- Consensus within the Bank Group's Country Team, including full engagement of sector and local office staff, is essential for a sound dialogue with the client and for effective design and delivery of needed support. In the Ethiopia program, a shortage of open dialogue within the entire Country Team sometimes limited the ability of the Bank Group to achieve this needed consensus, particularly during the challenging post-election period of 2005.

- In countries with weak administrative capacity, Bank Group projects and programs need to be modest in scale and in breadth and depth of policy content to match the Government's implementation capacity. This too would help avoid repeated deferrals and "recycling" of reform measures. The design of IDA assistance in Ethiopia was sometimes overly complex and beyond the capacity of the host institutions.

- While adverse shocks (such as droughts) can prolong aid dependence, effective aid coordination can foster rapid recovery following shocks and ensuing crises.

Recommendations

IDA needs to seek consensus within the Country Team and between the Bank and the Government on realistic reform implementation goals and targets. It is important to have both a clear understanding with the client and a clear consensus within the Country Team. It is also important for IDA to assess in depth which reform measures it considers essential to meet the country's development and poverty reduction goals, and which measures are less essential. IDA can then calibrate its support more effectively by focusing its lending on areas where there are both country ownership and strong development impact.

IDA needs to tighten the link between the scale of resource transfers in support of particular areas and the quality of the policy dialogue. The "return" on IDA support, or its efficiency, has been perceived in various evaluations (including by the Country Team) to be lower-than-anticipated. IDA should consider restricting its interventions to policy dialogue and/or analytic work (rather than lending) in key areas where there are clear policy disagreements with Government (which ESW can help to address more frontally). The Bank made some adjustments of this type during the review period (e.g., by cancelling plans to prepare a telecommunications project and reducing the total amount of PRSC I by one-fifth in response to less-than-expected delivery on the PSD reform agenda), but more ambitious adjustments could have avoided repeated backsliding in some areas.

IDA needs to take a clear position on governance by highlighting the constraints on PSD (and thus future pro-poor growth prospects) as governance issues. Failure to do so may have the unintended consequence of weakening the quality of the Bank Group's governance analysis and assistance and ultimately the extent to which the constraints on pro-poor growth are adequately identified and addressed.

Because an important part of IDA's program now focuses on channeling support directly to local communities, the Bank Group needs to continue to improve its knowledge of whether and how social, political and cultural factors influence the impact of its support. In particular, the Bank Group needs to continue its analytic effort to develop a better understanding of the constraints to voice and participation at the local level, as an in-depth understanding of social cohesion, inclusiveness, and accountability at the community level is essential to designing effective interventions. Understanding the power structure at local levels, including the sources of the administrators' authority and the incentives they have for serving local residents, is very important, as the roles and actions of sub-district administrators can have a decisive influence on the economic behavior of rural residents, as well as on their access to public services.

IDA needs to continue its efforts to develop partnerships with non-government stakeholders in Ethiopia's development. IDA needs to work with local partners that traditionally may not have interacted closely with the Bank Group, including the media, parliamentarians, and members of local councils, academicians, nongovernmental organizations, and private sector representatives. Effective prevention of famine, for example, hinges on the free flow of information and expression of views among a broad coalition that goes beyond the Government and a few development partners

Management Action Record

IEG Recommendations Requiring a Response	Management Response
IDA needs to seek consensus within the Country Team and between the Bank and the Government on realistic reform implementation goals and targets. It is important to have both a clear understanding with the client and a clear consensus with the Country Team. It is also important for IDA to assess in depth which reform measures it considers essential to meet the country's development and poverty reduction goals, and which measures are less essential. IDA can then calibrate its support more effectively by focusing its lending on areas where there are both country ownership and strong development impact.	**Management agrees with the recommendation, which is consistent with the Bank's current approach.** While past strategies were also participatory, the preparation process for the Country Assistance Strategy for FY2008-2011 has placed a special emphasis on building consensus within the Country Team. This has included a retreat, a lengthy process of interactions on the results framework, a number of open country team meetings, and many virtual exchanges. With the Government, discussions on directions for Bank support build on the PASDEP and have been ongoing in detail since summer 2007. In terms of calibration of support, the new CAS will focus efforts around 25 core outcomes where development impact is thought to be high. Ownership is generally strong in regard to these outcomes; however, there may be cases where some lending in areas with a sub-optimal but promising policy environment may be a good strategy to make progress in the long run.
IDA needs to tighten the link between the scale of resource transfers in support of particular areas and the quality of the policy dialogue. The "return" on IDA support, or its efficiency, has been perceived in various evaluations (including by the Country Team) to be lower-than-anticipated. IDA should consider restricting its interventions to policy dialogue and/or analytic work (rather than lending) in key areas where there are clear policy disagreements with Government (which ESW can help to address more frontally). The Bank made some adjustments of this type during the review period (e.g., by cancelling plans to prepare a telecommunications project and reducing the total amount of PRSC I by one-fifth in response to less-than-expected delivery on the PSD reform agenda), but more ambitious adjustments could have avoided repeated backsliding in some areas.	**Management agrees that resource flows should generally be closely linked with the quality of policy dialogue.** In practice, though, the Bank should guard against becoming overly conservative and supporting only low risk initiatives. As stated above, management believes that in some areas, modest lending engagement could prove to be a way to motivate policy reorientation in the long run. This involves a degree of risk, and in the period under review, risk-taking was not rewarded in some areas, particularly in terms of PRSC II's support for telecommunications sector reform as one of its nine prior actions (which caused the Bank to reduce the size of PRSC II by US$20 million from original plans). It is not likely that stronger incentives in the form of larger lending cuts could have resulted in a different policy outcome. Additionally, we would note IEG's own data in the CAE that 72 percent of IDA commitments over then CAE period had a satisfactory outcome, above the regional average of 67 percent. Therefore, it is unclear whether IDA support has had lower-than-expected results.
IDA needs to take a clear position on governance by highlighting the constraints on PSD (and thus future pro-poor growth prospects) as governance issues. Failure to do so may have the unintended consequence of weakening the quality of the Bank Group's governance analysis and assistance and ultimately the extent to which the constraints on pro-poor growth are adequately identified and addressed.	**Management agrees that addressing constraints to PSD is a top priority.** Some of these constraints have governance dimensions, and others, such as inadequate infrastructure, are not fundamentally rooted in governance issues in the current context. The Bank will pay careful attention to the role of governance in improving the investment climate, and address PSD constraints from a governance perspective to the extent that the constraints are rooted in issues of governance.

IEG Recommendations Requiring a Response	Management Response
Because an important part of the IDA's program now focuses on channeling support directly to local communities, the Bank Group needs to continue to improve its knowledge on whether and how social, political and cultural factors influence the impact of its support. In particular, the Bank Group needs to continue its analytic effort to develop a better understanding of the constraints to voice and participation at the local level, as an in-depth understanding of social cohesion, inclusiveness, and accountability at the community level is essential to designing effective interventions. Understanding the power structure at local levels, including the sources of the administrators' authority and the incentives they have for serving local residents, is very important, as the roles and actions of sub-district administrators can have a decisive influence on the economic behavior of rural residents, as well as on their access to public services.	**Management agrees with IEG's recommendation.** The upcoming CAS for Ethiopia is underpinned by an analysis of social, cultural, and political economy factors that affect development. Further, the Ethiopia Country Team now has a governance advisor who focuses on local accountability mechanisms, and is in the process of recruiting an anthropologist to strengthen its ability to develop in-depth understanding of the kind of issues highlighted by IEG.
IDA needs to continue its efforts to develop partnerships with non-government stakeholders in Ethiopia's development. IDA needs to work with local partners that traditionally may not have interacted closely with the Bank Group, including the media, parliamentarians, and members of local councils, academicians, nongovernmental organizations, and private sector representatives. Effective prevention of famine, for example, hinges on the free flow of information and expression of views among a broad coalition that goes beyond the Government and a few development partners.	**Management agrees with IEG recommendation.** The Ethiopia Country Team has been expanding its collaboration with non-government stakeholder groups steadily in recent years, and will continue to emphasize their role in Ethiopia's development.

CHAIRPERSON'S SUMMARY

COMMITTEE ON DEVELOPMENT EFFECTIVENESS

Informal Subcommittee's Report: Ethiopia Country Assistance Evaluation (Meeting of March 17, 2008)

1. On March 17, 2008 the Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) considered the Ethiopia Country Assistance Evaluation (CAE) prepared by the Independent Evaluation Group (IEG).

2. **Summary of the Ethiopia CAE.** The CAE reviewed the outcomes of International Development Association (IDA) assistance between 1998 and 2006. IEG found that the IDA program during the period of review was relevant to Ethiopia's development needs. At the same time, it noted that the efficacy of the program could have been greater if more attention had been paid to (i) develop and sustain consensus within the Country Team (CT), (ii) recognize and address the differences with the Government on key policy issues, and (iii) ensure a more comprehensive and occasionally a more demanding approach to governance dialogue. The overall outcome of IDA assistance was rated moderately unsatisfactory. Positive outcomes were noted in several areas but outcomes were less favorable in private sector development (PSD) and governance, although IEG noted that the reform efforts (*e.g.* for privatization and competition) in these areas appear to be increasing towards the end of the review period. IEG recommendations for IDA included: (i) seek consensus within the CT and between the Bank and the Government on realistic goals and targets for reform; (ii) tighten the link between resource transfers in support of particular areas and the quality of policy dialogue; (iii) take a clear position on governance, including by highlighting the constraints on PSD; (iv) strengthen World Bank Group (WBG) knowledge of how social, political, and cultural factors impact its support given that part of the IDA financial support is channeled directly to local communities; and (v) continue efforts to develop partnerships with non-government Ethiopian stakeholders.

3. At the SC meeting, IEG remarked on the importance and difficulties of evaluating the outcomes of the IDA program. It was noted that Ethiopia is one of the largest IDA-eligible borrowers in Sub-Saharan Africa and faces enormous development challenges. IEG commented that the period covered by the CAE was a complex and difficult time marked by exogenous and climatic shocks (*e.g.* floods and droughts), and conflict and political instability (*e.g.* the 1998 Eritrean War, the 2005 post-election crisis), and the outcomes of IDA support were highly variable. IEG remarked on the data inconsistencies encountered during the evaluation, and strong differences of views among people consulted within and outside the Bank concerning overall assessment of the IDA program's achievements in Ethiopia. Assurances were given regarding the due diligence done by IEG to provide an independent, objective, accurate and fair evaluation; and the careful consideration given to incorporating, where appropriate, the Government and the CT comments. Finally, IEG emphasized that CAEs seek to evaluate the outcome of the Bank's support relative to the objectives set out in the country assistance

strategy (CAS) documents, and not the country outcomes or the government performance.

4. **Management's Comments.** Management broadly agreed with the IEG recommendations. However, it cautioned against overly conservative behaviors in implementing the recommendation on linking resource flow with the quality of policy dialogue since modest lending could be a way to motivate policy reorientation in certain situations. Management agreed that PSD is a top priority but stated that it should not be solely characterized as a governance issue. They noted that PSD also requires capacity building and infrastructure development. Management concurred with IEG on the importance of governance but questioned whether this should be treated separately since effective delivery of development objectives depends on quality of governance. Management indicated that more recognition could have been given to the progress in decentralization, improved access to basic services, and strengthening of the public expenditure management, all of which reflect improvements in governance. Regarding the issue of inconsistent data, Management noted that the Central Statistical Authority is considered one of the stronger agencies in the Africa region. Management raised concerns about the subjectivity of the relative weights given to the five areas of Bank support (*e.g.* pro-poor growth, PSD, human development, post-conflict and rehabilitation, governance) for the overall rating of Bank support; three of the five areas of Bank support were rated moderately satisfactory but the overall rating was moderately unsatisfactory. In its view, the criteria determining ratings are not transparent particularly since benchmarks and indicators were limited.

5. **Government's Comments.** A statement on behalf of the authorities was circulated before the meeting. The Government found that the evaluation report contains valuable information and brings out a number of issues that need to be considered more seriously. Yet, it expressed disappointment that the report circulated to the Committee does not seem to take into account their earlier comments as well as those provided by the CT. This was of concern to the Government, which noted that quantitative benchmarks to evaluate performance were limited, and the findings and ratings have been based on "idealized targets" and IEG's perceptions about the future. The Government provided specific comments, clarifications, and historical context for each of the five areas of IDA support, as well as for IEG's review of International Finance Corporation (IFC) support in Appendix C. The Chair speaking on behalf of the Government expressed strong concerns that the IEG evaluation appeared imbalanced and judgmental, and expressed hope that the Government's comments would be considered in finalizing the CAE for disclosure. It requested IEG to review its evaluation methodology and revise the ratings to fairly reflect achievement of performances, keeping in mind the specific country context.

6. **Overall Conclusions and Next Steps**. The SC welcomed the informative CAE, although some speakers raised concerns about the evaluation methodology and ratings. A few others also remarked that more credit could have been given to the CT and the Government for progress made in areas such as the macroeconomy, pro-poor growth, human development, and governance. However, it was noted that the CAE provides useful lessons, which should be considered in the forthcoming CAS. It was re-

emphasized during the discussions that the CAE evaluated the outcomes of Bank support and not the Government's or country's performance.

7. Speakers welcomed the overall positive outcomes in post-conflict and rehabilitation, economic growth, roads development, education, and health. The weaker outcomes noted in the CAE in the areas of governance and PSD, including the role of IFC, elicited numerous comments. The SC discussed the importance of constructive dialogue and partnership with the Government, the challenges of addressing key development issues when there is no consensus between the Bank and the Government on necessary reforms, the need for realism about what can be achieved, and issues related to aid coordination. Suggestions for the forthcoming Ethiopia CAS included increasing investment for infrastructure (e.g. transportation, energy, and communication), focusing on agriculture, addressing access to finance issues, and considering HIV/AIDS and gender inequalities. The SC broadly supported the disclosure of the CAE. Some members were sympathetic to the Government's concerns about the report and requested IEG to consider them while maintaining the independence of its findings. IEG committed to reviewing the CAE to ensure factual accuracy.

The following main issues were raised during the meeting:

8. **Dialogue with the Government.** Members noted the factors constraining the efficacy of IDA support. Some members highlighted the importance of constructive dialogue and partnership with the Government and the use of economic sector work (ESW) in this regard, as well as realism about what can be achieved. A few speakers sought IEG's views on the appropriate approach for the Bank when supporting a government with a strong belief in its development model, and where there is a strong incentive to lend and to remain engaged. In this regard, a member wondered if IEG would recommend the Bank to take a more critical stance and to reduce lending. It was noted that the overall outcome of the portfolio has been above average for the Africa region, and within the average for the Bank despite the factors constraining efficacy of IDA support. Another speaker gave credit to the CT for modifying its approach when Government's commitment to implementing certain aspects of its national poverty reduction strategy was weaker than initially expected by the Bank. A member explicitly supported IEG's recommendation to link resource transfers to quality of policy dialogue in key areas such as the financial sector and telecommunications. However, another member shared Management's views on the need for nuance in implementing this recommendation. Some members asked about the broad and systemic measures to address the factors constraining efficacy of IDA support.

9. *IEG clarified that it was not advocating disengagement when there is a difficult dialogue or disagreement with Government, but was stressing realism about what may be achieved. It explained that the recommendation was intended to emphasize the need to consider the intersection of what the client wants, what is good for development, and what IDA can do within its guidelines in making decisions related to resource transfers. Moreover, IEG considered ESW valuable for promoting dialogue and shared understanding concerning key policy issues, but also for highlighting differences and prospects for resolving them. Management remarked that considerable efforts have been made to discuss with the Government the priority areas for Bank support, and*

to achieve consensus within the CT and with other development partners. It expected the forthcoming CAS to better address these aspects.

10. **Pro-poor Growth and Human Development.** A speaker stated that more recognition could have been given to the Bank and the Government for the economic and social progress. *IEG noted the Government's achievements in service delivery, expanding access to education, protecting basic services in health, but also raised some concerns about the sustainability of these efforts.* There was agreement on the importance of governance and PSD for sustainable growth. Some speakers echoed Government's concerns about IEG's assessment related to pro-poor growth and human development.

11. **Governance.** Some members urged the Bank to be more proactive in promoting the governance agenda and supported IEG recommendation in this area; a speaker remarked that governance goes beyond constraints to PSD. A member noted the importance of aligning support to the national poverty reduction strategy but said this should not be at the expense of essential reforms for improving governance. Commenting specifically on IDA financing for the Protection of Basic Services program, this member welcomed the positive progress but noted that a focus on public financial management and fiduciary issues should not detract from attention to broader governance issues. A few speakers observed that more recognition could have been given to the improvements in public sector management and progress in decentralization in the IEG rating on governance. Regarding the concern raised about the weight given to empowerment of communities in the rating, *IEG noted that community empowerment had been central to the Bank's strategy and thus was given greater emphasis.* While supportive of the IEG recommendation for IDA to strengthen partnership with a wider group of in-country actors (media, parliamentarians, non-governmental organizations) a member cautioned that such partnerships should not bypass the Government.

12. **Private Sector.** The need to strengthen the nascent private sector was emphasized and the Bank was encouraged to actively engage the Government in improving the investment climate. While some speakers supported IEG's emphasis on addressing governance for PSD, a member echoed Management's views that PSD also requires capacity building and improving infrastructure. In this connection, a few speakers suggested that future IDA support should focus on infrastructure, which is a priority for the Africa region and where the Bank performance has been more positive. *Management said that the Government and the Bank have agreed that infrastructure would be a priority in the forthcoming CAS, and approximately half of total lending is expected to be in this sector.* Highlighting the importance of access to finance for PSD, a speaker proposed a comprehensive Bank-Fund diagnostic study of the financial sector, which could be the basis for discussion with the Government on reforms needed to introduce more competition. *Management mentioned that the Government is implementing gradual reforms in the banking sector.* A member questioned the ratings for PSD, which seems to incorporate the Government's development outcomes and not the outcomes of the Bank program. A speaker asked whether the improved macroeconomics might be attributed to IDA over IMF, which did not have a formal program in Ethiopia during parts of the evaluation period. *IEG clarified that IMF had continued to hold regular dialogue with the Government on macroeconomic policy, making it difficult to attribute improvements to IDA or the IMF.*

13. **Role of IFC.** While noting the constraints to IFC's involvement in Ethiopia (summarized in Appendix C), a member was still surprised by the absence of IFC investment over the ten- year period of review. A speaker urged IDA to define a common strategy with IFC in the forthcoming CAS. *IEG clarified that three investment projects were approved during the evaluation period but they did not become active due to various constraints. Management noted that IFC is reopening its office, and it is currently involved in negotiating a few transactions.*

14. **Aid Coordination.** Some speakers stressed the importance of an inclusive and transparent approach, and consensus building among donors to strengthen dialogue and partnership with the Government especially on governance issues. A speaker observed that greater credit could have been given to the Bank's role in overall donor coordination and its leadership in taking forward the harmonization agenda. At the same time, it was noted that the Bank's delivery of support was still somewhat centralized, and a greater country presence and more efficient procurement procedures might enable the Bank to be a more effective development partner. *Management suggested that the tensions arose after the 2005 election when views were divided among donors as well as within the CT on approach to working with the Government.*

15. **Evaluation Methodology and Ratings.** Issues raised by the Government and Management on the evaluation methodology and ratings resonated with some speakers, who raised questions about the pro-poor growth, human development, governance, and PSD ratings. A member noted that the ratings should be interpreted with flexibility and caution. Another member suggested a written response would be useful to clarify the way IEG measures outcomes. *IEG commented on the challenges of rating the five areas of IDA support as well as the overall outcome and the need to exercise judgment.* Responding to a request to clarify the issue of lack of specific benchmarks and targets in CASs and Interim Strategy Notes, *IEG explained that only the 1997 CAS contained quantifiable performance targets, thus making the overall evaluation challenging. Management clarified that all CASs had been prepared before the results-based CASs were mainstreamed.*

Jiayi Zou, Chairperson, CODE

1. Introduction and Context

1.1 Ethiopia is Sub-Saharan Africa's second most populated country (after Nigeria) with 71.3 million inhabitants. It is endowed with a rich and distinctive history and cultural heritage. However, the country's economy has been characterized by frequent shocks (conflicts and natural disasters, including damaging climatic variations). Owing in part to these factors, Ethiopia's per capita income of US$160 (Atlas method) still stands at only about one-fifth of the average for Sub-Saharan Africa. Nevertheless, a recent World Bank Poverty Assessment[1] indicates that the headcount ratio of consumption poverty declined from 45.5 percent of the population in 1997 to an estimated 38.7 percent in 2005—an encouraging finding but one that calls for still cautious interpretation given the sensitivity of estimated changes in poverty changes to the time interval covered.

1.2 This evaluation covers the World Bank's Ethiopia program during the period FY1998 through FY2006.[2] It examines the relevance and realism of Bank objectives against the backdrop of the constraints to the country's development, the political environment for development, and the capacity of the public sector during this period. It assesses the outcome, the sustainability and the institutional development impact of the Bank's support to Ethiopia. Because the Bank's strategy and program delivery underwent several changes in emphasis (as detailed in four successive strategy vehicles), care is taken in specifying the Bank objectives against which outcomes are evaluated to ensure that sub-period objectives are adequately captured (see chapter 2).

1.3 The review is structured as follows: This chapter retraces the country's political and economic context in which the Bank's strategy was designed and implemented. Chapter 2 outlines the country assistance strategies prepared and pursued by the Bank. In Chapter 3, the review examines in greater detail the outcome of the Bank's programs in relation to the various objectives outlined in the country assistance strategies. Chapter 4 looks at the factors that contributed to these outcomes. Chapter 5 draws lessons from the Bank's experience and offers recommendations to help guide the Bank's future support to Ethiopia.

The Political Context

1.4 Today's Ethiopia is organized as a federation with a federal government, two chartered cities and nine autonomous regional states. The 1995 constitution defines the regional states on the basis of ethnicity and gives each state the right to secede from the union. The federal government consists of an executive branch headed by a Prime Minister, a Parliament (Council of Peoples' Representatives) and a Judiciary.

1.5 The Ethiopia People's Revolutionary Democratic Front (EPRDF), a coalition of four regional parties led by the Tigray People's Liberation Front (TPLF), dominates the federal and regional governments. It evolved from the coalition of armed groups that seized power in May 1991. The EPRDF has won three successive parliamentary elections since 1995, including the most recent in May 2005. The latter were heavily contested, and its results were acrimoniously disputed by opposition groups which include the Coalition for Unity and Democracy Party (CUDP), the United Ethiopian Democratic Front (UEDF), and the Oromo Federalist Democratic Movement (OFDM). The next elections are due in May 2010.

1.6 Each regional state has a tripartite structure that includes a regional council, an executive committee and regional bureaus (which are similar to federal ministries). Within each region, the district (*woreda*) level of government also has a tripartite structure and provides most social and economic services. The number of *woredas* varies from one region to another, with a total of 550 *woredas* nationwide. Below the *woreda,* communities are organized into villages (*kebeles*), which in turn are composed of *gatt* (groups of about 90 households) and *garee* (groups of 20-30 households). Because political leadership tends to be formally defined and designated even at the level of small local groupings, the presence of officialdom in daily life is often virtually uninterrupted, to the probable detriment of open expression ("voice") and of accountability mechanisms (e.g., for citizens to shape community preferences and priorities and/or exercise user feedback on public service delivery). This also means that the size and complexity of Ethiopia notwithstanding, the network of state and party officials is tight-knit and far-reaching. This said, in the views of at least some, freedom of expression at the local level has trended favorably in recent years.

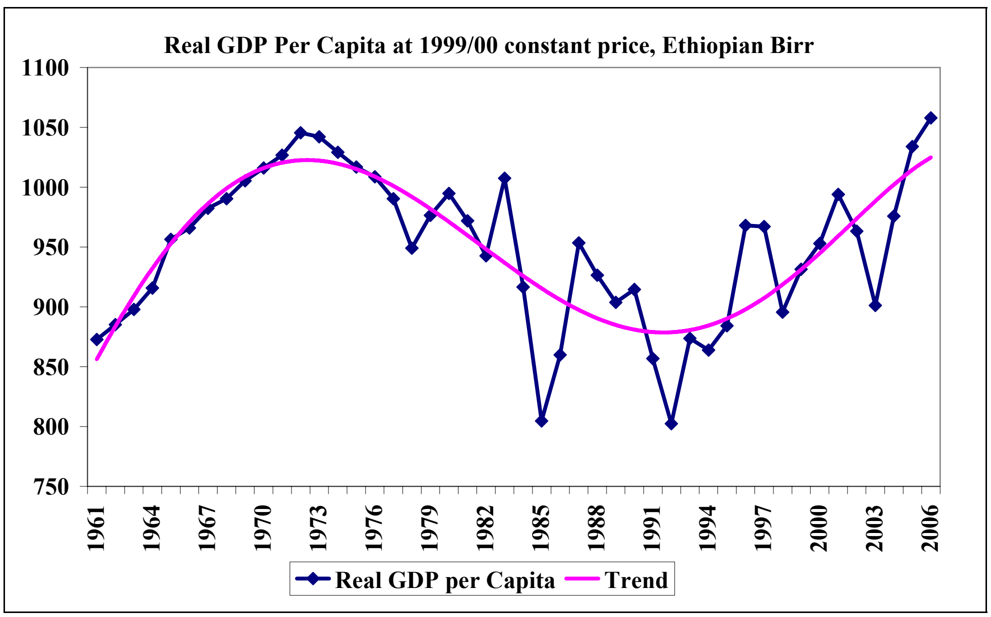
The Economy

1.7 Over the past several decades, economic growth performance in Ethiopia has been generally poor and characterized by significant volatility.[3] During the seventeen-year rule of the Marxist regime, or "Derg" (1973-1991), there was a substantial decline in incomes, with the largest single-year drop coinciding with the 1984 famine (see Figure 1). A recovering trend, which constitutes a major turnaround relative to the secular decline experienced under the Derg, has been visible since then, though with erratic year-to-year growth performance. In the more recent past, growth has averaged about 6 percent per annum since 1996, implying per capita annual average growth of about

3 percent, even with two major shocks brought on by drought and conflict, respectively. In the period 2003/04 through 2005/06,[4] growth averaged 10.6 percent, almost twice as fast as the rest of SSA. The rapid growth since 2004 is attributable at least partly to the recovery in agriculture following the earlier years in which the rains failed, but also shows tentative signs of being more broad-based, although further data points will be needed to confirm such a trend.

1.8 Agriculture remains the dominant sector of the economy, accounting for about 45 percent of GDP, four-fifths of export revenue, and 85 percent of employment. Subsistence farming remains dominant in agriculture, with almost 90 percent of the area under cultivation devoted to it, and only a small proportion of agricultural output reaches the market. The share of industry in GDP has remained fairly steady over time, rising modestly from 11 to about 13 percent of GDP during the period 1996-2005. The service sector accounts for about 40 percent of GDP. During the period 1995/96-2005/06, average growth rates were roughly similar across the agriculture (5.0 percent), industry (6.0 percent) and service (6.3 percent) sectors.

Figure 1. Trends in Real GDP Per Capita



Source: World Bank (2006)

1.9 On balance, macroeconomic policy and outcomes were relatively stable over the period under review (1997/98-2005/06). The Government maintained a prudent macroeconomic stance through the successful completion in 2004 of an IMF arrangement under the Poverty Reduction and Growth Facility (PRGF). The period was characterized by low levels of inflation (under 10 percent), albeit with significant fluctuations, especially as a result of the drought of 2002/03. Stronger inflationary pressures emerged after 2004/05, reaching about 15 percent per annum, owing largely to the boom in the construction sector. Other signs of increased fragility in macroeconomic balance after 2004/05 include worsening trade and current account deficits, which were exacerbated by cutbacks in inflows from bilateral and multi-lateral partners after the 2005 post-election crisis. High levels of such inflows had sustained a high volume of public spending over the preceding decade without giving rise to major imbalances, but the picture changed abruptly as a result of the civil crisis following the parliamentary elections in 2005 (see Box 1). Despite the interruption, however, donor funding was gradually restored, improving macroeconomic balances.

Box 1. The 2005 Civil Crisis in Ethiopia

On May 15, 2005, the first openly- contested elections in Ethiopia's history were held. The elections were preceded by a series of unprecedented, open public debates between the ruling party and the opposition parties. The Government pledged its commitment to a free and fair electoral process, the sanctity of the votes, and dialogue between the parties. On election day, voting was remarkably peaceful, according to international observers, and voter participation was high. Official election results showed that the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) had retained a majority in Parliament, while the opposition had increased its share of seats in Parliament from 12 to 172 seats out of 546, and gained control of the Addis Ababa city government.

The unfortunate turmoil that followed the elections demonstrated the fragility of the nascent democratization process. External groups monitoring the elections (the European Union, the African Union, and the Carter Center) identified several areas where elections did not conform to international standards and the opposition parties began publicly disputing the result. Disturbances began in June, notably when many members of the largest opposition party, the Coalition for Unity and Democracy Party (CUDP, also known as Kinijit), boycotted Parliament and refused to take up the administration of Addis Ababa. The simmering tensions boiled over again in early November when during protests, clashes occurred between civilians and government security forces in Addis Ababa and several other cities, resulting in many civilian deaths. Thousands of civilians, including demonstrators, journalists, and key opposition leaders such as the CUDP's President and Chairman, were arrested and held.

Development Challenges

1.10 **Poverty**. Extreme poverty is pervasive in Ethiopia. The most recent household survey in 2005 indicated that about 38.7 percent of the population was below the poverty line. Poverty was somewhat greater in rural areas (affecting 39.3 percent of the population) where the majority of the population lives, while urban poverty was estimated to affect 35.1 percent of the population. The profile of poverty, in terms of what the poor consume and produce, underscores the centrality of agriculture in Ethiopia. Most of the population in rural Ethiopia depends on subsistence agriculture, but a growing population and the resulting subdivision of plot size exert severe pressure on land.[5] About one-tenth of households is landless, and almost two-thirds (65 percent) has less than one hectare (ha) to work with, which is not adequate to produce enough food for an average family.[6] Urban residents also face tough conditions, with nearly all households lacking at least one of the following: improved water, improved sanitation, sufficient living area, durable housing, or secured tenure.[7] In 2004, only about 36 percent of Ethiopians (an estimated 25 percent of rural and 92 percent of urban households) had access to safe water—lower than in any other country except Afghanistan.

1.11 **Drought and Conflict.** Historically, drought and conflict have inflicted frequent shocks on Ethiopia's economy, thereby exacerbating poverty in the country. Substantial areas of the eastern and southern lowlands have faced repeated droughts and occasional floods. A protracted drought in 1984-85 triggered a catastrophic famine that left more than a million dead. A wide range of conflicts, including local armed clashes, large-scale rebellions and regime changes in 1974 and 1991, as well as external warfare, has compounded climate-induced adverse shocks. In 1998, a war with Eritrea erupted and continued for two years, resulting in the loss of more than 100,000 lives. Since the end of the war with Eritrea, the only incidence of conflict with neighboring countries that has arisen was in December 2006, when Ethiopian troops entered Somalia and successfully ousted, with few casualties, the armed forces of the Union of Islamic Courts.

1.12 **The Role of the State**. Outside of agriculture, state-owned companies play a leading role in the economy; in addition, firms that are affiliated with the ruling political party have a significant weight. State-owned enterprises (SOEs) engage in telecommunications, air transport, hotels, and a broad range of manufacturing, including food, beverages, textile, leather, tobacco, rubber, plastic, and cement. Many former SOEs have been privatized, mostly small ones, but also several medium and large ones, such as the St. George Brewery and the *Lega Dembi* Goldmine, which was sold to Mohammed International Development, Research and Organization Companies (MIDROC), a major local conglomerate. Party-affiliated companies are considered private companies, even though in many respects they operate like SOEs. They include a large number of operating enterprises dealing *inter alia* with agricultural supplies, trading, cement and building materials, textile and garments, livestock and leather goods, exploration and mining, transportation, construction, consultancy, as well as insurance and banking.

NOTES

1. World Bank (2005).

2. The World Bank fiscal year runs from July through June.

3. Estimated average annual per capita income growth during 1962-2005 (in real, or inflation-adjusted, terms) stands at only 0.4 percent (World Bank, 2005).

4. The notation t/t+1 refers to Ethiopia's fiscal year, which runs from July 8 to July 7.

5.. Ellis et al. (2005).

6. See, for instance, Gebreselassie (2006).

7. UN Habitat (2007)

2. The Bank's Strategy and Program in Ethiopia

2.1 Ethiopia joined the World Bank Group in 1945. Beginning with two credits, for roads and the financial sector, respectively, from IDA in 1950, 103 credits and grants have been approved to date, totaling US$5.8 billion in cumulative commitments. As of the end of FY07 (June 30, 2007), the Bank's portfolio comprised 22 active projects with associated commitments of US$2.0 billion, making Ethiopia one of the largest borrowers from the World Bank in Sub-Saharan Africa (SSA).

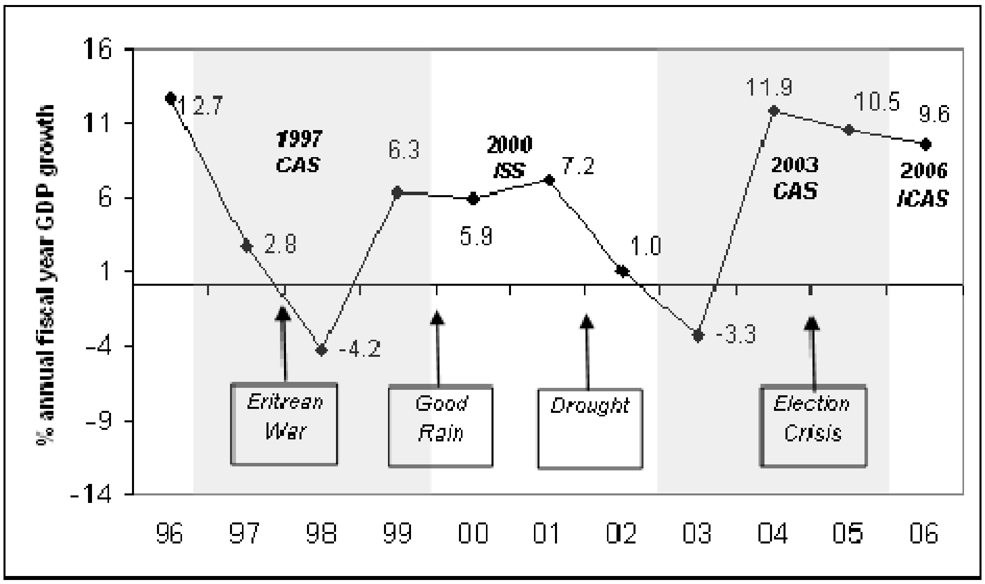
2.2 This CAE reviews the period July 1997 through June 2006 (FY98-FY06). A previous IEG evaluation (IEG, 2000) assessed the Bank's assistance for the 1992-1997 period and judged the outcome and sustainability of the Bank's project support in Ethiopia to be above average and its support for the Government's structural adjustment program to be highly satisfactory. During the 1992-97 period, the Bank provided support to the Government in its efforts to rehabilitate an economy ravaged by many years of Marxist policies and a civil war that had ended in 1991. Together with the IMF, the Bank also provided advice to the Government to help stabilize the economy and implement structural reforms in the early to mid-1990s. The Government's reform program included the removal of extensive external trade restrictions. The Bank was also a key partner to the Government in laying the foundation for longer-term growth and development, with support for health, education and infrastructure through sector investment and social fund projects.

2.3 This chapter reviews the main elements of the Bank's assistance program to Ethiopia during FY98-FY06, and assesses its relevance in the context of the Bank's overarching objective of supporting Government efforts to reduce poverty. The discussion of Bank strategic objectives over the evaluation period is organized by sub-period, each covered by a distinct Bank strategy document, in order to derive a set of Bank objectives that can be specified for the entire evaluation within which sub-period objectives can be adequately nested.

The Bank's Country Assistance Objectives

2.4 In assessing the relevance of Bank objectives during the evaluation period, an essential building-block is to assess how each country assistance strategy responded to the complex backdrop of climate-induced and other shocks (see Figure 2). Bank support to Ethiopia during FY98-FY06 was framed by two Country Assistance Strategy (CAS) documents (the 1997 CAS and the 2003 CAS), the 2000 Interim Support Strategy (2000 ISS), and the 2006 Interim Country Assistance Strategy (2006 ICAS).

Figure 2. Ethiopia: Strategic Timeline



Note: Fiscal year ending June 30

Source: World Bank data sources.

2.5 **The 1997 Country Assistance Strategy.** The 1997 CAS identified four thematic clusters, or "pillars" as its focus: (i) policy and capacity; (ii) infrastructure; (iii) sources of growth; and (iv) poverty and human development. The first pillar – policy and capacity – focused on maintaining a policy framework to stimulate economic growth and substantially reduce poverty. Results sought included helping the Government to achieve economic growth, specifically GDP growth of 7-8 percent per annum; private sector development (PSD); and capacity-building (Appendix D). No specific poverty reduction targets were established.

2.6 Bank support for the infrastructure pillar was directed at helping the Government to strengthen the transport, energy, and telecommunications sectors. Specific results were sought (e.g., road network to increase by 80 percent in 10 years; power generation to increase by 644 GWh and reach dependable capacity of 184 MW by 2002). Like the first pillar, the sources of growth pillar had the objective of helping the Government to focus on "areas/sectors that will be crucial to achieving GDP growth". These included agriculture and rural development, exports, and small and medium enterprises (SMEs). No precise monitoring targets were associated with these areas. Finally, the Poverty and Human Development pillar aimed at supporting the Government in strengthening human capital and providing direct and immediate benefits to the poor, with precise targets identified in the areas of nutrition, health care, education, women's status and others, but not for water supply.

2.7 Overall, the objectives and specific results sought in the 1997 Country Assistance Strategy were consistent with the Government's main goal of reducing poverty and were relevant to the country's needs for that period. Some pillars or components were, however, imprecisely defined, and the results sought in certain cases were not quantified. More importantly, environmental issues, which were a major concern for Ethiopia, were not addressed directly by Bank assistance. The Bank acknowledged the role of other development partners (DPs) in this area, implicitly leaving support for environmental management and protection to them.

2.8 **The 2000 Interim Support Strategy (ISS)** was developed in response to the recovery needs stemming from Ethiopia's two-year war with Eritrea and from the consequences of a severe drought in 1999. The Bank's assistance strategy included an emergency component to meet the country's recovery and rehabilitation needs and stabilize the economy. The strategy sought to: (i) address the immediate human, infrastructure and economic emergency, to set the economy back on a path of sustainable economic growth; (ii) tackle weaknesses in the management of the IDA portfolio, which was non-performing during the war; and (iii) engage longer-term Bank assistance in three areas of critical importance to the country's economy—food insecurity, the spread of HIV/AIDS, and resolving systemic weaknesses in Ethiopia's capacity to produce and deliver essential services. The objectives of the Bank's interim assistance were particularly relevant to the then-prevailing situation in the country. The 2000 ISS also provided important information on portfolio management in the key areas of Bank support and on other development partners' response to the emergency, as well as a discussion of possible risks to Bank strategy. However, no specific benchmarks of progress were indicated.

2.9 **The 2003 Country Assistance Strategy.** The 2003 CAS was based on the Sustainable Development and Poverty Reduction Program (SDPRP)—the Government's poverty reduction strategy. The major pillars of Bank assistance were: (1) enhancing pro-poor growth;

(2) enhancing human development outcomes by improving governance; and (3) reducing vulnerability. The first pillar aimed to support Government efforts to enhance both rural and urban pro-poor growth through programs to: (i) accelerate rural growth; (ii) foster an enabling environment for urban growth; (iii) support development of financial markets; (iv) promote rapid growth of exports; and (v) ensure continued stability of the macroeconomic framework. No precise monitoring targets were set for all pillars. thereby making evaluation open-ended in certain cases (Appendix D).

2.10 With respect to the Human Development pillar, the Bank's objectives were to support Government in: (i) improving delivery of education services; (ii) expanding access to health services; and (iii) improving access to clean water supply and sanitation. These were to be achieved by: (a) reforming public sector systems; (b) deepening and strengthening decentralization; and (c) empowering civil society. Finally, to help reduce the country's vulnerability to natural disasters as well as vulnerability of households, the Bank outlined the following objectives, guided by Ethiopia's poverty reduction strategy: to help (i) improve food aid delivery and other safety net programs; (ii) reduce vulnerability to terms of trade shocks; (iii) mitigate and reduce risks in vulnerable areas; (iv) enhance programs for HIV/AIDS prevention and control; and (v) provide increased attention to environmental issues. No precise targets were established against which to gauge progress.

2.11 In general, the objectives and results targeted in the 2003 Country Assistance Strategy (CAS) were based on and reflected SDPRP priorities, which were relevant to the country's poverty reduction, economic recovery, and human development needs. Perhaps owing to the focus on the distributional aspects of growth, insufficient attention was paid to a specific aspect of governance, namely the constraints on private sector development (property rights, labor regulations, and other investment climate-related issues including a "leveling of the playing field"). Also, several sectors or themes (e.g., gender and environment) were assigned only 'moderate' priority in the CAS (because, as noted in the document, those issues were considered to be already 'underway' in Ethiopia).

2.12 **The 2006 Interim Country Assistance Strategy** (2006 ICAS) was developed in the aftermath of the 2005 post-election crisis. It reflected a major shift in the Bank's strategic focus to governance and economic growth. Its main objectives were to help the Government: (i) deepen Ethiopia's 'core' governance program; (ii) provide basic services for the poor in a fair and accountable way; (iii) enhance the investment climate and raise investor confidence; (iv) increase agricultural productivity; and (v) develop infrastructure to facilitate the development of towns and growth corridors. The 2006 ICAS effectively supplemented the 2003 CAS, and embodied key results which the Bank sought to help attain and against which progress could be monitored, although they still lacked specific numerical targets (see Appendix D).

2.13 Based on the foregoing discussion of the various strategy vehicles during the review period, five key themes emerge to constitute Bank objectives for the evaluation period as a whole, while also reflecting Bank objectives under any one of the four vehicles applicable during the period: (i) promote pro-poor growth, (ii) advance private sector development, (iii) enhance human development, (iv) respond to the needs of post-conflict and emergency rehabilitation, and (v) improve governance. Clearly, the linkages and overlap among these themes can be substantial. For example, pro-poor growth is predicated largely on private sector development and human development. In turn, private sector development hinges at least partly on improvements in governance. Indeed, a key driver of PSD, the investment climate, is often viewed as a major facet of governance.

2.14 **Relevance of the Bank's Objectives.** Despite the lack of specificity in benchmarks, the main building-blocks of Bank assistance were relevant to the country's needs throughout the evaluation period. It is difficult to identify any major theme which (with the benefit of hindsight) should have figured in the Bank's objectives but did not, and vice-versa. The CASs and Interim Strategies developed by the Bank from FY98 to FY06 reflected successive efforts on the Bank's part to adjust to major developments and shocks—some outside its control or that of the Government. The 2000 ISS responded to the 1998 Eritrean war, which had overtaken the 1997 CAS. The 2003 CAS was developed in close collaboration with the Government and reflected the SDPRP. But the post-election civil crisis in 2005 once again required adjustments in the Bank's program, leading to the preparation of an ICAS in 2006.

2.15 While little criticism can be leveled at the relevance of the Bank's objectives, some shortcomings can be identified in various aspects of program delivery, particularly in the latter part of the evaluation period. The main strategic and/or tactical shortcomings include the lack of realism in implementation targets, which may in turn have reflected a shortage of open dialogue and consensus-building within the Country Team, a strong lending culture (hardly Ethiopia-specific, and likely driven by Bank Management's wish to realize IDA targets as a prelude to the IDA 15 replenishment) and an approach to governance which could have been deeper and more demanding. In the immediate wake of the 2005 crisis, the perception of certain development partners and country team members was that the Bank in-country was not distancing itself suffiently from the government, despite conscious management efforts *inter alia* to ensure neutrality in media statements and balance in its contacts as between the Government and representatives of the opposition. Of course, any criticisms of the way in which the Bank handled its response to the 2005 crisis are made with the benefit of hind-sight; in real time, how to position the Bank had to be decided upon in very difficult circumstances, so to expect that none of these issues should have arisen would have been unrealistic.

Lending and Portfolio Management

2.16 **Size of Commitment**. During the period FY98-FY06, the Bank committed to Ethiopia a total of about US$3.3 billion, compared to a planned high-case of US$3.4 billion envisaged under the 1997 CAS and the 2003 CAS combined. The shortfall in actual lending relative to the latter plans due to: wartime disruption of the 1997 assistance program; the post-election turmoil of 2005, which led to the postponement of the third Poverty Reduction Support Credit (PRSC); and the scaling-down and merging of planned agricultural and rural development projects, as well as projects involving the private sector and civil society. Part of the shortfall was made up by additional commitments made under the 2000 ISS and the 2006 ICAS. Overall, Bank commitments were provided for 33 operations and three supplementals.

Table 1. Ethiopia: Planned & Actual Lending Program by Bank Strategy Vehicle (US$ million)

	Base Case a/	High Case a/	Low Case a/	Actual b/
1997 CAS	1200.0	1650.0	750.0	769.2
2000 ISS	700.0	-	-	876.8
2003 CAS	1504.2	1784.2	420.0	1173.9
2006 ICAS	491.0	-	-	504.7
Total	**3895.2**	**3434.2**	**1170.0**	**3324.6**

a/Figures derived from various CASs and interim strategy notes.
b/ Figures derived from Appendix Table A3b

2.17 In spite of some shortfalls vis-à-vis plans, new lending averaged US$415 million per fiscal year during the period under review, almost double the volume of lending in the preceding eight years (FY91-98), which averaged US$212 million per year. Overall, in the 60 years since the first loan was made to Ethiopia, the Bank has committed a cumulative total of US$5.8 billion. The most recent eight years have been the most active period, accounting for over one-half (57 percent) of the cumulative total, despite periods of program disruption.

2.18 **Lending by Sector**. In terms of commitments, the largest proportion of resources was allocated to health and other social services (20.5 percent), which came under the combined CAS themes of: *Human Development*, *Pro-Poor Growth*, *Post-war Rehabilitation*, and *Vulnerability Reduction*. Transportation had the second-largest allocation (20.1 percent) for activities under *Reconstruction, Reducing Vulnerability*, and *Improving Infrastructure*. Public administration and the law and justice sector, which addressed *Policy and Capacity* and *Governance* themes, also received a substantial share of commitments (18.5 percent). While lending resources directly allocated for agriculture (6.1 percent), education (8.2 percent), water and sanitation (3.7 percent), and financial sector reform (1 percent) are noticeably small compared to the focus given them in the combined CAS documents, this can be explained by the shift to PRSCs and programmatic lending, which allowed substantial Bank resources to flow to these sectors through the budget (Table 2).

Table 2. World Bank Commitments by Sector (US$m), FY98-06

Sector	Commitments (US$m)	% of Total
Agriculture, Fishing and Forestry	203.8	6.1
Public Administration, Law, and Justice	613.8	18.5
Information and Communications	19.0	0.6
Education	274.3	8.2
Finance	23.7	0.7
Health and Other Social Services	682.9	20.5
Industry and Trade	231.0	6.9
Energy and Mining	484.9	14.6
Transportation	667.0	20.1
Water, Sanitation and Flood Protection	124.2	3.7
Total Commitment	3324.6	100.0

Source: World Bank Internal Sources

2.19 **Portfolio Performance**. The IEG outcome ratings of Ethiopia's closed projects were close to the average for the SSA Region (taking into account both outcome in terms of the realization of development objectives and sustainability) but below the Bank-wide average. During FY98-06, IEG reviewed 21 closed IDA-financed projects in Ethiopia, representing about US$1.95 billion in commitments (Table 3). Outcome was rated satisfactory for 72 percent of the closed projects (by commitments), below the Bank-wide average of 80 percent, but above the Africa Region average. Fifty-six percent of operations (again by commitment) was rated sustainable, compared to 61 percent for the Africa Region and 78 percent Bank-wide.

Table 3. Summary Evaluation Findings (Exit Year FY99-06)

Sector	Total Evaluated ($m)	Total Evaluated (No.)	Outcome % Sat ($)	Outcome % Sat (No.)
Ethiopia	1,946	21	72	57
AFR	24,381	650	67	64
BANK WIDE	**182926**	**2,528**	**80**	**75**

Source: World Bank Internal Sources

Economic and Sector Work

2.20 The volume and coverage of planned and completed economic and sector work (ESW) was uneven during the period under review. It was generally modest at the end of the 1990s, but increased in volume in the 2000s. From 1998 to 2000, the Bank proposed a limited number of analytical tasks. Following the post-conflict emergency assistance in 2000 and 2001, it placed greater emphasis on the knowledge agenda. On the whole, the share of administrative budget allocated to ESW for FY98-FY06 is estimated at 10.7 percent, slightly below that of the Africa Region, which is estimated at 12 percent for the same period (Appendix Table A5). However, this does not appear to have affected either the nature or quality of ESW, as significant co-financing was available from other development partners (DPs).

2.21 Bank ESW in Ethiopia primarily covered public sector management, human development, and private sector development. In support of the governance pillar, analytical work included the Institutional and Governance Review (IGR; 2006), and more recently the Joint Budget and Aid Review (JBAR; 2006). The IGR, which was funded by several DPs through the Development Assistance Group (DAG), supported the Government's SDPRP review process by analyzing the fiduciary framework as well as progress in decentralization and its impact on the delivery of services. The Public Sector Capacity Building Project (PSCAP; FY04) also provided resources for analytic work on policy and capacity.

2.22 Under the Pro-Poor Growth and Human Development themes, the following pieces of work provided diagnostic and practical recommendations for the country: the Risk and Vulnerability Assessment (2006), the Country Status Report on Health and Poverty (2005), and the report on education entitled Ethiopia: Strengthening the Foundation for Sustainable Progress (2005). In the Private Sector Development area, economic and sector work included the Investment Climate Assessment (2004) and the Value Chain Analysis (2006). In addition, the Bank's team, including staff specialized on the private sector, also conducted interactive workshops and organized study tours for local stakeholders.

2.23 In several cases, the analytical work was highly relevant and served as the basis for the Bank's dialogue with Government and project development. The social and political economy assessment conducted in the context of PSCAP preparation, for example, led to a 'high' risk rating for the project in recognition of the risks of not getting sufficient demand-side pressure. In addition, the Advisory Note of the *ad-hoc* Governance Mission (2006) reviewed the institutional underpinnings of the key economic and political issues, which led to a reassessment of the Bank's assistance strategy.

2.24 Several useful pieces of analytic work on agriculture were included in key ESWs that dealt with poverty, vulnerability and risk (including the Risk and Vulnerability Analysis, completed in 2006, and the Country Economic Memorandum of 2005). However, no significant agriculture or rural sector work was undertaken between 1997 (when the *Agricultural Growth* study was issued) and 2005 (when the report entitled, *Ethiopia - Well-being and poverty in Ethiopia: the role of agriculture and agency* was prepared)—a significant omission in view of the importance of agriculture to economic growth and income distribution, although there was some treatment of agricultural sector issues in more general economic work. The uneven distribution of analytic work on Ethiopia reflects an uneven distribution of administrative budget expenditures on the country across networks (Table 4), which indicated a disproportionately large role for PREM, in part perhaps because of the prominent role reserved for Bank support to the Government on PRSP and PER issues. In addition, ESW could have been used more effectively to address policy disagreements with the Government, and to reinitiate policy dialogue in greater depth after the 2005 civil crisis. Nevertheless, in general, the Bank's analytical work has been of high quality and the products of this work have been highly regarded by stakeholders.

Table 4. Analytical and Advisory Activities Delivered, by Network, FY00-FY06

Network	No. of Tasks	Total Cost (US$'000)	Percentage of Total
ESSD	5	944	11.0
HDN	8	1,718	20.0
INF	7	899	10.5
OPCS	3	261	3.0
PREM	30	4,337	50.5
PSDN	5	421	4.9
Total Delivery	**58**	**8,582**	**100.0**

Source: BW 8.1.4 and as of 05/13/06

Coordination and Partnership

2.25 There were over 44 development partners providing assistance to Ethiopia. On the basis of OECD DAC data available for FY01-

05,[1] it is estimated that IDA was the largest single development partner (DP), providing about 22 percent of the total of US$11.6 billion in ODA during the period 1998-2006 (Table 5).

Table 5. Sources of External Development Assistance

(Total Net ODA Disbursement; US$ million)								
Development partner	**1998**	**2002**	**2003**	**2004**	**2005**	**2006**	**Total 1998-2006***	**% of Total**
United States	53.2	156.4	567.8	402.3	608.6	315.8	2405.7	20.7
United Kingdom	13.0	43.7	62.9	147.1	75.5	164.6	557.8	4.8
Germany	63.5	40.6	47.6	126.1	49.9	56.8	486.4	4.2
Netherlands	36.8	34.8	57.2	57.5	58.7	49.8	395.9	3.3
Japan	26.1	50.5	56.5	33.3	34.2	57.9	385.3	3.3
Other Donors	185.5	197.1	273.9	295.4	387.2	404.3	2190.6	18.8
Total Bilateral	**378.1**	**523.1**	**1065.9**	**1061.7**	**1214.1**	**1049.2**	**6421.7**	**55.1**
IDA	55.9	464.3	246.6	476.3	247.3	331.6	2508.7	21.5
EC	115.0	116.6	149.1	112.7	163.5	194.4	1103.0	9.5
AfDF	30.6	78.2	10.9	63.9	118.5	138.0	519.8	4.5
Other Donors	81.1	115.2	121.5	91.1	166.5	233.6	1093.7	9.3
Total Multilateral	**282.6**	**774.3**	**528.1**	**744.0**	**695.8**	**897.6**	**5225.2**	**44.9**
TOTAL ODA	**660.2**	**1297.4**	**1594.0**	**1805.7**	**1910.0**	**1946.8**	**11646.9**	**100.0**

Source: OECD DAC (See Appendix Table A3a).

* Includes data for years that are not shown in the previous columns.

2.26 Donor coordination had two facets: sectoral coordination and collective engagement. Under the former, selected DPs coordinated their efforts in the education and health sectors through sector -wide approaches (SWAp), which also involved joint review missions, annual review meetings with the Government and monthly review meetings among donor groups. With respect to the latter, the Bank and other development partners initiated in 2000 a Development Assistance Group (DAG) to support the introduction of the Poverty Reduction Strategy Paper (PRSP). That partnership has since grown to include more than 40 members. The Bank, together with UNDP, has chaired the DAG from its inception. Since 2001, DAG members have used a pooled fund to support the development of capacity for monitoring and evaluation in the Ministry of Finance and Economic Development (MOFED), with notable progress towards the goal.

2.27 DAG members cited several success factors in the Bank's role in aid coordination in Ethiopia, among them the convening power, strong technical capacity, and placement of some key officers in the field, including the Country Director and a Procurement Officer. In addition, DAG members stressed the Bank's pivotal and catalytic role in coordinating direct budget support through PRSCs, including that of helping to build consensus among participating partners on policy reforms.

2.28 Under the coordination rubric, one of the most significant contributions of the Bank during the period FY98-FY06 was its support for the Nile Basin Initiative, a regional program involving nine countries—Burundi, Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Rwanda, Sudan, Tanzania, and Uganda. Since 1999, the Initiative has engaged the basin countries in intensive negotiations with the goal of providing for an equitable use of Nile waters. The Bank played an important technical and catalytic role in this process through dialogue with country leaders and support to the Nile Basin Strategic Action Program (SAP). Ethiopian Government water resources officials credited the Bank with helping to manage relations between the countries. At the time of writing, the Cooperative Framework Agreement of the initiative was expected to be signed by all members imminently.

2.29 Bank leadership in donor coordination also faced some challenges, particularly after 2005. In the aftermath of the election-related violence and detentions, key DPs suspended direct support for the federal government budget and decided to transfer resources directly to the district (*woreda)* level. The Bank had already been in the forefront of efforts to support funding requirements at the district level, initially through the Decentralized Service Delivery and Capacity Building Project (FY03) and PSCAP (FY04). After 2005, following internal deliberations, it pursued support for channeling funding to local communities through the Protection of Basic Services (PBS) project, which it saw as preventing a roll-back of the gains in human development outcomes in the aftermath of the 2005 crisis. In so doing, the Bank initially received the support of DFID and Canada, and later that of the EU, the Irish, and the AfDB. However, some bilateral agencies continued to withhold support from the PBS project on the grounds that project funds, their flow to district level notwithstanding, remained liable to "capture" by public officials, and that fiduciary safeguards were insufficiently effective. Nevertheless, most DPs remained committed to project funding in road construction, energy, communications, public sector reform and private sector development.

2.30 Coordination of approaches on governance also proved taxing. DP views were divided on how demanding DPs as a group should be with regard to governance reforms and in particular with regard to the feasibility and desirability of separating "economic" from '"political", a distinction that the Bank has traditionally made an effort to observe with its client countries, based on the Articles of Agreement. Some partners had no problem with an approach where it was left to bilateral institutions to pursue issues of political governance with the Government. But other DPs saw a strong relationship between bilaterals' effectiveness on such issues and multilaterals' willingness to recognize the interconnectedness of political and economic aspects of governance in the dialogue with the Government. They argued for all donors to work together as a team in order to exercise greater collective leverage on the Government, which had traditionally favored a more segmented approach to its dialogue with DPs.

2.31 In sum, for the most part the Bank played a strong and uncontested leadership role in aid coordination throughout the FY98-FY06 period. However, it was also confronted with serious challenges, particularly with respect to its precise role in the governance-related dialogue with the Ethiopian authorities during and in the aftermath of the civil crisis of 2005. Views on the way forward were split, even within the Bank. Some advocated distinguishing sharply between political and economic governance, and – based on the Articles of Agreement – restricting Bank country dialogue to the latter. Others, including the then-World Bank President and his close advisers, thought that the various aspects of governance were too intertwined for a meaningful operational distinction to be made. Whatever the merits or otherwise of each of the two lines of argument, the reality was that even on aspects of governance that were unambiguously "economic", the Bank met with very little success in exerting any leverage on the Government to address many of the issues, or even in sustaining a substantive country dialogue around them.

NOTES

1. Completeness of the data on disbursements, especially for international organizations, varies from year to year, resulting from deficiencies and/or time lags in the availability of data. For example, no disbursements are shown for IDA for 1999. In addition, the Government's view is that ODA volumes are significantly overstated by this source. This occurs in several country contexts, where data reported by donors often indicates larger volumes of support than is handled or tracked by governments (e.g. support for "technical assistance" contracted directly, often without the knowledge of the client country government).

3. Progress in Achieving the Objectives of Bank Support to Ethiopia

3.1 The Bank's over-arching goal throughout the period under evaluation was to help reduce poverty and improve human well-being. Bank support was planned and delivered against a backdrop of frequent shocks (some of these were exogenous, such as climatic vagaries; some conflict-related), as well as—but only for the last year of the evaluation period—civil turbulence in the aftermath of the 2005 elections. Frequently changing circumstances, partly induced by truly exogenous shocks, accounted for the large number of iterations in planned Bank assistance.

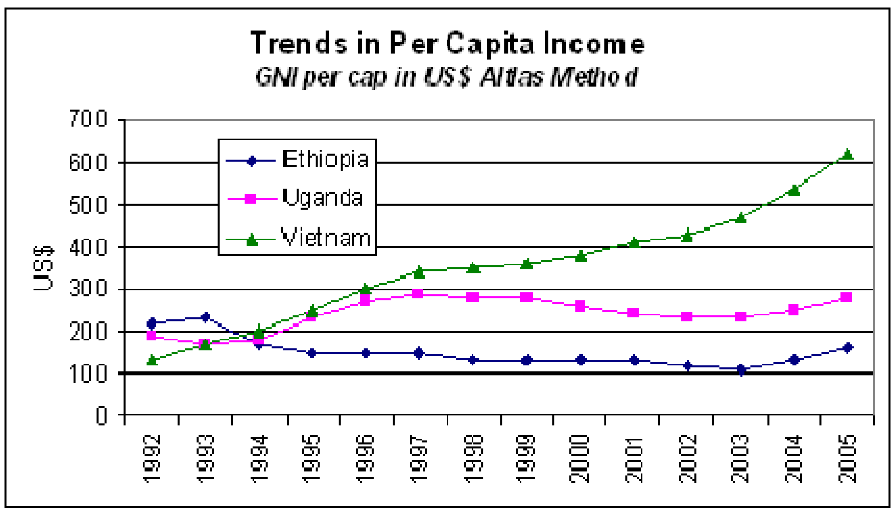
3.2 This Chapter reviews the outcomes associated with Bank support to Ethiopia during the period FY98-FY06. Following the discussion in Chapter 2, it focuses on five key themes that were central to the Bank's assistance program: (i) pro-poor growth; (ii) private sector development; (iii) human development; (iv) post-conflict and emergency rehabilitation; and (v) improving governance.

Pro-Poor Growth

3.3 One major Bank objective was to contribute to promoting pro-poor growth in both rural and urban areas by helping the Government improve productivity, the investment climate, financial sector and export performance, as well as infrastructure to support private sector development. Analytical and advisory activities (AAA) were undertaken to underpin policy dialogue and provision of Bank funding to support projects and programs.

3.4 **Growth.** According to official statistics, GDP growth averaged about 5 percent per year during the review period (FY98-FY06), implying a per capita annual average growth of about 2 percent. On the other hand, during FY04-FY06 growth averaged about 10.6 percent per annum, implying a per-capita growth of about 7 percent.[1] The high growth in the recent years was led largely by agriculture, for which the sector's contribution to growth is estimated at 6.3 percent per annum during FY04-FY06; this was followed by services, with a sectoral growth contribution of 3.3 percent per annum during the same period. The contribution of industry to growth during this period remained low at one percent per annum on average. The growth in GDP in these latter years is high by historical standards, and may reflect the response of the economy to a stable macroeconomic and improved policy environment, although there are doubts about the correctness of the growth data. Viewed from a somewhat longer-term perspective (since 1992 and in particular since the start of the period under review), the average growth of 5 percent per annum is short of the average 7-8 percent per year target set in the SDPRP (2002/03-2004/05) and anticipated under the 1997 CAS, but it is still non-negligible growth, especially in light of the shocks to Ethiopia's economy. Nevertheless, from a comparative standpoint (except for the last three years of the review period), Ethiopia's per capita growth record falls short of that of Uganda and Vietnam, both of which started from a lower base and have also seen upheaval.[2]

Figure 3. Trends in Per Capita Income: Ethiopia, Uganda, and Vietnam



Source: World Bank, World Development Indicators

3.5 **Agriculture.** The 1997 CAS and the follow-up 2003 CAS focused on pro-poor growth (in both urban and rural areas) by emphasizing accelerated rural growth and higher agricultural productivity. Specifically, Bank support was targeted at helping to achieve: (i) agricultural growth of 5 percent per annum; (ii) increased use of fertilizer and improved seeds; (iii) expanded domestic consumption and exports of livestock products; (iv) reduced regional variance in food prices; and (v) reduced proportion of farms which are more than half a day's walk from the nearest all-weather road from 75 percent to 50 percent over 5 years (beginning in 1998) and to 25 percent over 10 years. Among the planned instruments of support, the 2003 CAS added capacity- building for agricultural research (under the Ethiopian Agricultural Research Organization), as well as a pilot initiative to explore alternative institutional arrangements for the delivery of extension services.

3.6 Bank interventions in agriculture during the review period included the Agricultural Research and Training SIL (FY98), the Supplemental to the National Fertilizer Project (FY01), and the Capacity Building for Agricultural Services Project (FY06).[3] The National fertilizer Project was intended to foster the development of new markets and a more competitive and dynamic input supply system, but had limited results, because the Government adopted a set of institutional arrangements that undermined a key line of action under the project. The Agriculture Research and Training SIL helped improve the infrastructure for research and training. It was complemented by the Capacity Building for Agricultural Services Project, which supported extension and research throughout the country, but because the project came on-stream only in 2006, however it is still too early to gauge its impact. The major effort to increase production through improvements in the supply of fertilizer and the quality of seeds did not yield the hoped-for result. The heavy emphasis after the Eritrean war and the 2000 drought on CDD-type operations in disadvantaged areas may have helped improve food security at the local level, but it is not clear that the approach has done much to increase the resilience of household livelihoods and thereby enabled the communities to better cope with future disasters.

3.7 These elements of Bank support notwithstanding, performance in the agricultural sector has largely continued to reflect past trends, except for the last three years of the review period (2003/04-2005/06). Over the period under review, the growth of agriculture has been moderate at 5.7 percent per annum, but above the 5 percent, per annum growth rate envisaged in the 1997 CAS. During the last three years of the review period, the average was 14 percent per annum. While very encouraging, it is not yet clear to what extent the recent improvements in the growth of the agriculture sector reflect a rebound effect, and in what measure improvements can be attributed to the Bank's support. According to international data sources, agricultural productivity has essentially been flat and increases in production most likely have stemmed from an expansion in the area under cultivation, although government data sources dispute this conclusion.[4] UN sources (UN-Habitat, 2007) also suggest that food production per capita has declined during the period, making Ethiopia increasingly dependent on food imports. In many parts of the country, the pressure on land has been rising, with holdings repeatedly subdivided and becoming extremely small (now less than one hectare per household). At the same time, land degradation has become a serious issue.

3.8 On the other hand, the Bank has been working with a client with a long tradition of belief that the social, economic and institutional changes that are at the heart of development can and should be directed from the center. Despite this, there are signs that decentralization is gradually taking root. For example, while the idea of the "Farmers' Training Center" as the local locus of agricultural extension activity is often associated with a top-down view, recent field reports suggest that decision-making and implementation processes are increasingly being driven at local levels. Similarly, there are signs of greater government openness to ideas that may not originally have found much favor. For example, the more recent emphasis in Bank economic and sector work on areas of higher potential using the notion of growth corridors now appears to have some hope of gaining greater acceptance. But, if agricultural performance is to improve, it appears important to have greater openness to the role of markets in 'discovery' and the need for a reinterpretation of the role of the government as being supportive and facilitative of private activity rather than directing it.

3.9 **Poverty Trends**. The Bank supported poverty reduction in the urban and rural areas by seeking to help to improve productivity in agriculture and to create employment opportunities through an improved business environment. But although poverty reduction was the overarching reason for Bank assistance to Ethiopia, no specific poverty reduction targets were established in any of the four strategy documents, except that the 1997 CAS established as a target the doubling of per capita income over a 15-year period. Bank assistance that directly targeted poverty reduction included several social development projects and education and health programs.

3.10 **Rural Poor**. The outcome of Bank assistance for direct poverty reduction is difficult to infer, particularly since the period was marred by a combination of natural disasters and conflict. There is some doubt as to whether the productivity increases expected in agriculture occurred, probably because of the combination of shortcomings in agricultural policy and the frequency of drought. However, the contribution of the three inter-related Bank-supported projects on food security, pastoral community development, and emergency drought recovery made significant contributions in some areas, but in others the extent of the contribution was less clear. Rural poverty is also estimated to have declined during the period under review; based on fiscal year data, it is estimated to have declined from 45 percent of the population in 1999/2000 to 39 percent in 2004/05.

3.11 Although the poverty trends and improvements in key social indicators (especially in the rural areas) point to the success of government programs in this area, the extent to which this can be attributed to Bank efforts remains unclear. Furthermore, sustainability issues remain unresolved. In most developing countries, for example, farm and non-farm earnings reinforce each other to improve rural livelihoods. In Ethiopia, however, prospects for non-farm income have been limited, despite the low returns to farming. Recent community-level studies indicate that social attitudes act against change in many rural communities, and that the level of participation of rural households in non-farm activities is unusually low, compared to most other African countries. This phenomenon is explained, in part, by the land tenure policy that has prevailed in Ethiopia, which has created a sense of insecurity that deters diversification within rural areas as well as rural-urban mobility. The constraints posed by the policy have been significant, particularly in regions with unreliable rainfall, where the risk of drought is high and where non-farm activities could help to reduce the risk attached to farming by diversifying income sources. Beyond serving as a coping mechanism during periods of drought or other setbacks, cash generated by non-farm employment can also be used to raise farm productivity. In order to address the issue of insecurity more frontally, the Government initiated in 2003 a land certification program. Encouragingly, a World Bank-supported survey in July/August 2006 found that users assessed the process of land certification as likely to have a positive impact on agriculture.

3.12 **Urban poor.** As part of its strategy of supporting pro-poor growth, the Bank's goal was to support investment in urban centers in order to help generate more, and more labor-intensive, productive activity. The Bank supported the enactment of enabling legislation and capacity-building for municipalities under PRSC-I and PSCAP, but the expected outcomes have yet to materialize, in part because the extent of commitment to this on the part of the Government is not fully clear. In this regard, the 2007 UN Human Settlement Program asserts that "the [Government's] preoccupation with agriculture has been a factor behind its reluctance to address the glaring problems of urban Ethiopia, such as rising unemployment, deepening poverty, acute housing shortages, the fast deteriorating conditions of rental units and problems surrounding urban governance."[5] The UN report further notes that the problem of urban poverty is further exacerbated by poor service delivery. In Addis Ababa, "the city's per capita water consumption has fallen from 44 liters to 34 during the 1998-2004 period".[6] Contrary to these findings, however, Government documents suggest that on the basis of ongoing reform there has been progress in improving urban conditions. It is estimated, through labor force and household surveys, that during the period under review urban unemployment fell by about 2 percentage points to 13.5 percent and that urban poverty also fell by almost two percentage points to 35.1 percent. While noting the Government's contention, the problem of interpreting conflicting data and information from different sources on urban poverty makes it difficult to arrive at a definitive conclusion on this issue.

Private Sector Development

3.13 **Macroeconomic management.** A key objective of the Bank's country assistance strategy was to support the maintenance of a stable macroeconomic framework and regulatory environment in order to help foster private sector development. This was supported by efforts to help strengthen the broader business environment, including to help promote the development of infrastructure (and thereby reduce the cost of doing business and promote private investment). During the period under review, the Government maintained prudent macroeconomic management, with good performance under an arrangement under the IMF's PRGF during 2001-04. All the quantitative and structural performance criteria agreed with the IMF were met. Ethiopia also qualified for debt relief by attaining the HIPC completion point in April 2004. Bank support through the ERSC, ESAC and PRSC contributed to this outcome. However, the events in the aftermath of the 2005 parliamentary elections and subsequent suspension of donor flows led to some deterioration in macroeconomic indicators, including an increase in inflation, by the end of the period under review.

3.14 **Investment climate**. Efforts by the Bank Group to help Ethiopia improve its investment climate were initially led by the IFC, which initiated attempts over several years to promote private sector investment projects without much success.[7] IFC sought to provide advisory services (with no *a-priori* targets) to support improvements in the business environment for the private sector (Box 2). The IFC established a field office in Addis Ababa in 1997 and assigned a senior investment officer to the office. But given the continuing uncertainty in the environment and limited opportunities, the investment officer was withdrawn in mid-2000. Following a decade of support, the IFC reported that there appeared to be little progress in the effort to improve the investment climate and private sector development, in part because of persistent political interventions and in sufficient government commitment (Appendix C). In contrast, Government sources point to the African Investor Survey conducted by UNIDO in 2005, in which Ethiopia is cited as one of the top FDI destination in Africa.

3.15 IDA also undertook direct interventions to help improve the investment climate in Ethiopia. These included assistance provided through adjustment programs (now referred to as development policy lending) or budget support, and analytical work. With Bank assistance, some progress has been made in business licensing, customs clearance, the overall tax regime, labor regulations, and other business regulations. There has been a reduction in the time and cost to register a business from 44 days and US$400 in 2003 to 16 days and US$70 in 2006. Similarly, the time taken to clear customs for imports and exports has been reduced, as has the time needed to hire and fire employees. An Investment Climate Assessment (ICA) in 2006 also reported substantial improvements in the areas of tax administration, access to finance and access to land insofar as constraints to business are concerned. Nevertheless, efforts to secure improvements in the investment climate suffered a major blow in the aftermath of the 2005 elections, which resulted in substantial negative publicity abroad and affected prospective investors' perceptions. These setbacks notwithstanding, Government sources point to increases in the flow of FDI even in the aftermath of the 2005 elections crisis. The Ethiopia Investment Agency reports an increase in FDI inflow from 11 billion Birr in 2002 to 93 billion Birr in 2006, although it is not clear to what extent the new investment is diversified across sectors. The information is corroborated by IMF Balance of Payments sources, which indicate that net FDI flows increased from about US$123 million in 2002/03 to US$365 million in 2005/06.

Box 2. IFC Activities in Ethiopia

Advisory Services. Twenty IFC Advisory Services projects were completed over the review period. IFC projects contributed to the design of reforms in the regulatory environment and financial sector, including a sector-specific strategy in leasing. However, there was less progress in other areas. Efforts to sup-port development of the stock exchange in 2000 were abandoned owing to an unready Ethiopian market and lack of response and support from the regulators. By the time IFC engaged in the Ethiopia-Djibouti Railway concession, the government was already committed to its timetable and approach and was unwilling to accommodate IFC's advice, even though it reflected best practices in other parts of the region.

Investments. No direct IFC investments were made in Ethiopia, although through its Africa Project Development Facility (APDF) indirect IFC financial support was provided to four subprojects during 1999-2000 in the flower, silk manufacturing, and leather garment industries. Despite efforts to find projects to finance directly, IFC did not succeed in realizing any investments due to the persistently unfavorable business environment, including restrictions on foreign participation in the banking sector and on foreign currency borrowing. While two investments were approved between 1998 and 2002, both were cancelled before becoming effective. In comparison, IFC made direct investments of US$656 million in Egypt, US$227 million in Kenya, and US$57 million in Uganda over the same period.

Source: Independent Evaluation Group – IFC (see also Appendix C)

3.16 The Bank's dialogue with and support to the Government with respect to privatization and competition policy are areas in which IEG's assessment has been constrained by uncertain interpretations of the outcomes. With respect to privatization, up to 2005 the pace was slow and the policy dialogue was sometimes contentious. About 200 (mostly small) enterprises were privatized between 1994 and 2005, with another 130 state-owned enterprises (SOEs) in the pipeline. But key sectors such as finance, telecom, power, transport, and wholesale and retail distribution continued to be dominated by SOEs and protected from foreign investment and competition. The Bank continued its efforts in the post -2005 period by supporting the introduction of streamlined procedures and guidelines on valuations and deferred payment in directives issued by the Ministry of Trade, with the hope of facilitating the acceleration of the privatization process.

3.17 Although this evaluation covers only the period through FY06, it should be noted that competition and land tenure policies are still among the major issues requiring attention, as progress has been very slow. The Competition Commission and its Secretariat were established in 2006, but the Commission reviewed only 23 cases by the end of 2007. The majority of the cases related to unfair trade practices, with only a limited number relating to anti-competitive business practices and preferential treatment by the Government, of party-affiliated companies, a frequently-heard complaint. Although the Commission can, on its own initiative, investigate such allegations, it has generally elected not to do so. In addition, the composition of the Commission, which provides for heavy government representation, is not appropriate for a technical body, and its private sector members have not yet been named.

3.18 Access to land and credit remain major constraints on business expansion. In the case of land, leases are costly and registration slow, leased land cannot be used as collateral for loans, and disputes over leasehold rights are common. The pace of policy dialogue on land reform strategy and on the management of the land market has recently accelerated, although many of the agreed policy and institutional reforms have yet to be implemented. Access to finance also remains a major problem for all but the largest businesses, reflecting weaknesses and lack of competition in the financial sector.[8] Nonperforming loans in commercial bank portfolios have been reduced, but remain high at about 20 percent. New entry from domestic private banks is allowed, but not from foreign banks, and the state-owned Commercial Bank of Ethiopia dominates the banking sector.

3.19 **Infrastructure**. Infrastructure was a common theme in all four strategy documents put forward by the Bank during the period under review. Bank strategy highlighted the role of infrastructure in reducing the cost of doing business and facilitating private investment. Bank support has been mainly in the areas of transportation (mostly in the roads sector), water and sanitation, and energy. This support was planned and delivered with a goal of improving service delivery in the context of decentralization.

3.20 Assistance to the roads sector resulted in an increase in road density from a very low level of 27 kilometers per 1,000 square kilometers in 2000/01 to 35.9 in 2005/06, a significant increase, although density is still well below the African average. The Bank-supported Road Sector Development Project (FY05) has been one of the most successful projects in the Bank's portfolio, resulting in 1,264 kilometers of new roads added. Additional rehabilitation of 70 kilometers of the 140-kilometer Gewane-Mille road was also undertaken with Bank support. Between 1997 and 2006, the share of the network in good condition increased from 17 percent to 60 percent for paved roads, resulting in a reduction of vehicle operating costs by 16 percent and journey time by 25 percent over the period. The roads program is moving toward meeting most of the progress benchmarks outlined in the 1997 CAS. The proportion of inhabited areas more than 5 km from an all-weather road decreased from 79 percent in 1997 to 71 percent in 2006, while the proportion of the rural population living more than 2 km from an all-weather road decreased from 91 percent to 87 percent during the same period.

Human Development

3.21 Bank support for human development in Ethiopia was central to its objective of helping to reduce poverty in the country. Under the 2003 CAS, the human development objectives were to help Ethiopia: (i) expand access to health services; (ii) improve the delivery of education services; and (iii) increase access to clean water supply and sanitation. Targets were defined for all three areas. The Bank sought to meet these targets by supporting Government efforts to improve the coverage, quality, and equity of service delivery. The support was provided through analytical work, sector dialogue, and lending. The lending program initially took the form of two large SWAps in education (1998) and in health (1999), which were prepared jointly with other development partners under the aegis of the Government. However, from 2003 the Bank's assistance relied increasingly on programmatic support in the form of PRSCs rather than (sector) investment operations. The move to budget support was aimed at facilitating greater flexibility and timeliness of Bank support, but it is not clear what effect it had on the intensity of sector work and dialogue.

3.22 **Access to health services**. According to the UN Human Development Report,[9] Ethiopia ranked 169 out of 171 countries in access to health services in 1998. There was little perceptible change in the ensuing eight years, as Ethiopia ranked 170 out of 177 countries in 2006. There was a small improvement in life expectancy at birth, from 48 years in 1994 to 51 years in 2005 (UN estimates). Similarly, based on a study conducted by the Government and the UNDP in 2004 , it was concluded that most of the millennium development goals

(MDGs) related to health were unlikely to be achieved. The improved GDP growth since 2005 and progress on the health front discussed below, however, do raise greater prospects for meeting the MDGs if the progress made so far can be sustained.

3.23 There have been some improvements in social indicators consistent with the benchmarks established in the 1997 CAS, albeit from a very low base. Public health expenditures per capita rose from US$5.60 in 1999/2000 to US$7.10 in 2004/2005, allowing access to primary health care (PHC) services to increase from 45 percent of the population to 70 percent over the period (a level targeted for 2002 in the 1997 CAS). IEG's evaluation work on the Health Sector Development project and the Multisector HIV/AIDS Project (MAP) suggests that the expansion in coverage was indeed achieved, but investments in infrastructure were urban-biased with rural areas underserved, and much of the infrastructure remained non-functional because of the lack of human resources and essential supplies. The contraceptive prevalence rate also increased from 8.1 percent of the adult population to 14.7 percent over the period 1999/2000-2004/2005 (compared to the target of 15-20 percent by 2004 in the 1997 CAS), helping reduce total fertility from 5.9 to 5.4 over the period. Similarly, there have been reductions in maternal and infant mortality, and immunization coverage has increased substantially (Table 6). During the second half of the period under review, Bank support for the health sector was also provided through the PRSC, and the performance of the PRSC with respect to support to human development activities was generally rated substantial.

3.24 Looking forward, the agenda nevertheless remains a formidable one, as only one of the three quantifiable Bank Group targets in the 1997 CAS was attained (see Appendix D). With respect to other aspects of healthcare services and health outcomes, since Bank support did not specify in most cases the targets sought, the outcomes associated with Bank interventions can only be judged against global targets such as the MDGs. Consequently, it may be concluded that some indicators, such as maternal, child, and infant mortality, have improved but are still at distressingly high levels. In terms of service delivery in health, shortages of staff in rural areas continue to be a concern, despite recent increases in employment in some health worker categories, including nurses. In addition, health centers are still often short of essential equipment and supplies, making utilization and coverage rates (based on visits and consultations) at best incomplete proxies for outcomes. Regional differences remain significant, both in access/availability and quality standards, resulting in highly unequal outcomes. Furthermore, immunization rates, though rising, remain low (as far as can be established subject to the paucity of the available data). Finally, two-thirds of the population is exposed to malaria; government figures indicate that about 12.5 million bed nets were distributed in 2006, covering about 6.2 million households (out of the estimated 10.3 million households).

Table 6. Achievements in the Health Sector

INDICATOR	1999/ 2000	2004/2005
Public Health Exp. (US$ per capita)	5.6	7.1
PHC Service Coverage (%)a/	45	70
Contraceptive Prevalence Rate (%)	8.1	14.7
Total Fertility Rate	5.9	5.4
Maternal Mortality (/100.000)	871	673
Infant Mortality (/1000 births)	97	77
Under -five Mortality (per 1000)	167	123
Underweight Children (%)	47	38
Immunization Coverage (%)		
DPT3	21	32
Measles	27	35

Source: DHS - Demographic and Health Survey 2000/2005
a/ PASDEP - Plan for Accelerated and Sustained Development to End Poverty

3.25 **Education services**. The objectives of Bank assistance for education were translated into precise targets, at least in the 1997 CAS (Appendix D). They included an increase in the primary Gross Enrolment Rate to 50 percent by 2002 and a reduced male/female differential in enrollment. Following the resumption of lending under the 2000 ISS, new activities in support of education were limited to rehabilitation and construction of school facilities; no performance indicators were identified, nor specific targets sought. Explicit objectives for education under the 2003 CAS included improved delivery of services in terms of coverage, quality and equity as a result of Bank support through the PRSCs.

3.26 Primary education did post improvements in coverage and equity, quality, and efficiency (Table 7). First, the coverage became more equitable: gender gaps in primary school enrollment have remained large but are declining, perhaps owing to the increasing availability of female teachers. Enrollment in the most underserved regions moved upward, and more secondary schools were constructed in rural areas. Second, education quality indicators began to show improvement, with more qualified teachers at work and more textbooks for students in some regions. Student-to-teacher ratios leveled off, after large increases throughout the 1990s. Third, the system became more efficient, with a discernible decrease in dropout and repetition rates.

Table 7. Trends in the Education Sector

Indicator	1999/ 2000	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004/ 2005
FINANCING						
Education Share of Total Public Exp (%)	10	14	15	17	21	20
Primary's Share of Education Budget (%)	61	63	66	56	61	65
ACCESS						
Primary GER (1-8)	51	57	62	64	68	79
Female		47	51	54	59	71
Male		67	72	75	77	88
Secondary GER (9-10)		13	17	19	22	27
Female		11	14	14	16	20
QUALITY						
Pupil/Teacher Ratio (Grade 1-8)	64	64	63	64	65	66
Certified Teachers Grades 1-4 (%)	90	97	96	97		99
Student/Textbook Ratio			3:1			2:1
EFFICIENCY						
Grade 1 Drop Out Rate	30	28		29		23
Primary Drop Out Rate	19	18	17	19	14	12
EQUITY						
Gender Gap GER Primary		20	21	21	18	17
Gender Gap GER Secondary		2		5	6	7
Primary GER in Most Underserved Areas	9	11		15		17
Share of Female Primary Teachers	28	30	31	31		36

Source: ESDP Documents; FMOE Statistical Annual Abstracts

3.27 Improvements notwithstanding, issues of quality and equity still remain, although the Bank (through the PRSCs and the PBS project) and other DPs have continued to encourage the Government to direct increased resources to the sector. Large class sizes (66 students per teacher at grades 1-8) and shortages in textbooks and teaching materials persist and need to be addressed. More secondary schools have been constructed in rural areas, but their distribution remains heavily skewed toward urban centers. Enrollment in post-primary education is increasing, but the gender gap remains a challenge. Enrollment varies considerably across regions, with the national average almost five times higher than that of the two lowest regions (Afar and Somali). Evidence from higher education also suggests quality issues as, for example, the percentage of faculty with doctorate level education has been declining. The Bank, in its analytical work and sector dialogue, raised the right flags, pointing to the need for a phased and prioritized approach to education expansion, but ultimately supported the Government's rapid approach (Box 3).

Box 3. Striving for Quality in Education

In the face of unprecedented demand for primary schooling, the Government might have achieved more balanced expansion—that placed equal stress on the quality of services being delivered as it did an access alone—by reallocating budget savings from lower construction costs, moving to multi-grade classrooms where student-teacher ratios were very low, and relying on less costly, less educated, but still qualified teachers to alleviate the pressure on over-crowded classrooms. By shifting the resources freed up from a reduction in construction costs and increasing spending on textbooks, learning materials, and teacher support, the quality of classroom learning might have improved, at little cost to the continued growth of the system. Such changes are now underway, albeit several years after they might have begun.

The Government's commitment to expansion and its success in accomplishing it is commendable. Nevertheless, more prudent use of resources, with a larger share of the budget dedicated to improving—or even just maintaining—quality as proxied by section size, availability of learning materials, etc., might well have resulted not only in more students in school, but in better learning results and greater internal efficiency as well.

Source:Staff Report

3.28 **Water and sanitation**. The Bank's goal of supporting the Government's efforts to increase the population's access to clean water and improved sanitation appears to have had limited success. The Bank supported reform in the water and sewerage sector through a Water and Sanitation Project approved in FY04. Although the project is still under implementation, the outcome that has been associated with Bank support, at least thus far, is difficult to assess because of differences in definition of access and data from various sources. The percentage of population with sustainable access to an improved source of water, a key Millennium Development Goal (MDG), is estimated to have declined marginally from 23 percent in 1990 to 22 percent in 2006, according to the Human Development Report.[10] This puts Ethiopia in last place among 177 countries for which information is available.[11] Similarly, per capita water consumption by residents of Addis Ababa is estimated to have fallen by a quarter between 1998 and 2005.[12] Government data, in contrast, suggest that the percentage of households with access to water at the national level increased from 23.7 percent in 1998 to 35.9 percent in 2004. The Human Development Report has estimated that in 2005 only 13 percent of Ethiopians have regular access to improved sanitation, which places Ethiopia ahead of only two other countries.

3.29 In conclusion, progress in achieving the objectives sought by the Bank in the area of human development is significant in terms of outputs, but uneven in quality and distribution across gender and regions. There has been notable progress in achieving Bank objectives with respect to coverage of health and education services, more uneven progress in terms of equity, and emerging but still-limited progress in terms of quality and outcomes. Service delivery expansion has been pro-poor, pro-rural and—albeit to a lesser extent—gender-inclusive. The expansion of service delivery has reached many rural areas, but the mode of delivery and choice of service providers have not been optimal. Furthermore, there is scope for improving gender equity. The Bank has recently (World Bank, 2007) completed a detailed ESW on gender, which may form the basis for dealing with gender issues in the near future.

Post-Conflict and Emergency Rehabilitation

3.30 The Bank responded to the needs of Ethiopia following the two-year war with Eritrea and the consequences of the severe drought in 1998/99 by developing the 2000 Interim Support Strategy. The objectives of Bank assistance for post-conflict rehabilitation were to: (i) help address the immediate human needs of a war-ravaged population; (ii) support reconstruction of critical infrastructure that had been damaged, especially roads; and (iii) help restore and consolidate macroeconomic stability through foreign exchange support and basic policy reforms. The program included medium-term Bank support in three key areas—improving food security; preventing and controlling HIV/AIDS; and addressing systemic weaknesses in Ethiopia's capacity to produce and deliver essential services. As discussed in Chapter 2, the instruments used for achieving these objectives were three emergency credits: Emergency Demobilization and Reintegration Project (EDRP), Economic Rehabilitation Support Credit (ERSC), and Ethiopia Structural Adjustment Credit (ESAC). Much progress was made with respect to the first two objectives through the ERP and EDRP. Progress was more modest with respect to the third objective, where support through the ERSC and ESAC helped stabilize the postwar economy but achieved little else.

3.31 **Post-Conflict Emergency**. The EDRP achieved most of its objective of demobilizing and reintegrating veterans. Of the targeted 150,000 ex-combatants, over 148,000 (98.6 percent) were demobilized and reintegrated into their home communities between 2000 and 2003. EDRP provided cash payments to veterans according to their length of service and severity of their injuries. It also provided training, reintegration manuals, a data bank, a claim response mechanism, as well as six Prosthetics and Orthotics Centers. The regional governments provided matching resources, including land, houses, and jobs. Between 2001 and 2004, 9,200 veterans were reported to have secured full-time jobs and some 114,000 obtained at least temporary employment. Similarly, in the absence of specific targets, the ERP achieved the main goals, including the following results:

- Of 68,038 internally displaced households, 66,640 were supported.
- Of 71,000 deportee households, 66,030 were supported.
- Of 85,000 families of deceased combatants, 77,054 were supported.
- Of 18,429 rural dwellings destroyed, 16,633 were rebuilt.
- Cash was provided to help rebuild homes and socio-economic infrastructure (schools, health centers, water points, power connections and administrative setups) in 14 border *Woredas* in Tigray and Afar regions.

3.32 Although the original closing date of December 2003 for the operation was extended to allow for completion of activities, the overall outcomes of the projects were found to be timely and satisfactory. The ERP closed on December 31, 2006, and the EDRP on June 30, 2007. In the case of ERP, the de-mining and road rehabilitation components took longer than expected. Surplus funds in the EDRP project were transferred by amendment to ERP. The need to complete construction of the Prosthetics and Orthotics Centers delayed the completion of the EDRP. Overall, the EDRP and the ERP projects were highly appreciated by stakeholders, both in Addis Ababa and in Mekele, the capital of Tigray and the region most ravaged by the war.

3.33 Much more limited progress was achieved under the adjustment credits (the ESAC and ERSC), which aimed primarily at promoting private sector development while supporting stabilization and restoring public services after the war. An internal World Bank quality-at-entry review noted that the use of a single-tranche disbursement mechanism did not, under either operation, promote sustainable reforms. In addition, neither operation addressed financial sector reform issues or defined and set up a monitoring and evaluation (M&E) framework. An IEG Review also rated the outcomes of both projects as moderately satisfactory and specifically noted that an outcome rating of moderately unsatisfactory applied to the PSD component of ESAC because the implementation of 9 out of the 10 sub-components of the operation remained incomplete.

3.34 **Food security.** The Bank's objectives were to help reduce the number of people exposed to the risk of famines and other calamities, as well as to help mitigate the potential impact on those who remain vulnerable. No specific benchmarks or targets against which to gauge progress were established in the 2000 ISS or the follow-up 2003 CAS, which focused on reducing vulnerability. The core of the Bank's strategy involved support for reforming food aid delivery systems, including fiscal transfers to sub-regional agencies and, through project support, raising farm productivity, diversifying crop outputs and expanding the range of assets available to the poor, including financial savings.

3.35 The principal instruments used by the Bank to advance its food-security related goals during the review period were a series of projects, notably the Emergency Recovery and Rehabilitation operation (2001), the Emergency Drought Recovery operation (2003), and the Productive Safety Nets APL (2005). Initially, the Bank was essentially in reactive mode, responding to drought or flooding by helping to develop income-generating activities or collective assets in order to help vulnerable households cope. The approach in the Productive Safety Nets project became more proactive, providing assistance to communities at risk with income support before disasters struck. The project also introduced restoration and rehabilitation of the environment as the major element of the local public works.

3.36 In terms of the outcome, the partial evidence available showed small improvements as a result of these interventions, as indicated by an impact assessment of about 3,600 households carried out in the state of Amhara. The assessment indicated that in the two years following the village-level interventions, average household incomes rose from 2,800 birr (US$320) to 3,000 birr (US$347), an increase of 7 percent in nominal terms. The share of households with income below that level fell from 72 percent to 69 percent. However, the income gains were likely driven by gains in crop production in the years immediately preceding, which in turn can be attributed to weather, casting doubt on the real impact and sustainability of the programs.

3.37 In addition, many of the interventions planned by the Bank were not implemented due to disagreements between the Bank and the Government on the appropriateness of reform measures. Consequently, progress toward the goals of raising productivity, diversifying crops, and increasing financial assets was modest. Meanwhile, most rural households regarded the rising pressure on the limited land resources as the most serious threat to their livelihood.[13] Similarly, soil erosion, fertility decline and deforestation were cited among the top 10 reasons for worsening livelihood conditions. Furthermore, the scope for pursuing off-farm sources of income was limited. The prospects for internal migration and the sale of family plots are restricted as they are subject to administrative decisions under the control of local officials. Without the option of selling family plots when they move, most households have little wherewithal to meet the initial relocation expenses or start-up investment costs.

Improving Governance

3.38 **Bank objectives.** Prior to the crisis following the 2005 elections, the Bank supported the Government's effort for better governance through assistance to: (i) upgrade the management of core public organizations; (ii) support decentralization to move decision-making closer to the people; and (iii) empower civil society to enhance accountability of public agencies through increased demand for good governance. Substantial resources were devoted during the period to analytical work and policy dialogue, including a series of Public Expenditure reviews (PERs), a Country Procurement Assessment Report (CPAR), an Institutional and Governance Review (IGR) and, more recently, a Joint Budget and Aid Review (JBAR), as well as several studies covering decentralization, urban service delivery, and capacity-building. In addition, the development policy lending operations (ERSC, ESAC, PRSCs) and investment operations (PSCAP, CBDSD) were used to provide financial and technical support. These efforts are discussed in detail below.

3.39 **Reform of core public services**. Support for public sector reforms was reflected under Bank support for governance reform, highlighted especially in the 2003 CAS (see Appendix D). The objective was to help restructure and improve public services at the three levels of government through assistance for: (i) the passage of enabling legislation for *woredas* and municipalities (excluding expenditure and revenue assignments); (ii) adoption of key legislation on financial and personnel management; (iii) setting up arrangements for fiscal transfers between the different tiers of Government as well as improvement of own-revenue mobilization capacity at the level of the municipalities and *woredas;* (iv) reform of the public finance management system; and (v) development of a multi-purpose capacity-building grant program for all levels of Government.

3.40 The results varied across components. With the support of the Bank through the Public Sector Capacity-Building Project (PSCAP, 2004) and the PRSCs (2004, 2005), progress was made on public financial management (PFM), including implementation of a comprehensive budget framework and fiscal reporting systems, and improved accounting and management information systems at the federal and regional levels. A system of intergovernmental transfers based on needs and performance was designed and put into place, as was the creation of municipalities and devolution of taxing authority.

3.41 However, the capacity-building support from the Bank, which was directed by a 'supra' ministry with multi-sectoral coordination responsibilities, suffered from the strain of complexity in design and over-ambition of scope, as staff at all tiers of government was preoccupied by the pace and magnitude of the required change. The Government developed a new remuneration policy and performance evaluation system, but did not put them into effect. Similarly, Bank support for judicial reform provided training and helped enact several new pieces of legislation, but it is unclear whether the reforms have led to improved judicial independence or better legal interpretation.

3.42 **Decentralization.** Bank support for decentralization has arguably contributed to political stability and better quality of overall governance in Ethiopia, by helping to bring about more transparent and objective inter-regional allocation of resources. Given the obstacles to working with civil society (see below) and dealing with accountability issues, this area was probably the most promising to pursue and the Bank was right to do so. The formal framework setting out decentralized responsibilities for service delivery and fiscal transfers has become better delineated. The Bank helped establish a set of institutional arrangements for examination and discussion of options and for evaluation of interregional transfers already in place. Transfers of resources to the regions have increased substantially, allowing regional authorities to recruit staff and deliver more services.

3.43 But there remains significant room for improvement. First, the degree of local autonomy with respect to use of funds and modality of service provision is still limited and uneven across regions. Second, one indication of progress identified by the Bank is an increase in accountability of local government resulting from elections of local public officials. However, local elections have been postponed many times in the past, including most recently with the deferral of local elections originally scheduled for 2006. Thus, a key outcome sought by the Bank with respect to improved autonomy and accountability of local governments could not be attained within the review period, and recent case studies indicate that service provision at the local level continued at the end of the review period to be rooted in the traditionally authoritarian political, bureaucratic and social cultures.

3.44 **Empowerment of civil society**. The Bank undertook, during the period under review, good preparatory work that sought to strengthen accountability of the state through participatory mechanisms outside the three branches of Government. The program envisaged an expanded role for civil society, supported by the Bank though capacity-building and participation of nongovernmental organizations and communities. However, in spite of the well-prepared plans, implementation of the program by the Government was not successful, resulting in weak outcomes. Following protracted discussion in light of the limitations on the Government's buy-in, the originally-planned civil society capacity-building project was scaled down and incorporated into the PBS following the 2005 crisis.

3.45 **Conclusion.** In summary, Bank assistance to Ethiopia under the rubric of governance was associated with some favorable changes, notably in the areas of public financial management and decentralization. But progress in governance reforms relating to accountability and citizen empowerment was much more limited, and the Bank faced major difficulties in persuading the Government to move ahead with reforms in these area. In addition, certain governance concerns (on the part of the Bank and other DPs) that have prevailed for many years remain unresolved. One such concern is the dominance of a "party-state"—an aspect of governance that some consider to be in the "political" realm and thus outside the Bank's mandate, but that clearly affects the effectiveness of Bank support to Ethiopia. Other similar concerns include public sector control of, or restrictions on, key economic assets, goods, and activities (for example, land, fertilizer, foreign exchange, and entry into key industries), as well as the policing of speech and behavior by local officials and the practice of '*gimm-gemma*' (ritualized shaming) in open public meetings, where individuals are required to criticize the actions of others and to confess to their own failures.[14]

NOTES

1. Some observers assert that official data on growth rates in recent years, especially with respect to agriculture, are over-estimated. The Bank and other agencies are currently conducting surveys to get more reliable estimates of agricultural growth.

2 In FY93, the domestic currency for Ethiopia was devalued by 142 percent and subsequently allowed to further depreciate until FY95. Therefore, Ethiopia's per capita income in US$ (using the Atlas Method) during this period is subject to significant caveats in terms of the appropriateness of the comparison with those for Uganda and Vietnam.

3. Two irrigation projects near Lake Tana were also appraised by June 2007. They have been delayed by on-going dialogue on the Nile Basin Initiative.

4. The Government notes that on the basis of data from the Central Statistical Agency (CSA) of Ethiopia, the area cultivated under major crops by private small holder farmers increased by only 3 percent per annum during FY01-FY06. At the same time, yield per hectare for major crops increased by 10.3 percent per annum during the period. Further examination of the issue is needed to resolve the apparent contradictions.

5. UN-Habitat (2007), page 14. The Government notes that its Agricultural Development-Led Industrialization (ADLI) program deals with facilitating industrial development through agricultural development.

6. Ibid, page 38.

7. Over the past decade before 2000, IFC intensified its efforts to develop investment projects at several points without success. Post-2000, it focused on providing Advisory Services rather than seeking investments in the context of an unfavorable business environment for the private sector in Ethiopia (see Appendix C).

8 Government authorities disputed this statement by pointing out that in FY06, 81.6 percent of commercial bank loans were extended to the private sector, compared to 11.4 percent to state enterprises. The authorities also pointed out that because the share of private banks in the loan amount disbursed during FY06 was 58.7 percent, compared to 41.3 percent for state-owned banks, the market was contestable. In the absence of data on market structure and the composition of private borrowers, IEG cannot dispute or support the views of the authorities.

9. Various issues, particularly those for the years 2006 and 1998.

10. The Government's Welfare Monitoring Surveys estimated that the proportion of households in Ethiopia with access to "safe water" increased from 19.1 percent in 1996 to 35.9 percent (Welfare Monitoring Surveys for 1996, 1998, 2000, and 2004). This report could not reconcile this source with that of the Human Development Report which makes reference to "population with sustainable access to an improved source of water".

11. Human Development Report 2006, page 308.

12. UN-Habitat (2007).

13. See, for example, Ellis et al. (2005), pp. 10 (x) and 16 (xvi) and Gebreselassie (2006).

14. See for example the article "Voice in Distant Villages" by the Human Rights Watch (2005).

4. Assessing the Bank's Contribution

4.1 This chapter assesses the Bank's contribution to Ethiopia's development effort during the period (FY98-FY06) by reviewing the relevance, efficacy, and efficiency of Bank assistance. In general, the assessment concludes that the Bank's strategy during the period was relevant. Although it was clearly effective in some areas, the overall outcomes of the assistance were mixed because some key elements (either in terms of Bank products or the policy reforms achieved under them) of the intended program of support could not be implemented. Efficacy was slightly below average when measured against the goals envisaged at the start of the program and when viewed against a backdrop of frequent exogenous shocks and an interval of unstable socio-political conditions. Efficiency was generally low, as the progress made was not always commensurate with either the large volume of Bank financial assistance to Ethiopia or the efforts expended. Overall, the outcome of Bank assistance during the period is rated ***moderately unsatisfactory.***

Relevance

4.2 The relevance of Bank assistance refers to the extent to which the Bank provided the right kind and mix of assistance to support the country's policy agenda and in response to circumstances on the ground anticipated or otherwise. To assess the relevance of Bank assistance, this review discusses the scope or coverage of Bank strategy, its alignment with Government programs, and the usefulness or the realism of the instruments employed.

4.3 **Coverage.** The formulation of Bank strategies and supporting programs during the period under review reflected strong client orientation, included flexible arrays of interventions, and emphasized technical quality. The actual coverage during implementation, however, was considerably more uneven. Several studies and operations that were planned never got off the ground or were dropped or discontinued because of a lack of agreement with the Government regarding approach and/or content (Appendix Tables A3 and A4). This particularly affected Bank support (and that of the IFC) for private sector development (notably in agriculture, communications, and finance), especially for the first half of the period under review.

4.4 Analytical work and project preparation conducted by the Bank were generally of high quality, although occasionally the constraints of the local environment were not anticipated and factored in as well as they might have been. For example, Bank analytic work and technical assistance on the investment climate embodied the principles of rule-based entry and competition. Although it recognized the role that party-affiliated companies and SOEs played in limiting competition, it nevertheless underestimated the strength of the Government's resolve to maintain these institutions. Similarly, the Bank's approach to decentralization, which has generally involved promoting greater autonomy at local levels, has not yet been able to deal adequately with the political role of community-level administrators, which has limited the effectiveness of mechanisms designed to get feedback from the communities.[1] In the wake of the crisis in 2005, Bank assistance through the PBS bypassed federal control of budgetary resources by channeling intended resources directly to the local governments. Although this could result in closer community involvement in project implementation and benefits, it is not entirely clear that PBS and local government support are any more insulated from the political process in Ethiopia than other forms of Bank support. The Bank's approach to and program of support for decentralization is still unfolding in light of these developments.

4.5 With respect to food security, evidence from other countries suggests that crucial elements for preventing famine are early warning signals, which help to mobilize timely action on the part of all concerned parties.[2] The Bank promoted the right choices by shifting its focus from commodity aid to income support, but it still relied primarily on the state apparatus and did not sufficiently engage community leaders, the media, and CSOs. In the absence of involvement of parties with diverse and competing incentives, the early warning signals could not function effectively, and thus the safeguard mechanisms could not be fully effective. Finally, a possible oversight in Bank Strategy relates to the issue of population growth, which was recently addressed explicitly in a Bank report.

4.6 **Alignment.** The Bank is to be commended for its efforts to align its programs with the government's objectives in Sustainable Development and Poverty Reduction Program (SDPRP) and subsequently with the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Bank assistance certainly made an effort to promote government ownership of the programs through which it was to be delivered. An IEG review in 2003 observed that: "Finding the right balance between respect for country ownership and providing intellectual leadership is likely to be a critical challenge for the Bank going forward."[3] An internal World Bank quality assurance panel added: "the Bank must provide a more critical assessment of government's strategy in relation to the objectives."[4] Despite regular communication between the Bank and the Government and the Bank's alignment with the Government's strategy, the Bank was not able to secure strong enough commitment from the authorities to policies and programs (such as the promotion of competition and a set of well-defined land-tenure arrangements) with which they evidently disagreed. An internal World Bank quality assurance panel judged this dynamic to be undesirable, opining that "the Bank is in danger of becoming an apologist for the Government". [5]

4.7 The absence of strong government commitment—indeed rather the opposite—to what in the Bank's view were central policy issues was reflected in a speech by Prime Minister Meles Zenawi to the Africa Task Force in Manchester, U.K., in November 2003, where he noted that:

> *"Our economic reform program, which was initiated in conjunction with the IMF and World Bank, started in the early 90s with a focus on changing the command economy and establishing a market economy. This objective was achieved by the mid 90s. While I cannot say that we had an alternative, we have never been comfortable with it from the very beginning…. Our initial reaction was in effect to conduct a rear-guard battle of delaying and preventing the introduction of reforms that would reduce the state to the proverbial night watchman without presenting an adequately articulated alternative. By the late 90s, our thinking as a ruling party was evolving in the direction of elaborating an alternative development paradigm that we have called democratic developmentalism."*

The divergence between the Bank and the government on policy direction led some of the Bank's proposed interventions, despite their alignment with the goals and policy thrust in the PRSP, to be delayed or retrofitted for lack of progress. The interventions thus affected covered *inter alia* work on the investment climate, competition policy, social accountability, and civil society capacity-building. More substantial changes began to take place in these areas only at the end of the review period.

4.8 **Realism**. While the Bank's assistance strategy was certainly relevant to the problems that confronted Ethiopia, the choice of instrument and the Bank's timing did not always reflect the realities of the political environment. For example, the Bank gave considerable weight to the SDPRP's endorsement of the private sector and prepared several interventions to support it.[6] Soon, however, the Bank began to backtrack and to soften its requirement for operations to move ahead, as in the case of PRSC I and II, where policy triggers were waived and later recycled. The government's vision for private sector development appears to have been fundamentally different from that of the Bank, as the government did not agree with the Bank on the role played by free entry, market-driven incentives and competition in improving performance.

4.9 The Bank also underestimated the likely impact of political factors in undermining support for improved governance. The Bank's Governance Mission to Ethiopia (January 2006) noted that: "The Bank's strategy did not recognize either the short-term political risks or the deeper underlying governance challenges." Furthermore, realism was also constrained by a strong incentive to lend, particularly given the magnitude of perceived needs and Ethiopia's status as a major IDA client. The lending culture was by no means specific to the Ethiopia program, and was likely reinforced by the need felt by senior management to demonstrate strong IDA commitments as a prelude to the IDA-15 replenishment. Nevertheless, this dynamic combined with a perception in some quarters that the Bank was not prepared to be critical of the Government this raised some reputational risk for the Bank Group, despite Bank management efforts to counter the perception.

Efficacy

4.10 The Bank's record on efficacy—getting the outcomes sought—was generally low but varied substantially across objectives. The roads programs and interventions supporting fiscal transfers to local governments were characterized by high efficacy. Efficacy was weak on interventions supporting improvements in governance and private sector development. To a large extent, the outcomes reflected varying government commitment to reform and to its speed and direction. They also reflected differing views within the Bank on social and political barriers to change and how they limited access by vulnerable groups, especially women and rural inhabitants, to the acquisition of economic assets and public services.

4.11 **What went right?** Bank assistance during the period achieved its objectives to a significant extent in five key areas: post-conflict and emergency rehabilitation; roads development; education; public financial management; and donor coordination (albeit with some challenges on the latter, as described earlier in Chapter 3). The Bank responded in a timely way to the needs of Ethiopia following the two-year war with Eritrea and the consequences of the severe drought in 1998/99. The choice of instrument—emergency credits—helped facilitate the demobilization and reintegration of displaced citizens in a timely manner. Bank support for road infrastructure had satisfactory outcomes; by initiating substantial expansion in the roads network and supporting the process with institution-building components, it also facilitated the establishment of the Road Fund and thereby helped develop a maintenance culture. Support for education also had desirable outcomes and helped establish a framework for better service delivery.

4.12 With respect to public sector reforms, the Bank, through the PSCAP and the PRSCs, helped bring about progress in public financial management, including the implementation of a comprehensive budget framework and fiscal reporting system, and an improved accounting and management information system at the federal and regional levels. Finally, the Bank provided appropriate leadership in coordinating the efforts of Ethiopia's numerous bilateral and multilateral development partners—several members of the DAG cited its convening power, strong capacity in several technical fields and capacity to innovate, and accessible location of key staff in the Country Office.

4.13 **What needed improvement?** The divergence in view between the Bank and the Government on policy direction was especially significant in the areas of competition policy and private sector development, especially during the first half of the period under review. Reform of the telecommunications sector and urban land tenure rules, which appeared as prior actions in multiple policy-based operations, made little headway. Bank efforts through economic and sector work as well as lending operations produced only modest results on market liberalization, competition policy, and financial sector development. The role of party-affiliated firms remained outside the scope of policy dialogue. In contrast, an ongoing area of relatively productive cooperation concerns the Government's application for WTO membership. If membership negotiations, in preparation for which the Bank has provided substantial technical assistance to the authorities, were to be successfully concluded, this would likely breathe new life into competition-related reforms.

4.14 Bank support to Ethiopia's agricultural sector, which covered *inter alia* market liberalization, productivity improvements, and private sector participation, yielded similarly modest outcomes. The National Fertilizer Sector Project (NFSP), which was approved in 1996 and closed in 2002, resulted in a total disbursement of US$131.6 million including a follow-up supplemental credit of US$44.0 million approved in July 2001. The outcome of this project was an example of the Bank's efficacy concerns. According to an IEG project assessment,[7] "The core objective of the NFSP was to undertake policy reforms to promote a competitive fertilizer market. The actual result was the reverse—the private sector, already operating in conditions of high market concentration and government-dominated market, was squeezed out, and fertilizer importation and distribution became an exclusively government domain."

4.15 Another example involved the security of land tenure. Bank efforts to conduct and advance the dialogue on this issue were manifested in a broad range of instruments, including projects, analytical work on agriculture and labor markets, as well as external research done by independent specialists but funded by the Bank. The findings indicated a strong rationale for improving the security of land tenure, including the right to transfer land holdings. Whether in response to this or not, a land certification program was launched in 2003 by the main regions. A survey in July/August 2006 found that users assessed the process and its likely impact positively in helping improve land security. Given that access to land, both urban and rural, has long been a key unresolved policy issue, it is promising that there now appears to be a willingness to consider measures to address it, although it is not clear how much more will need to be done to achieve the desired effects.

4.16 Finally, Bank support for improving governance during the evaluation period was effective in the areas of public finance management and fiscal decentralization but weak on other issues. With respect to the support provided for public finance management, the quality of the interventions was generally high and often reflected best practice in the profession. As noted in chapter 3, despite the shift by the Bank to place greater emphasis on governance issues in the second half of the period, program implementation was negatively impacted by an unfavorable political environment and an unreceptive government, especially in the aftermath of the 2005 elections. As a result, autonomy on the part of local governments in the use of transferred resources remains incomplete and uneven across regions. Meaningful participation by civil society organizations in national decision-making processes and in exercising checks and balances on government policy-making and service delivery remains elusive. Furthermore, there is a continuing prevalence of institutional practices that can act as significant social barriers, such as the need to obtain the approval of village (*kebele*) officials in order to be able to access many public services, which *de facto* restricts access by many rural residents.[8]

Efficiency

4.17 The concern with efficiency deals with the issue of whether the progress achieved during the review period was commensurate with the scale of Bank support in terms of lending and non-lending services. In the absence of information that would enable the proper rate-of-return analysis to be undertaken, the assessment weighs the cost of World Bank support against the benefits in terms of development outcomes.

4.18 **Cost of Bank support:** Lending and non-lending outputs were close to planned levels. New commitments over the review period amounted to US$3.3 billion, just short of the target for the high case but above the base case. The Bank also provided debt relief of about US$1.3 billion, which brought total financial assistance to US$4.6 billion, thereby substantially exceeding the anticipated target for gross resource transfers. In addition, the Bank delivered a number of studies, policy advice, and support for aid coordination. The cumulative administrative budget for the review period was on the order of US$45 million (not including additional resources available to Bank management through trust funds), of which US$31 million was incurred on project preparation and supervision.

4.19 **Benefits/development outcomes**. While it may not be possible to put a value on all the accomplishments achieved during the period under review, which included physical, policy, and institutional changes, it is clear that the achievements fell somewhat short of what the Bank expected, as detailed in the discussion in Chapter 3. Efficacy was relatively low, viewed against the backdrop of the fragile socio-political conditions. Thus, the "return" on Bank support, or its efficiency, was similarly lower-than-anticipated. With the benefit of hindsight, efficiency could have been somewhat higher with a more concerted effort by the Bank to focus financial support—in the presence of substantial exogenous shocks—on those thematic areas or sectors in which there was clear and very substantial policy alignment between the Bank and Government. The Bank could have restricted its interventions to policy dialogue and/or analytical work in key areas where there were clear policy disagreements with the Government.

Overall Assessment

4.20 In order to rate the overall contribution of Bank assistance to Ethiopia's development effort during the period under review, it is necessary to rank the various objectives of Bank assistance with the view of assigning weights to them (see Appendix B). The most important objective outlined in Bank strategy for Ethiopia was clearly to improve governance.[9] This priority emerged after consultation with Government and coordination with other development partners. Next in importance were: (a) promoting pro-poor growth, which was essential for poverty reduction; (b) advancing private sector development by helping to improve the investment environment and resolving the constraints to growth; and (c) enhancing human development, which was necessary to support poverty reduction objectives and to facilitate rapid growth. The post-conflict and emergency rehabilitation was of critical importance in 2000 and also served as the basis for dealing with food security issues on a sustainable basis.

4.21 ***Pro-poor Growth.*** Growth averaged about 6 percent a year during the review period, just shy of the seven percent envisaged in the SDPRP. There are signs that the underlying trend is improving, with the last three years of the review period (and a further year after it) witnessing very substantial growth, although questions remain regarding the consistency of the data. While it is difficult to attribute this outcome to Bank support, the fact that recent growth has been driven *inter alia* by the rural sector, one of the focal points of IDA assistance, suggests at least some likelihood that the Bank played a role in the growth. There appear to be some favorable elements in the fundamentals, though the signs are not always clear. Changes over time in agricultural productivity, a key driver of pro-poor transformation of the sector, remain unclear because of inconsistent data sources. Ongoing reforms in land certification and decentralization are likely to have a positive effect in support of pro-poor transformation but of uncertain timing and magnitude. Expenditure in pro-poor sectors (especially health and education) increased rapidly during the period, largely with the support of the IDA and other DPs.

4.22 Overall, the poverty trends (especially in the rural areas) and improvements in key social indicators linked to service delivery point to some progress under the Government's pro-poor growth strategy, which IDA and other DPs have supported. Nevertheless, there are important question marks on the sustainability of the newfound higher growth. One is that the last few years have been spared major shocks, such as droughts, which history suggests will strike again, pulling down growth averages over time. Another is to what extent growth is being fueled by ODA, the sustainability of this is unclear. It is important to remember that a shock such as a drought, which is a frequent phenomenon in Ethiopia, could temporarily reverse hard-earned gains and bring down averages over time. Based on IDA's failure to deal with sustainability issues, the outcome of IDA support for promoting pro-poor growth is rated *moderately satisfactory.*

4.23 ***Private Sector Development.*** The Bank sought to encourage private sector development (PSD) through support for a stable macroeconomic framework, improvements in the investment climate (including strengthened competition, and privatization), and the expansion of infrastructure. The latter was directed mainly at strengthening transportation (through improvements in the road network), energy, and telecommunications.

4.24 The Government maintained prudent macro-economic management, which likely supported faster economic growth towards the end of the review period, although it is unclear how much of the improved macroeconomic management by Government can be attributed to the Bank rather than the IMF.

4.25 As regards the outcome of Bank Group assistance for improvements in the investment climate, there was some progress during the review period in business licensing, customs clearance, the tax regime, and labor and other business regulations. Nevertheless, there was little progress during the review period on some of the most binding constraints to the expansion of private sector activity (such as unevenness of the "playing field" and the dominance of parastatals in certain areas). Although a Competition Commission was established and began functioning, there are few signs to date that it is tackling the reportedly common problem of preferential treatment by the Government of "party-statals" (that is, privately owned but party-affiliated businesses). Similarly, while the pace of privatization may have accelerated beginning in 2005/06 following a streamlining of procedures and guidelines, the outcome over the review period fell short of expectations.

4.26 Finally, although there were gains in the expansion of road infrastructure and in its management, the outcomes of IDA support for other areas of infrastructure (power, water, transport, telecommunication, etc.) were less clear-cut. Overall, because some of the binding constraints facing PSD (competition, barriers to entry and infrastructure) were at best only partially addressed, the outcome of IDA assistance for private sector development during the review period is rated *moderately unsatisfactory*. This said, there are signs that beyond the review period (that is, in the last two years) the pace of reform may be picking up.

4.27 ***Human Development***. IDA assistance helped the Government meet several of its goals in terms of extending access to health and education services. IDA support for health facilitated progress consistent with the benchmarks in both government and Bank strategy documents, although significant shortcomings with respect to two of IDA's main interventions (the Health Sector Development Project and the Mulitisector HIV/AIDS Project) cast doubts on the outcome of IDA's assistance, which is consequently rated moderately satisfactory. The expansion in educational enrolment was striking, although several challenges relating to low quality as well as regional and gender disparities have yet to be resolved. The outcome of IDA support for education is rated satisfactory. In water and sewerage, IDA support facilitated some improvements in access to potable water and sanitation services, but it remains unclear (owing to inconsistent data sources) whether there has been sufficient progress towards meeting the relevant MDGs. The outcome of IDA support for water and sewerage is rated moderately satisfactory. Overall, the outcome of IDA support for human development is rated *moderately satisfactory.*

4.28 ***Post-Conflict and Emergency Rehabilitation***. The Bank responded in a timely manner to Ethiopia's needs following the two-year war with Eritrea and a severe drought in 1998/99 by developing the Emergency Demobilization and Reintegration Project (EDRP) under the 2000 Interim Support Strategy. The EDRP achieved most of its objectives of demobilization and re-integration of veterans. IDA support also helped develop instruments to enhance food security, including the use of public works and income support initiatives, but the precise gains in terms of lowering families' exposure to food insecurity remain unclear. In addition, without access to significant off-farm income sources and alternative coping mechanisms, the sustainability of food security improvements is unlikely to be assured. The outcome of IDA support for post-conflict and emergency programs is rated *moderately satisfactory*.

4.29 ***Improved Governance.*** IDA supported Ethiopia's governance program by helping to (i) improve public sector management, (ii) support the empowerment of communities, and (iii) strengthen accountability mechanisms. IDA support for public sector management reforms was substantial and involved considerable effort and ingenuity. Many intermediate outputs and outcomes were achieved, including the establishment of a sophisticated framework of intergovernmental fiscal arrangements, a major increase in the transfer of revenue to local governments, and a large amount of training at all levels. The outcome of Bank support for public sector management reforms is rated satisfactory.

4.30 As regards IDA support for "the empowerment of communities in the utilization of public resources (2003 CAS), progress in channeling increased resources to communities was achieved through support for the decentralization process, and more specifically through IDA's post-2005 lending modalities. Nevertheless, it is not clear to what extent local control of resources and civil society involvement have increased, as envisioned in the CASs, and to what extent these vary by region. More importantly, little progress was made towards IDA's main objective of supporting the empowerment of communities through improved quality of representation, increased accountability, and greater participation of civil society. Few direct measures to bolster citizen demand for accountability, essential for improved service delivery, were taken, although there may have been some indirect advancement in decentralization during the review period. In sum, IDA assistance for civil society empowerment fell short of achieving its goals for enhancing citizen participation and is rated unsatisfactory.

4.31 Given the importance of strengthening accountability mechanisms for effective long-term governance reform, including public financial management and decentralized service delivery, it is unclear to what extent the progress achieved during the review period in public sector management is sustainable without deeper governance reforms. Balancing the achievements across the various areas, it is IEG's judgment that the overall outcome of IDA support for governance reform has been *moderately unsatisfactory.*

Table 8. Summary of Outcome Ratings

Bank strategic goals	Achievement of associated CAS results	Bank program outcome ratings
Overall Assistance	Major investment was made in people, and growth rates rose. Bank support for competition policy and privatization had limited impact, and major constraints to PSD remain. Relatively good outcomes were obtained on post-conflict support, pro-poor growth, and human development. Outcomes on public sector governance were mixed, with reasonable progress in some areas, such as public financial management and decentralization, but little progress in others, including public participation and external accountability. Given the importance of governance, accountability, and private sector development to long-run growth and poverty reduction in Ethiopia, these outcomes received somewhat higher weighting in the overall evaluation, resulting in a rating of moderately unsatisfactory for the outcomes of the country program as a whole.	Moderately Unsatisfactory
Pro-Poor Growth	Volatility in the earlier years notwithstanding, growth was significant, especially towards the end of the period under review, although sustainability is uncertain. The Bank supported pro-poor government spending. Improving trends in poverty and social service delivery (especially in the rural areas) point to some success in the Government's pro-poor strategy and the Bank's support for it, although attribution remains difficult.	Moderately Satisfactory
Private Sector Development	There was good progress in sustaining a conducive macroeconomic backdrop, as well as in road construction and management. Steps to improve the investment climate and foster PSD (through privatization and improved competition policy) showed only limited results through the review period. The outcomes with regard to infrastructure support were mixed.	Moderately Unsatisfactory
Human Development	Services were expanded in education and in health. Progress was somewhat less clear in water and sanitation as well as on broader social indicators. Service quality as well as disparities in access by gender and by region need continued attention.	Moderately Satisfactory
Post-Conflict Rehabilitation	The goals of rebuilding infrastructure and demobilizing and reintegrating ex-combatants were achieved, but progress on developing sustainable food security was somewhat less clear.	Moderately Satisfactory
Improving Governance	The public sector became better managed and decentralization brought people closer to government. However, progress toward greater local autonomy and stronger oversight and accountability in the public sector was limited. Important constraints on public debate and participation remain.	Moderately Unsatisfactory

4.32 ***Overall Program Outcome.*** In sum, major investment was made in people, and growth rates rose. Bank support for competition policy and privatization had limited impact though the review period, and major constraints to PSD remain. Relatively good outcomes were obtained on post-conflict support, pro-poor growth, and human development. Outcomes on public sector governance were mixed, with reasonable progress in some areas, such as public financial management and decentralization, but little progress in others, including public participation and external accountability. Given the importance of governance, accountability, and private sector development to long-run sustained growth and poverty reduction in Ethiopia, these outcomes received somewhat higher weighting in the overall evaluation, resulting in a rating of *moderately unsatisfactory* for the outcomes of the country program as a whole (see Table 9).

Risk to Development Outcome

4.33 The benefits of Bank assistance were widespread and multidimensional. Near the sites of the Eritrean war, houses and community infrastructure were rehabilitated, with former combatant's reintegrated helping life to return to normal. Access to education and health services has improved. A network of new roads has been constructed, and the management of road services upgraded. The provision of income support for potential famine victims has been initiated, although sustainability can be questioned. Except for the latter, the risks to these outcomes appear low, subject to continued budgetary support from Ethiopia's development partners, including the Bank.

4.34 Substantial risks exist, however, for the gains made on policy and economic management. Output growth enjoyed in the past few years is sensitive to changes in the weather and to the amount of foreign aid. The increase in trade flows is fragile, given the very large current account deficits. The decentralization agenda, including both the fiscal transfers to lower tiers of government and the rapid expansion of staff and facilities at the lower levels, has created large and likely unsustainable budget deficits. Furthermore, the rise in social tensions after 2005 (resulting from the electoral process) has further aggravated the distrust among ethnic groups and increased the likelihood of conflicts. Food-insecure communities are particularly at risk as dissipating public debate and a fragmentation of news and information-gathering organizations further exacerbates their isolation. On balance, the risk to development outcome is rated high.

NOTES

1. Pausewang *et al.* (2002).
2. See Amartya Sen (1990).
3. IEG (2003).
4.From a report of an internal WorldBank quality assurance panel in 2005.
5. From a report of an internal WorldBank quality assurance panel in 2005.
6. CAS03 with 44 pages mentioned the private sector 66 times.
7. IEG (2007).
8. See Pausewang et al. (2002), pages 179-187.
9. A senior member of the country team, in commenting on IEG's approach paper on Ethiopia, said "IEG needs to focus more on the governance dimension (especially the ongoing decentralization effort), which has affected our strategies as well as mode of interaction. We thus suggest that IEG include governance as a separate rather than cross cutting focus." Another member said: "IEG needs to capture what has been a central theme of Bank assistance since at least '99, and that is support for the deepening and broadening of democratic, accountable decentralization."

5. Lessons and Recommendations

5.1 IDA's experience in Ethiopia during the FY98-FY06 period was instructive in several respects. IDA embarked on a series of strategies during the period under review in order to provide assistance to Ethiopia in several areas where the country faced the most pressing development challenges. But for the most part, while several outcomes of IDA support during this period are positive, the lessons of this experience are not new and merely reinforce lessons that have been learned elsewhere.

Lessons

5.2 First, achieving pro-poor growth depends in large part on the creation of income-generating opportunities for the poor. In this regard, it would have been advisable to put greater emphasis on improving the policy environment in order to enhance non-farm income-earning opportunities in rural areas, where the majority of Ethiopia's poor live. Similarly, constraints on PSD and therefore on pro-poor growth could have been identified more centrally as governance concerns.

5.3 Second, IDA's effectiveness is hampered in the absence of consensus with the Government on the needed direction and pace of reform. In Ethiopia, the Bank Group would likely have been significantly more effective had it been more candid about major policy differences with the Government and put forward realistic ways of managing these differences (*inter alia* through ESW), rather than making the unrealistic assumption that the Government would proceed to implement reform measures about which it was expressing reservations. This would have avoided repeated deferral of key actions, most notably in the areas of private sector development and governance covered by the PRSC program.

5.4 Third, where major—and unbridgeable—differences of view constrain broadbased engagement by the Bank Group, it may still be possible to make progress in selected areas if committed counterparts ("champions") can be found who can sustain momentum and see reform programs through to fruition. In Ethiopia, instances of this arose with the roads program as well as with the framework for fiscal transfers to local governments. Identifying such entry points while remaining realistic about prospects for broader agreement is a key challenge for country programs in challenging governance environments.

5.5 Fourth, consensus within the Bank's Country Team, including full engagement of sector and local office staff, is essential for a sound dialogue and for effective design and delivery of support. In the

Ethiopia program, a shortage of open dialogue within the entire Country Team sometimes limited the ability of the Bank Group to achieve this needed consensus, particularly during the challenging post-election period of 2005.

5.6 Fifth, in countries with weak administrative capacity, Bank Group projects and programs need to be modest in scale and in breadth and depth of policy content to match the Government's implementation capacity. This too would help avoid repeated deferrals and "recycling" of reform measures. The design of IDA assistance in Ethiopia was sometimes overly complex and beyond the capacity of the host institutions.

5.7 Finally, while adverse shocks (such as droughts) can prolong aid dependence, effective aid coordination can foster rapid recovery following shocks and ensuing crises. An important exogenous factor in Ethiopia has been the unpredictability of adverse climatic impact on production, especially with respect to agriculture. Ethiopia, like other SSA countries, is dependent on rain-fed agriculture, given its climatic location and limited extent of irrigation systems. It is also vulnerable to repeated bouts of drought and flooding, which accounted in the past for sharp year-to-year fluctuations in agricultural output. Compounding the impact of weather-related uncertainties have been internal and external conflicts. While the Bank's role in aid coordination, including alignment and harmonization, had scored some major successes, it could had broaden its network by consulting more with local organizations, which could help improve the Bank's knowledge of local conditions and tap into a greater diversity of knowledge on the ground.

Recommendations

5.8 The Bank will continue to play a key role in encouraging and supporting the Government to tackle needed reforms and keep the poverty reduction goal in sharp focus. To improve the effectiveness of its assistance to Ethiopia, the Bank would benefit from addressing the issues that derive from the lessons outlined above. They include the following:

5.9 **IDA needs to seek consensus within the Country Team and between the Bank and the Government on realistic reform implementation goals and targets**. It is important to have both a clear understanding with the client and a clear consensus within the Country Team. It is also important for IDA to assess in depth which reform measures it considers essential to meet the country's development and poverty reduction goals, and which measures are less essential. IDA can then calibrate its support more effectively by focusing its lending on areas where there are both country ownership and strong development impact.

5.10 **IDA needs to tighten the link between the scale of resource transfers in support of particular areas and the quality of the policy dialogue**. The "return" on IDA support, or its efficiency, has been perceived in various evaluations (including by the Country Team) to be lower-than-anticipated. IDA should consider restricting its interventions to policy dialogue and/or analytic work (rather than lending) in key areas where there are clear policy disagreements with Government (which ESW can help to address more frontally). The Bank made some adjustments of this type during the review period (e.g., by cancelling plans to prepare a telecommunications project and reducing the total amount of PRSC I by one-fifth in response to less-than-expected delivery on the PSD reform agenda), but more ambitious adjustments could have avoided repeated backsliding in some areas.

5.11 **IDA needs to take a clear position on governance by highlighting the constraints on PSD (and thus future pro-poor growth prospects) as governance issues.** Failure to do so may have the unintended consequence of weakening the quality of the Bank Group's governance analysis and assistance and ultimately the extent to which the constraints on pro-growth are adequately identified and addressed.

5.12 **Because an important part of IDA's program now focuses on channeling support directly to local communities, the Bank Group needs to continue to improve its knowledge of whether and how social, political and cultural factors influence the impact of its support.** In particular, the Bank Group needs to continue its analytic effort to develop a better understanding of the constraints to voice and participation at the local level, as an in-depth understanding of social cohesion, inclusiveness, and accountability at the community level is essential to designing effective interventions. Understanding the power structure at local levels including the sources of the administrators' authority and the incentives they have for serving local residents is very important, as the roles and actions of sub-district administrators can have a decisive influence on the economic behavior of rural residents, as well as on their access to public services.

5.13 **IDA needs to continue its efforts to develop partnerships with non-government stakeholders in Ethiopia's development**. IDA needs to work with local partners that traditionally may not have interacted closely with the Bank Group, including the media, parliamentarians, and members of local councils, academicians, nongovernmental organizations, and private sector representatives. Effective prevention of famine, for example, hinges on the free flow of information and expression of views among a broad coalition that goes beyond the Government and a few development partners.

Appendix A: Statistical Supplement

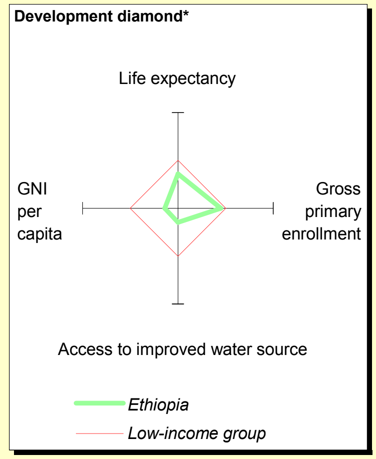
Appendix Table A1.	**Ethiopia at a Glance**
Appendix Table A2.	**Ethiopia: Key Economic and Social Indicators 1998-2006**
Appendix Table A3a.	**Ethiopia: External Assistance, Total Net ODA Disbursements, 1998-2006, in millions**
Appendix Table A3b.	**Ethiopia: World Bank Commitments by Sector Board (US$), FY98-06**
Appendix Table A3c.	**Ethiopia: List of Approved Projects, 1998-2007**
Appendix Table A4.	**Ethiopia: Published Analytical and Advisory Work (including Strategy Documents) 1998-2007**
Appendix Table A5.	**Cost of Bank Programs for Ethiopia, US$ Thousands FY98-06**
Appendix Table A5b.	**Cost of Bank Programs for Ethiopia and comparison Countries, FY 98-06**
Appendix Table A6.	**Ethiopia: Evaluation Findings by Sector Board (Exit Year 1998-2006)**
Appendix Table A7.	**Ethiopia Status Indicators: Ethiopia and Comparisons FY98-06**
Appendix Table A8	**Ethiopia: Bank's Senior Management, CY1998-2007**
Appendix Table A9.	**Ethiopia: Millennium Development Goals**

Appendix Table A1. Ethiopia at a Glance

Ethiopia at a glance

8/12/06

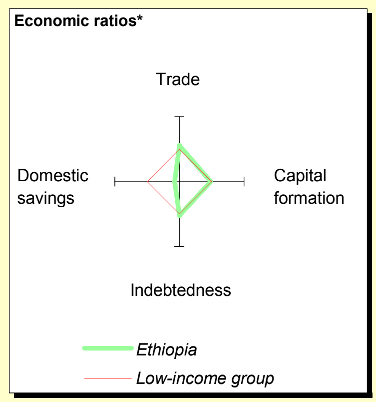
POVERTY and SOCIAL	Ethiopia	Sub-Saharan Africa	Low-income
2005			
Population, mid-year *(millions)*	71.3	741	2,353
GNI per capita *(Atlas method, US$)*	160	745	580
GNI *(Atlas method, US$ billions)*	11.4	552	1,364
Average annual growth, 1999-05			
Population *(%)*	2.1	2.3	1.9
Labor force *(%)*	2.2	2.3	2.3
Most recent estimate (latest year available, 1999-05)			
Poverty *(% of population below national poverty line)*	44	..	..
Urban population *(% of total population)*	16	35	30
Life expectancy at birth *(years)*	42	46	59
Infant mortality *(per 1,000 live births)*	110	100	80
Child malnutrition *(% of children under 5)*	47	29	39
Access to an improved water source *(% of population)*	22	56	75
Literacy *(% of population age 15+)*	..	..	62
Gross primary enrollment *(% of school-age population)*	93	93	104
Male	101	99	110
Female	86	87	99



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

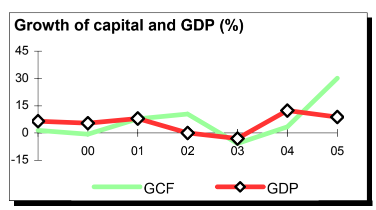
	1985	1995	2004	2005
GDP *(US$ billions)*	9.4	7.6	9.7	11.2
Gross capital formation/GDP	11.4	18.0	21.3	26.3
Exports of goods and services/GDP	5.8	9.7	15.4	16.4
Gross domestic savings/GDP	5.8	11.9	4.1	3.6
Gross national savings/GDP	7.5	20.7	16.2	17.2
Current account balance/GDP	-4.0	2.5	-5.1	-9.1
Interest payments/GDP	0.4	0.8	0.5	..
Total debt/GDP	55.3	135.5	67.5	..
Total debt service/exports	27.7	19.1	5.9	..
Present value of debt/GDP	..	..	21.2	..
Present value of debt/exports	..	..	124.6	..

	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	0.8	4.0	12.3	8.7	5.6
GDP per capita	-1.9	1.6	10.1	6.8	3.4
Exports of goods and services	-1.4	13.2	36.4	-2.5	11.7

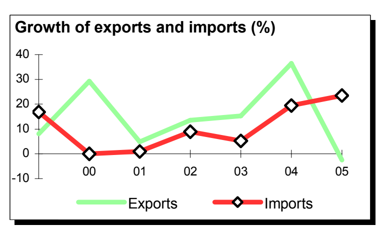


STRUCTURE of the ECONOMY

	1985	1995	2004	2005
(% of GDP)				
Agriculture	55.6	57.7	46.3	47.7
Industry	12.3	9.9	13.5	13.3
Manufacturing	5.1	4.8	5.3	5.1
Services	32.1	32.4	40.2	39.0
Household final consumption expenditure	84.0	79.6	81.9	82.2
General gov't final consumption expenditure	10.3	8.4	14.0	14.2
Imports of goods and services	11.5	15.7	32.6	39.1



	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	3.0	2.2	17.3	12.0
Industry	-3.8	5.2	6.8	6.6
Manufacturing	-5.1	3.5	5.4	5.0
Services	-0.2	5.2	5.8	5.8
Household final consumption expenditure	1.9	3.0	14.7	11.7
General gov't final consumption expenditure	-3.1	9.8	0.4	8.6
Gross capital formation	-1.6	5.1	3.4	30.1
Imports of goods and services	-0.1	9.2	19.5	23.4

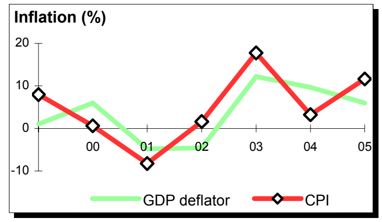


Note: 2005 data are preliminary estimates.
This table was produced from the Development Economics LDB database.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ethiopia

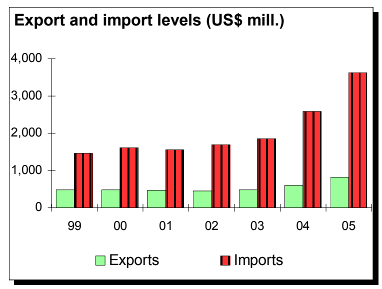
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices				
(% change)				
Consumer prices	19.1	10.0	3.3	11.6
Implicit GDP deflator	32.1	13.5	9.6	6.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	14.1	14.4	18.4	19.2
Current budget balance	0.3	3.1	4.2	5.7
Overall surplus/deficit	-5.8	-3.5	-6.6	-6.5



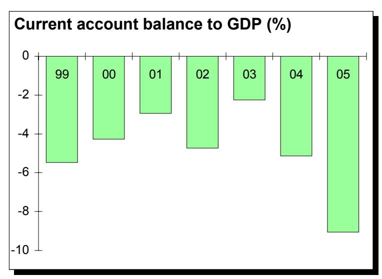
TRADE

	1985	1995	2004	2005
(US$ millions)				
Total exports (fob)	360	454	600	818
Coffee	225	288	224	335
Pulses and oil seeds	16	25	105	138
Manufactures	84	76	62	79
Total imports (cif)	975	1,063	2,587	3,633
Food	283	181	269	247
Fuel and energy	186	169	311	669
Capital goods	249	350	920	1,265
Export price index *(2000=100)*	110	156	81	102
Import price index *(2000=100)*	100	86	117	133
Terms of trade *(2000=100)*	110	182	69	77



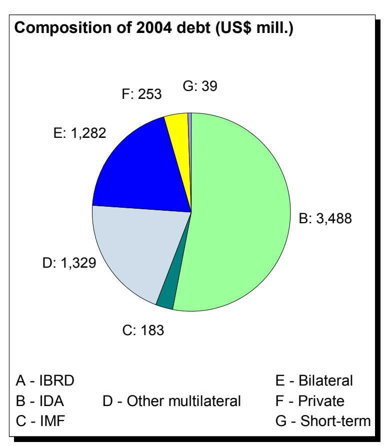
BALANCE of PAYMENTS

	1985	1995	2004	2005
(US$ millions)				
Exports of goods and services	549	784	1,498	1,829
Imports of goods and services	1,082	1,272	3,171	4,367
Resource balance	-533	-488	-1,673	-2,538
Net income	-33	-60	-64	-36
Net current transfers	193	739	1,238	1,561
Current account balance	-373	190	-499	-1,013
Financing items (net)	420	-111	903	1,225
Changes in net reserves	-48	-79	-405	-212
Memo:				
Reserves including gold *(US$ millions)*	216	589	1,350	1,555
Conversion rate *(DEC, local/US$)*	2.1	6.3	8.6	8.7



EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US$ millions)				
Total debt outstanding and disbursed	5,206	10,308	6,574	..
IBRD	49	0	0	0
IDA	437	1,470	3,488	3,359
Total debt service	159	154	97	..
IBRD	7	4	0	0
IDA	6	23	36	72
Composition of net resource flows				
Official grants	515	476	1,422	..
Official creditors	527	189	259	..
Private creditors	59	-48	71	..
Foreign direct investment (net inflows)	0	14	545	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	32	142	189	..
Disbursements	50	84	202	162
Principal repayments	7	16	13	44
Net flows	43	67	189	118
Interest payments	7	11	23	28
Net transfers	36	56	167	90



Note: This table was produced from the Development Economics LDB database. 8/12/06

Appendix Table A2. Ethiopia - Key Economic and Social Indicators, 1998-2006

	1998	1999	2000	2001	2002	2003	2004	2005	2006	Average
Economic Indicators (year ending July 7)[a]										
Official Exchange Rate (Birr per US$)	6.86	7.53	8.15	8.34	8.54	8.58	8.62	8.65	8.68	8.2
Consumer Prices Index (annual percentage change)	3.6	3.9	6.2	-5.2	-7.2	15.1	8.6	6.8	12.3	4.9
Balance of Payments	*(Millions of US Dollars: Minus Sign Indicates Debit)*									
Current Account (excluding official transfers)	-365	-723	-626	-629	-698	-709	-969	-1,521	-2,253	-943.7
Goods: Exports f.o.b.	602	484	486	463	452	483	600	847	1,000	601.9
Goods: Imports f.o.b.	-1,357	-1,558	-1,611	-1,557	-1,696	-1,856	-2,587	-3,633	-4,593	-2272.0
Trade Balance	-755	-1,074	-1,125	-1,094	-1,243	-1,374	-1,986	-2,786	-3,592	-1669.9
National Accounts	*(Millions of Birr, unless otherwise indicated)*									
Consumption, private	34,977	38,819	46,731	50,764	49,061	53,309	65,313	82,312	95,306	57,399
Government Consumption Expend.	6,397	8,945	12,053	9,115	10,393	13,125	12,013	13,545	14,299	11,098
Investment	7,691	7,878	13,096	13,786	14,247	14,891	17,462	20,165	22,833	14,672
Exports of Goods and Services	7,117	6,877	8,020	8,162	8,027	9,778	12,929	15,823	18,205	10,549
Imports of Goods and Services (-)	11,342	14,098	15,957	16,139	17,709	20,137	27,399	37,776	46,275	22,981
Gross Domestic Product (GDP)	44,840	48,422	63,924	65,689	73,701	81,326	94,788	116,023	132,437	80,128
GDP at Factor Cost	52,976	56,358	59,575	63,973	64,990	62,845	70,345	77,731	85,184	65,997
Gross Domestic Product (GDP) (US$ million)	5,099	5,155	5,734	6,087	5,745	6,213	7,577	13,413	15,258	7,809
GDP Growth at constant prices (annual percentage change)	-1.4	6.0	5.4	7.4	1.6	-3.3	11.9	10.5	9.6	5.3
GDP Deflator (annual percentage change)	…	…	5.7	-5.2	-4.8	12.8	4.2	9.6	7.4	4.2
Government Finance	*(Millions of Birr)*									
Deficit (-) or Surplus	(1,954)	(5,067)	(5,961)	(2,982)	(4,823)	(4,801)	(2,586)	(4,639)	(6,064)	(4,320)
Total Revenue and Grants	9,374	10,387	11,222	12,804	12,832	15,703	17,918	20,147	23,261	14,850
Revenue	8,101	8,773	9,498	10,176	10,409	11,150	13,917	15,582	19,529	11,904
Grants	1,504	1,273	1,724	2,628	2,424	4,554	4,002	4,565	3,732	2,934
Expenditure and Net Lending	11,328	15,454	17,184	15,382	17,655	20,504	20,504	24,786	29,325	19,125
Total Financing	1,954	5,067	5,961	2,982	4,823	4,801	2,589	4,639	6,064	4,320
Domestic	592	1,515	4,975	57	309	1,653	2,147	3,492	2,735	1,942
Foreign	780	1,823	868	2,070	4,905	3,865	2,399	2,384	1,512	2,290
Social Indicators (end of calendar year)[b]										
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	36.0	..	..	36.0
Immunization, DPT (% of children ages 12-23 months)	37.0	21.0	56.0	65.0	65.0	66.0	66.0	69.0	..	55.6
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..	13.0	..	..	13.0
Improved water source (% of population with access)	..	..	..	..	..	..	22.0	..	..	22.0
Life expectancy at birth, total (years)	..	42.4	42.3	..	42.1	42.3	42.0	43.0	..	42.3
Mortality rate, infant (per 1,000 live births)	..	..	116.0	..	..	..	..	80.0	..	98.0
Population growth (annual %)	2.5	2.4	2.4	2.3	2.2	2.1	2.0	2.0	2.0	2.2
Population, total (million)	61.3	62.8	64.3	65.8	67.2	68.6	70.0	71.3	72.7	67.1
School enrollment, preprimary (% gross)	..	1.4	1.5	1.7	1.8	1.8	2.0	2.0	2.0	1.8
School enrollment, primary (% gross)	..	58.5	63.4	69.1	71.9	72.8	77.0	93.0	100.0	75.7
School enrollment, secondary (% gross)	..	15.5	17.5	21.0	23.7	25.4	28.0	31.0	35.0	24.6
Unemployment, total (% of total labor force)	..	8.2	..	..	..	..	23.0	..	..	15.6
Urban population (% of total)	14.5	14.7	14.9	15.1	15.3	15.6	16.0	16.0	16.0	15.3
Urban population growth (annual %)	3.9	3.8	3.7	3.7	3.6	3.5	3.0	3.0	4.0	3.6

a IMF Article IV Country Reports Statistical Appendixes (2002, 2005, 2006, and 2007)
b DDP as of 09/28/07

Appendix Table A3a. External Assistance to Ethiopia, Total Net ODA Disbursement, 1998-2006, in US$ Million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Arab Countries	0.5	5.3	2.6	11.3	5.2	1.1	-0.2	-0.7	-2.0	23.1
Australia	3.8	0.75	1.92	1.6	1.5	3.1	1.9	1.9	1.3	17.8
Austria	3.21	4.86	3.76	7.0	4.3	7.6	4.3	7.6	17.6	60.2
Belgium	7.9	2.86	8.9	13.4	1.6	8.0	9.4	5.3	6.6	64.0
Canada	10.85	14.81	10.94	12.4	6.9	38.0	59.5	64.9	62.5	280.8
Czech Republic		0.18	0.02	0.0	0.2	0.4	0.7	0.8	0.6	2.8
Denmark	3.11	4.09	2.56	2.8	2.7	3.0	2.6	4.1	5.7	30.6
Finland	7	5.94	5.66	5.1	4.6	9.2	9.1	11.1	13.2	70.7
France	10.52	10.53	9.41	6.6	10.2	15.6	26.3	15.9	17.4	122.3
Germany	63.49	37.46	38.63	25.9	40.6	47.6	126.1	49.9	56.8	486.4
Greece	0.24	0.16	1.19	0.6	0.2	0.4	1.6	1.5	1.2	7.0
Hungary							0.1			0.1
Ireland	16.71	16.76	21.63	21.1	25.3	33.4	42.4	44.1	50.6	272.0
Italy	46.22	18.7	25.97	13.6	49.2	47.6	11.2	86.9	105.4	404.8
Japan	26.08	40.38	34.03	52.4	50.5	56.5	33.3	34.2	57.9	385.3
Korea	0.54	0.64	0.49	0.5	0.8	1.1	2.1	2.4	2.3	10.8
Luxembourg	0.25	0.46	0.2	0.5	0.7	0.5	0.4	0.2	1.7	4.9
Netherlands	36.84	31.22	25.72	44.2	34.8	57.2	57.5	58.7	49.8	395.9
New Zealand	0.06	0.21	0.27	0.2	0.8	1.3	0.8	1.2	0.2	5.0
Norway	26.72	23.93	23.57	16.3	28.5	37.2	34.0	38.1	41.8	270.0
Other Bilateral Donors	11.89	8.79	11.91	16.0	27.6	29.9	25.5	24.1	23.3	179.0
Poland	0.12	0.07	0.05	0.1	0.0	0.0	8.7	0.0	0.1	9.1
Portugal					2.2	0.8	0.0	0.1	0.1	3.2
Slovak Republic					0.0	0.0	0.0			0.1
Spain	0.33	0.69	-0.35	-1.1	1.2	1.8	0.8	4.5	9.7	17.6
Sweden	30.94	18.88	20.72	20.6	21.3	28.6	50.8	68.4	41.5	301.8
Switzerland	4.55	2.96	3.59	2.3	2.1	5.3	3.2	2.7	2.8	29.4
Thailand									0.0	0.0
Turkey			0.04	0.0	0.0	0.0	0.2	2.5	0.9	3.7
United Kingdom	13.03	12.04	11.35	27.6	43.7	62.9	147.1	75.5	164.6	557.8
United States	53.23	77.35	129.82	94.4	156.4	567.8	402.3	608.6	315.8	2405.7
Total Bilateral Donors	***378.1***	***340.1***	***394.6***	***394.9***	***523.1***	***1065.9***	***1061.7***	***1214.1***	***1049.2***	***6421.7***
AfDF (African Dev.Fund)	30.6	28.55	22.2	29.0	78.2	10.9	63.9	118.5	138.0	519.8
Arab Agencies	-1.03	1.18	1.95	8.6	2.1	-0.7	4.8	9.7	8.8	35.4
EC	115.01	82.8	68.99	100.0	116.6	149.1	112.7	163.5	194.4	1103.0
GEF	0.03		0.09		0.0	0.0	0.2	0.1	0.2	0.7
Global Fund (GFATM)						45.7		77.9	130.6	254.3
IDA	55.87	136.81	115.55	434.4	464.3	246.6	476.3	247.3	331.6	2508.7
IFAD	-0.62	0.9	3.14	3.9	5.1	8.7	8.0	12.7	16.3	58.1
Nordic Dev. Fund			0.66	4.8	2.7	3.6	2.2	7.4	2.6	23.9
SAF+ESAF+PRGF(IMF)	16.18	-9.69	-13.03	40.3	27.7	0.6	18.0	-8.7		71.4
UNDP	15.91	7.67	18.84	17.0	13.3	10.7	11.0	12.1	17.2	123.6
UNFPA	1.82	0.87	2.96	3.3	3.8	4.5	5.3	4.2	4.1	30.8
UNHCR	17.58	16.96	16.3	18.4	19.2	14.4	8.8	8.2	8.9	128.7
UNICEF	12.78	14.36	13.45	19.4	14.0	14.6	18.6	24.1	25.8	157.1
UNTA	1.78	2.72	4.44	2.3	3.8	4.3	4.5	4.8	3.2	31.8
WFP	16.13	19.86	36.02	27.3	23.5	15.2	9.8	14.1	16.0	178.0
Multilateral ,Total	***282.04***	***302.99***	***291.56***	***708.7***	***774.3***	***528.1***	***744.0***	***695.8***	***897.6***	***5225.2***
ALL Donors,Total	***660.2***	***643.04***	***686.14***	***1103.7***	***1297.4***	***1594.0***	***1805.7***	***1910.0***	***1946.8***	***11646.9***

Source: OECD DAC 2a as of 02/20/08

Appendix Table A3b. Ethiopia - World Bank Commitments by Sector Board (US$m), FY98-06

Sector Board	FY98	FY99	FY01	FY02	FY03	FY04	FY05	FY06	FY98-06
Economic Policy			150.0	120.0					270.0
Education	100.0		4.9				40.0		144.9
Energy & Mining	200.0				132.7			133.4	466.1
Financial Sector								15.0	15.0
Health, Nutrition & Population		100.0	59.7						159.7
Private Sector Development				5.0		120.0	49.0		174.0
Public Sector Governance					26.2	100.0	130.0		256.2
Rural Sector	60.0		46.6	85.0	90.0			54.0	335.6
Social Development			230.0						230.0
Social Protection			175.6		28.3		70.0	215.0	488.9
Transportation	309.2				126.8		160.9	87.3	684.2
Water Supply & Sanitation						100.0			100.0
Total Commitments	**669.2**	**100.0**	**666.8**	**210.0**	**404.0**	**320.0**	**449.9**	**504.7**	**3324.6**

Source: World Bank internal database

Appendix Table A3c.Ethiopia - List of Approved Projects, FY1998-2007

Proj ID	Project Title	Approval FY	Sector Board	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev Closng	IDA Amt
			PROJECTS						
P000732	ET-Educ Sec Dev SIM (FY98)	1998	Education	S	S	M	Closed	06/07/2004	100.0
P000733	ET-Agr Research & Training SIL (FY98)	1998	Rural Sector	S	S	#	Active	06/30/2007	60.0
P000736	ET-Energy 2 (FY98)	1998	Energy and Mining	MS	S	#	Closed	12/31/2005	200.0
P000755	ET-Road Sec. Dev. Program Support Proj.	1998	Transport	S	S	#	Closed	05/31/2005	309.2
P000756	ET-Health Sec Dev (FY99)	1999	Health, Nutrition and Population	S	S	#	Closed	06/14/2006	100.0
P050342	ET-Women Dev Initiatives LIL (FY01)	2001	Social Protection	S	S	#	Closed	06/30/2006	5.0
P052315	ET-Medicinal Plant Conserv LIL (FY01)	2001	Rural Sector	S	S	#	Closed	06/30/2006	2.6
P067084	ET-Emerg Recov & Rehab ERL (FY01)	2001	Social Development	S	S	#	Active	12/29/2006	230.0
P069083	ET-Global Distance Learning (FY01)	2001	Education	MS	MS	#	Closed	06/30/2006	4.9
P069886	ET-MAP (FY01)	2001	Health, Nutrition and Population	S	S	#	Active	12/31/2006	59.7
P072890	ET-Economic Rehabilitation Supp.Credit	2001	Economic Policy	S	S	S	Closed	06/30/2002	150.0
P073196	ET-Demob & Reinteg ERL (FY01)	2001	Social Protection	S	S	#	Active	06/30/2007	170.6
P050383	ET-Food Security SIL (FY02)	2002	Rural Sector	S	S	#	Active	06/30/2009	85.0
P057770	ET-Cultural Heritage LIL (FY02)	2002	Private Sector Development	S	S	#	Active	01/15/2007	5.0
P074585	ET-Structural Adjustment Credit	2002	Economic Policy	S	S	N	Closed	06/30/2004	120.0
P044613	ET-RSDP APL1 (FY03)	2003	Transport	MS	MS	#	Active	06/30/2009	126.8
P049395	ET-Energy Access SIL (FY03)	2003	Energy and Mining	MS	S	#	Active	12/31/2007	132.7
P050938	ET-Dec Serv Del CB (FY03)	2003	Public Sector Governance	S	S	#	Active	12/31/2007	26.2
P075915	ET-Pastoral Community Dev APL (FY03)	2003	Rural Sector	S	S	#	Active	12/31/2008	30.0
P081773	ET-Emerg Drought Recovery ERL (FY03)	2003	Rural Sector	S	S	#	Active	12/31/2006	60.0
P074014	ET-PRSC 1 (FY04)	2004	Private Sector Development	S	S	S	Closed	12/31/2004	120.0
P074020	ET-Pub Sec Cap Bldg Prj (FY04)	2004	Public Sector Governance	S	S	#	Active	07/07/2009	100.0
P076735	ET-Water Sply & Sanitation SIL (FY04)	2004	Water Supply and Sanitation	S	S	#	Active	03/31/2010	100.0
P050272	ET-Priv Sec Dev CB (FY05)	2005	Private Sector Development	MS	MS	#	Active	06/30/2011	24.0
P077749	ET-PRSC 2 DPL (FY05)	2005	Public Sector Governance	S	S	#	Closed	12/31/2005	130.0
P078458	ET-ICT Assisted Dev SIM (FY05)	2005	Private Sector Development	S	S	#	Active	05/31/2010	25.0
P078692	ET-Post Secondary Education SIL (FY05)	2005	Education	U	U	#	Active	09/01/2009	40.0
P082998	ET-Road Sec Dev Prgm Ph 2 Supl 2 (FY05)	2005	Transport	S	MS	#	Active	06/30/2012	160.9
P087707	ET-Productive Safety Nets APL1 (FY05)	2005	Social Protection	S	S	#	Active	12/31/2006	70.0
P074015	ET-Protection of Basic Services (FY06)	2006	Social Protection	S	S	#	Active	06/30/2008	215.0
P079275	ET- Cap. Building for Agric. Serv (FY06)	2006	Rural Sector	#	#	#	Active	10/31/2011	54.0
P094704	ET-Financial Sector Cap Bldg. Project	2006	Financial Sector	#	#	#	Active	06/30/2009	15.0
P097271	ET-Electricity Access (Rural) Expansion	2006	Energy and Mining	#	#	#	Active	12/31/2009	133.4
			SUPPLEMENTS						
P073307	Supplemental to National Fertilizer	2001	Rural Sector	#	#	#	Closed	#	44.0
P077457	ESRDF I Supplemental	2003	Social Protection	#	#	#	Closed	#	28.3
P099480	ET-Road Sec Dev Pro II Supl APL (FY06)	2006	Transport	#	#	#	Active	#	87.3

Source: BW 2a1 as of 11/15/06

Appendix Table A4.Ethiopia - Analytical and Advisory Work (including Strategy Documents), 1998-2007

Proj ID / Report No	Document Title	Report Type	Delivered to Client FY
17009	Ethiopia - Country Assistance Strategy	Country Assistance Strategy Document	1998
22245	Ethiopia - Country procurement assessment report	Country Procurement Assessment Report	1999
18482	Ethiopia - social sector report	Publication	1999
33750	Ethiopia - Anti-corruption report	Working Paper	1999
18369	Ethiopia - Review of public finances (Vols. 1-2)	Pre-2003 Economic or Sector Report	1999
WPS2104	The relative effects of skill formation and job matching on wage growth in Ethiopia	Policy Research Working Paper	1999
WPS2105	Wage rates and job queues - does the public sector overpay in Ethiopia?	Policy Research Working Paper	1999
35725	Aid and reform in Ethiopia	Working Paper	2000
20775	Gender and preferences fpr malaria prevention in Tigray, Ethiopia	Working Paper	2000
WPS2273	The value of preventing malaria in Tembien, Ethiopia	Policy Research Working Paper	2000
21646	Civil society, NGOs, and development in Ethiopia - a snapshot view	Working Paper	2000
20283	Ethiopia - Public expenditure review (Vols. 1-2)	Public Expenditure Review (PER)	2000
18898	Ethiopia - Regionalization study	Other Public Sector Study	2000
P051449	CEM	Country Economic Memorandum (CEM)	2000
P063508	ETH. POVERTY STUDY	Other Poverty Study	2000
P067071	CITY DEVELOPMENT	Other Urban Study	2000
20810	Ethiopia - Public expenditure review (Vols. 1-2)	Public Expenditure Review (PER)	2001
21189	Ethiopia - Country Assistance Strategy : Interim support strategy	Country Assistance Strategy Document	2001
21450	Ethiopia - Country assistance evaluation	IEG Evaluation Study	2001
27305	Assessment of selected road funds in Africa : case study of Benin, Ethiopia, Ghana, Kenya, and Zambia	Working Paper	2001
21769	Ethiopia - Interim poverty reduction strategy paper (2000/01 - 2002/03) and joint assessment	Poverty Reduction Strategy Paper (PRSP)	2001
WPS2534	Indigenous ethnicity and entrepreneurial success in Africa : some evidence from Ethiopia	Policy Research Working Paper	2001
P067073	Ethiopia - PASTORAL STUDY	Other Agricultural Study	2001
22891	Handling hierarchy in decentralized settings : governance underpinnings of school performance in Tikur Inchini, West Shewa Zone, Oromia region	Working Paper	2002
23107	Child malnutrition in Ethiopia : can material knowledge augment the role of income	Working Paper	2002
23351	Ethiopia - Focusing public expenditures on poverty reduction (Vols. 1-3)	Public Expenditure Review (PER)	2002
23294	Ethiopia - Developing exports to promote growth	PSD, Privatization and Industrial Policy	2002
29057	Ethiopia - Country procurement assessment report (Vols. 1-2)	Country Procurement Assessment Report	2002
P067078	WOREDA STUDY	Other Public Sector Study	2002
P077119	Ethiopia Expenditure Tracking	Not assigned	2002
P077412	Land Issues in Ethiopia	Not assigned	2002
P077584	Sources of Growth and Growth Prospects	Not assigned	2002
P079213	CAS Workshop on Decentralization and SD	Not assigned	2002
P079229	CAS Workshop on Capacity Building	Not assigned	2002
P080878	ET-HIPC Expenditure Tracking Update	Not assigned	2002
24729	Ethiopia - Poverty Reduction Strategy Paper and joint assessment	Poverty Reduction Strategy Paper (PRSP)	2003
27324	Scoping study - urban mobility in three cities : Addis Ababa, Dar es Salaam, and Nairobi	Working Paper	2003
25591	Ethiopia - Country Assistance Strategy	Country Assistance Strategy Document	2003
WPS2992	Market and non-market transfers of land in Ethiopia - implications for efficiency, equity, and non-farm development	Policy Research Working Paper	2003
WPS2991	Tenure security and land-related investment - evidence from Ethiopia	Policy Research Working Paper	2003
26092	Ethiopia - Country financial accountability assessment (Vols 1-2)	Country Financial Accountability Assessment	2003
P076645	Ethiopia-Integration & Comp. Study	Foreign Trade, FDI, and Capital Flows Study	2003
P076660	ETHIOPIA CPAR	Country Procurement Assessment	2003
P077888	Paramedical Manpower Study	Other Health Study	2003
WPS3128	Child growth, shocks, and food aid in rural Ethiopia	Policy Research Working Paper	2004
28452	Phase-out of leaded gasoline in oil importing countries of Sub-Saharan Africa : The case of Ethipia action plan	ESMAP Paper	2004
29141	Consumption insurance and vulnerability to poverty : a synthesis of the evidence from Bangladesh, Ethiopia, Mali, Mexico and Russia	Working Paper	2004
WPS3187	To serve the community or oneself - the public servant's dilemma	Policy Research Working Paper	2004
27637	Ethiopia - First Annual Poverty Reduction Strategy Paper Progress Report and joint IDA-IMF Staff Assessment	Poverty Reduction Strategy Paper (PRSP)	2004
29096	Higher education development for Ethiopia : pursuing the vision	Working Paper	2004

29338	Ethiopia - Public Expenditure Review : The Emerging Challenge (Vols. 1 - 2)	Public Expenditure Review (PER)	2004
P078154	Ethiopia-SCGA	Country Gender Assessment (CGA)	2004
P082764	ET-Trade IF DTIS Study (FY04)	Not assigned	2004
P083297	ET-ICA (FY04)	Investment Climate Assessment (ICA)	2004
31385	Ethiopia - Leg & Jud Secto Assess- LEGLR	Legal and Judicial Sector Assessment	2004
29769	Ethiopia - Country Assistance Strategy Progress Report	Country Assistance Strategy Document	2005
32798	The determinants of schooling investments among primary school aged children in Ethiopia	Working Paper	2005
WPS3489	Environmental factors and children's malnutrition in Ethiopia	Policy Research Working Paper	2005
WPS3492	How fair is workfare? gender, public works, and employment in rural Ethiopia	Policy Research Working Paper	2005
WPS3494	Small-scale irrigation dams, agricultural production, and health - theory and evidence from Ethiopia	Policy Research Working Paper	2005
33504	Assessment of resource flows in the water supply and sanitation sector - Ethiopia case study	Working Paper	2005
28037	Ethiopia - Education in Ethiopia - Strengthening the foundation for sustainable progress	Education Sector Review	2005
32909	An independent review of World Bank support to capacity building in Africa: the case of Ethiopia	Working Paper	2005
WPS3558	The performance of health workers in Ethiopia - results from qualitative research	Policy Research Working Paper	2005
28963	Ethiopia - A Country Status Report on Health and Poverty (Vols. 1-2)	Health Sector Review	2005
29468	Ethiopia - Well-being and poverty in Ethiopia : the role of agriculture and agency	Poverty Assessment (PA)	2005
P078740	ET-CEM (FY05)	Country Economic Memorandum (CEM)	2005
P080545	ET-Env CSR (FY05)	Country Environmental Analysis (CEA)	2005
P080825	ET-Joint Budget Review JBAR (FY05)	Other Public Sector Study	2005
P083236	ET-Water Resources Assistance Strategy	Other Infrastructure Study	2005
P088686	ET-Imprvng Understanding of MDGs (FY05)	Not assigned	2005
P090724	Analysis of Community Response to HIV	Other Health Study	2005
P090819	ET-Financial Market Policy Note (FY05)	Not assigned	2005
P091089	ET-Urban Housing Study	Not assigned	2005
P068269	ET-Value Chain Analysis	Not assigned	2006
WPS3686	For public service or money : understanding geographical imbalances in the health workforce	Policy Research Working Paper	2006
26275	Ethiopia - Risk and vulnerability assessment	Risk and Vulnerability Assessment	2006
33857	Ethiopia - Poverty Reduction Strategy 2003/04 annual progress report and joint IMF-IDA staff advisory note	Poverty Reduction Strategy Paper (PRSP)	2006
35142	Ethiopia - Interim Country Assistance Strategy	Country Assistance Strategy Document (CAS)	2006
P073925	ET-State Transformation (FY05)	Institutional and Governance Review (IGR)	2006
P079302	ET-RDA (FY06)	Rural Development Assessment	2006
P084924	ET-Decentr Srvc Del Assess (FY06)	Economic Updates and Modeling	2006
P090209	ET-Labor Mrkt Constraints Review (FY06)	Other Poverty Study	2006
P090212	ET-Population Study (FY06)	Other Health Study	2006
P096681	ET-Tourism Study (FY06)	PSD, Privatization and Industrial Policy	2006
P098323	ET-JBAR (FY06)	Public Expenditure Review (PER)	2006
P098381	ET-PSIA Higher Oil Prices (FY06)	Not assigned	2006
P098402	ET-Debt Sustainability Analysis (FY06)	Not assigned	2006
38662	Country Economic Memorandum - Accelerating Equitable Growth	Country Economic Memorandum (CEM)	2007
P079442	ET-Sustainablity (FY07)	Not assigned	2007
P090210	ET-Review of Expend. in Rural Dev. (FY07	Public Expenditure Review (PER)	2007
P091100	ET-Urbanization Study (FY07)	Other Urban Study	2007
P091275	ET-Soil Degradation Study (FY07)	Other Rural Study	2007
P091889	ET-Rural Risk Management	Other Rural Study	2007
P096362	ET-Costing of Nutrition Programs (FY07)	Other Poverty Study	2007
P099616	ET-PSIA Employment Creation (FY07)	Other Urban Study	2007
P105653	ET-Food Price Inflation (FY07)	Not assigned	2007

Source: World Bank internal database

Appendix Table A5. Cost of Bank Programs for Ethiopia, US$ Thousands FY98-06

Co./ Reg.	Cost Category (Actual)	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	TOTAL FY98-06
Ethiopia											
	Country Services	$ 3,325	$ 3,179	$ 4,160	$ 4,587	$ 4,866	$ 5,769	$ 7,824	$ 6,769	$ 7,724	$ 48,203
	Project Supervision	$ 990	$ 1,363	$ 1,732	$ 1,900	$ 1,996	$ 1,631	$ 2,114	$ 2,760	$ 3,003	$ 17,489
	Lending	$ 1,589	$ 1,068	$ 793	$ 1,452	$ 1,447	$ 2,074	$ 3,394	$ 2,098	$ 2,488	$ 16,401
	ESW	$ 686	$ 519	$ 759	$ 804	$ 940	$ 1,518	$ 1,700	$ 1,620	$ 1,764	$ 10,309
	Other	$ 61	$ 230	$ 876	$ 432	$ 484	$ 545	$ 616	$ 291	$ 469	$ 4,003
AFR											
	Country Services	$ 77,628	$ 71,168	$ 132,498	$ 119,392	$ 121,747	$ 129,914	$ 152,199	$ 159,272	$ 162,604	$ 1,126,422
	Project Supervision	$ 32,143	$ 28,390	$ 44,053	$ 38,609	$ 36,373	$ 39,799	$ 42,208	$ 49,770	$ 51,808	$ 363,152
	Lending	$ 23,848	$ 20,728	$ 33,387	$ 31,204	$ 31,028	$ 31,514	$ 44,138	$ 38,753	$ 38,703	$ 293,302
	ESW	$ 18,686	$ 19,857	$ 33,999	$ 23,852	$ 30,728	$ 32,366	$ 35,734	$ 35,833	$ 40,281	$ 271,336
	Other	$ 2,951	$ 2,193	$ 21,060	$ 25,728	$ 23,618	$ 26,235	$ 30,118	$ 34,916	$ 31,795	$ 198,614

Source: *World Bank internal database*

Appendix Table A5b. Cost of Bank Programs for Ethiopia and Comparison Countries, US Thousands FY98-06

	Total	Supervision	Lending	AAA	Other
Ethiopia	**$48,203**	**$17,489**	**$16,401**	**$10,309**	**$4,003**
Mali	$27,040	$12,013	$9,816	$3,405	$1,806
Sudan	$8,294	$130	$14	$5,787	$2,363
Cambodia	$31,266	$9,675	$9,733	$7,972	$3,885
Yemen	$39,025	$16,163	$13,170	$7,861	$1,832
AFR	$1,126,422	$363,152	$293,302	$271,336	$198,614
		Cost Structure by Percentage			
	Total	**Supervision**	**Lending**	**AAA**	**Other**
Ethiopia	**100%**	**36%**	**34%**	**21%**	**8%**
Mali	100%	44%	36%	13%	7%
Sudan	100%	2%	0%	70%	28%
Cambodia	100%	31%	31%	25%	12%
Yemen	100%	41%	34%	20%	5%
AFR	100%	32%	26%	24%	18%

Source: World Bank internal database

Appendix Table A6. Ethiopia. Evaluation Findings by Sector Board (Exit Year 98-06)

Sector	Total Net Commitments Evaluated ($M)	Outcome % Satisfactory ($)	IDI % Substantial	Sustainability % Likely ($)
Education	157	59	0	0
Energy and Mining	206	94	94	0
Economic Policy	272	100	0	100
Financial and Private Sector Development	261	100	0	100
Health, Nutrition and Population	129	24	0	100
Public Sector Governance	137	0		
Rural Sector	161	0	0	8
Social Protection	125	100	0	0
Transport	397	100	100	100
Urban Development	73	0	0	0
Water Supply and Sanitation	28	100	100	100
Ethiopia Total	**1,947**	**72**	**39**	**56**
AFR	**24,381**	**67**	**38**	**61**
BANK WIDE	**182,926**	**80**	**52**	**78**

Source: *World Bank internal database*
Note: Ratings are weighted by commitments; IDI= Institutional development impact

Appendix Table A7. Portfolio Status Indicators: Ethiopia and Comparisons FY98-06

Country	Fiscal year	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ethiopia	Number of Proj	13	11	11	17	18	19	20	22	22
	Net Comm Amt (US$m)	1,264.7	1,225.8	1,225.7	1,814.0	1,710.1	1,844.5	1,941.4	1,614.2	2,010.6
	Number of Proj at Risk	3	1	4	3	1	1	3	3	3
	Percent at Risk	23.1	9.1	36.4	17.6	5.6	5.3	15.0	13.6	13.6
	Comm at Risk (US$m)	132.9	74.3	296.3	259.7	59.7	4.9	33.0	217.7	69.0
	Percent Comm at Risk	10.5	6.1	24.2	14.3	3.5	0.3	1.7	13.5	3.4
Cambodia	Number of Proj	6	9	11	12	14	16	14	13	12
	Net Comm Amt (US$m)	165.4	240.7	222.4	267.4	298.6	337.1	314.7	270.5	256.2
	Number of Proj at Risk	1	2	2	2	3	4	3	2	3
	Percent at Risk	16.7	22.2	18.2	16.7	21.4	25.0	21.4	15.4	25.0
	Comm at Risk (US$m)	40.0	47.4	52.0	47.4	78.8	80.2	22.4	26.6	62.6
	Percent Comm at Risk	24.2	19.7	23.4	17.7	26.4	23.8	7.1	9.8	24.4
Mali	Number of Proj	15	13	16	15	14	10	11	10	12
	Net Comm Amt (US$m)	428.3	386.9	526.8	491.4	545.6	518.2	522.0	432.0	538.4
	Number of Proj at Risk	4	1	1	0	4	1	3	4	2
	Percent at Risk	26.7	7.7	6.3	0.0	28.6	10.0	27.3	40.0	16.7
	Comm at Risk (US$m)	65.3	27.3	40.0	0.0	229.3	21.0	163.5	112.2	42.5
	Percent Comm at Risk	15.2	7.1	7.6	0.0	42.0	4.1	31.3	26.0	7.9
Yemen	Number of Proj	23	22	20	20	19	18	19	17	18
	Net Comm Amt (US$m)	535.9	640.8	587.3	636.0	605.9	675.8	784.0	687.0	747.7
	Number of Proj at Risk	4	3	3	2	2	2	4	1	1
	Percent at Risk	17.4	13.6	15.0	10.0	10.5	11.1	21.1	5.9	5.6
	Comm at Risk (US$m)	62.0	116.8	103.0	78.7	45.7	50.7	98.8	27.5	21.3
	Percent Comm at Risk	11.6	18.2	17.5	12.4	7.5	7.5	12.6	4.0	2.8

Source: World Bank internal database

Appendix Table A8: Ethiopia: Bank's Senior Management, 1998-2007

Year	Vice President	Country Director	Economist
1998	Callisto Madavo	Oey Astra Meesook	Lili Lui
1999	Callisto Madavo	Oey Astra Meesook	Lili Lui
2000	Callisto Madavo	Oey Astra Meesook	Mathew Verghis
2001	Callisto Madavo	Oey Astra Meesook	Mathew Verghis
2002	Callisto Madavo	Ishac Diwan	Miria A. Pigato
2003	Callisto Madavo	Ishac Diwan	Dino L. Merotto
2004	Callisto Madavo	Ishac Diwan	Jeni Klugman
2005	Gobind T. Nankani	Ishac Diwan	Jeni Klugman
2006	Gobind T. Nankani	Ishac Diwan	Jeni Klugman
2007	Gobind T. Nankani	Ishac Diwan	Jeni Klugman

Source: WB Directory as of 10/04/06

Appendix Table 9: Millennium Development Goals

	1990	1994	1997	2000	2003	2005
Goal 1: Eradicate extreme poverty and hunger						
Income share held by lowest 20%	..	..	..	9	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	..	47	..	38
Poverty gap at $1 a day (PPP) (%)	..	..	..	5	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	..	23	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	*46*	*44*	..	..
Prevalence of undernourishment (% of population)	..	..	..	..	46	46
Goal 2: Achieve universal primary education						
Literacy rate, youth total (% of people ages 15-24)	43	..	..	..	..	..
Persistence to grade 5, total (% of cohort)	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	25.5	15.6	23.9	36.7	49.6	55
School enrollment, primary (% net)	..	..	..	36	42	61
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	..	..	2	*2*	*8*	*21.2*
Ratio of girls to boys in primary and secondary education (%)	..	..	..	64.6	68.6	76.1
Ratio of young literate females to males (% ages 15-24)	66.1	..	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	41	41	41	41	41	41
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	38	54	51	52	55	59
Mortality rate, infant (per 1,000 live births)	122	..	..	92	..	80
Mortality rate, under-5 (per 1,000)	204	..	..	151	..	127
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	..	..	*5.6*	..	*5.7*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	850	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Contraceptive prevalence (% of women ages 15-49)	4	..	..	8	..	15
Incidence of tuberculosis (per 100,000 people)	128.4	205.3	260	307.4	344.4	343.9
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	1
Tuberculosis cases detected under DOTS (%)	..	..	21.9	32.8	35.3	32.7
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)					0.1	..
Forest area (% of land area)	14	..	..	14	..	13
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	3	2	3	3	3	3
Improved sanitation facilities (% of population with access)	3	..	..	..	..	13
Improved water source (% of population with access)	23	..	..	..	..	22
Nationally protected areas (% of total land area)	..	..	..	..	..	18.6
Goal 8: Develop a global partnership for development						
Aid per capita (current US$)					23.2	27.2
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	38	15	10	15	7	6
Fixed line and mobile phone subscribers (per 1,000 people)	2.5	2.5	2.6	3.9	7.8	14.3
Internet users (per 1,000 people)	0	..	0.1	0.2	1.1	2.3
Personal computers (per 1,000 people)	..	..	..	0.9	2.2	3.2
Total debt service (% of exports of goods, services and income)	39	16	10	13	7	4
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	11.2
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	4.1
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	7.7
Other						
Fertility rate, total (births per woman)					5.5	5.3
GNI per capita, Atlas method (current US$)	240	170	150	130	110	160
GNI, Atlas method (current US$) (billions)	12.1	9.6	8.7	8.1	7.6	11.1
Gross capital formation (% of GDP)	12.9	16.4	19.4	20.5	22.7	26.3
Life expectancy at birth, total (years)	45	..	43.3	42.3	42.3	42.7
Literacy rate, adult total (% of people ages 15 and above)	28.6	..	..	..	..	..
Population, total (millions)	51.2	54.9	59.8	64.3	68.6	71.3
Trade (% of GDP)	14.4	21.2	30.5	37.5	43.9	55.5

Source: World Development Indicators database, April 2006

Appendix B: Guide to IEGWB's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of IEGWB's country assistance evaluation (CAE) methodology.[1]

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEGWB rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

[1] In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program

5. IEGWB measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities, the consistency of the Bank's lending with its nonlending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, IEGWB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEGWB's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and nonlending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. IEGWB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
Moderately Satisfactory:	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated at the project level as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

11. **Sustainability** can be rated at the project level as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

12. **Risk to Development Outcome.** **A**ccording to the 2006 harmonized guidelines, sustainability has been replaced with a "risk to development outcome," defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, non-evaluable.*

Appendix C: IFC's Experience in Ethiopia, 1996-2007

Summary

In view of the poor investment climate and uncertain political environment during the period under review, IFC was unable to contribute to Ethiopia's development. No direct IFC investments were made during the period and IFC appropriately focused on Advisory Services. However, while several Advisory Services projects were completed, there was no significant implementation of the recommendations because of limited government receptivity as well as preoccupation of the authorities over the conflict with Eritrea. While weaknesses in the business environment remain, gradual improvements are being made that may increase the opportunities for effective Advisory Service work as well as potential investments over the next Country Assistance Strategy period.

A. Background

Since the early 1990s, Ethiopia has been in a gradual transition from a public sector-dominated command economy toward an open market economy. Reforms over the past decade in Ethiopia's transition from a socialist economy include the removal of most price controls; trade liberalization and rationalization of tariffs; deregulation of the labor market; and fiscal and monetary reforms that maintained macroeconomic stability. Reforms have not been comprehensive, however, and a broad agenda to improve the business environment for the private sector remains to be implemented. Privatization has proceeded unevenly and the public sector still plays a large role in commercial activities, undermining the competitive environment. Restrictions on foreign investment, particularly in the banking sector, have been in effect throughout the past decade. The state owns all land and poor infrastructure and lack of access to basic utilities in many parts of the country constrain commercial activity. The period under review was also marked by three distinct crises: the 1998-2000 border conflict with Eritrea, a severe drought in 2002-03, and a political crisis following the elections in 2005. Attributes in Ethiopia that offer potential business opportunities include favorable conditions for a diverse range of agricultural products and agro-processing; a large livestock population; fisheries resources; historical and cultural attributes for tourism development; hydropower potential; some mineral resources; and one of the largest domestic markets in Africa (by population).

B. IFC Objectives in Ethiopia

IFC's focus in Ethiopia has been on Advisory Services in light of a restrictive environment for the private sector. World Bank Group Country Assistance Strategies for Ethiopia over the past decade indicate that IFC sought to complement the World Bank's analytical and advisory work with Advisory Services on private sector development, including in areas such as sources of growth, SME development, administrative barriers to investment, and investment/export promotion strategies. IFC Advisory Services also aimed to support the design of financial sector reforms, including legal and regulatory changes and formulation of a financial sector development strategy. In the late 1990s, IFC also sought opportunities to support privatization of selected public enterprises and finance their rehabilitation and expansion. At several points during the past decade – particularly in 1998-2000 and toward the end of the period under review - IFC also emphasized its efforts to explore investment projects in Ethiopia, including possibilities in the leasing sector, privatization in the banking sector, and in export-oriented processing industries.

C. IFC Activities in Ethiopia since 1996

Several IFC Advisory Services projects were undertaken in the financial sector and business enabling environment. Eleven IFC Advisory Services projects were approved over the past decade. Nine of these projects were completed during 1997-2002 and were predominantly in the financial markets sector, including analysis of the financial sector; strategic, management and operating advice to the Bank of Abyssinia; feasibility studies in the leasing sector; a market study on the demand for venture capital; and establishment of a stock exchange in Addis Ababa. Three FIAS projects focused on the business enabling environment: a 1997 review of the investment climate and approval process for foreign direct investment; assistance in 2000 to help the investment promotion agency develop a basic strategy for promoting FDI; and follow-up assistance in 2001 to help the agency strengthen its capacity for investment promotion. Several other advisory projects were initiated, but were not completed, including projects to support privatization of the Ethiopia-Djibouti Railway Concession; improve water and wastewater utilities; and improve the environment for SMEs. The two more recent projects comprised a joint effort with MIGA in 2004 to further assess the needs of the investment promotion agency; and an effort initiated in FY07 to help develop the Ethiopian Business Forum as a means to generate private sector advocacy of reforms. Through its Africa Project Development Facility (APDF), IFC also provided firm-level technical assistance that helped three client companies obtain financing in 1999-2000, in the flowers, silk thread manufacturing, and leather garment manufacturing industries.

No direct investments were made in Ethiopia. Despite efforts to seek projects to finance directly, IFC did not make any direct investments in Ethiopia during the period under review. In 2002, IFC invested in a South African bottling company to help it expand into five East African countries, including Ethiopia. To support the company's access to long-term local currency finance in Ethiopia, the financing package that was approved included a US$6 million guarantee to the Commercial Bank of Ethiopia as security against the company's domestic borrowing. However, despite a year of negotiations, this effort was eventually prevented by Central Bank regulations. In FY06, an additional facility was granted for the bottling company's East Africa operations that included US$5.0 million for Ethiopia. In 1998, a US$8 million investment in a tannery producing finished leather goods for export was approved. However, due to several reasons, including the conflict with Eritrea, the death of the company manager, and difficulties in securing complementary debt financing, the project was subsequently dropped. In 2002, a US$1 million loan to a greenfield export-oriented rose farm was approved although this project was also dropped when the foreign technical partner withdrew.

A field presence was established in 1997 and then closed in 2000 due to the absence of investment opportunities. In an effort to enhance the prospects of developing investment projects, in 1997, IFC established a field office in Addis Ababa under IFC's Special Enterprise Fund initiative and assigned a senior investment officer to the office. During the first year of operation, the office received a range of investment inquiries and several Advisory Service operations were also developed during this period. With the outbreak of the conflict with Eritrea in mid-1998, however, the prospective investment projects were cancelled and the implementation of Advisory Services projects was adversely affected. Due to the continuing uncertain environment, in mid-2000, the office was closed and IFC's operations in Ethiopia have since been managed from Nairobi, Kenya.

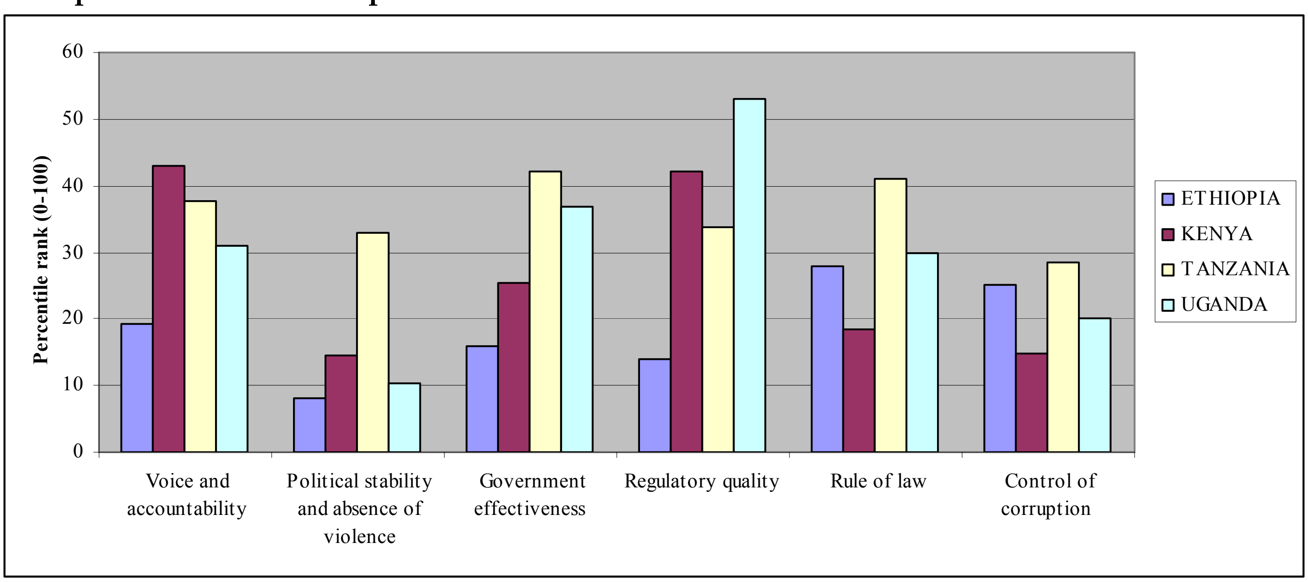
D. IFC's Contributions to CAS goals

IFC's Advisory Services had limited success. Due in part to the conflict with Eritrea, which distracted government attention following several initiatives in the late 1990s as well as limited acceptance and implementation of IFC recommendations on improving the business climate, IFC's advisory services have had limited success. Efforts to support development of the stock exchange in 2000 were abandoned due to an unready Ethiopian market for a full-fledged stock exchange and lack of support from the regulators. In 2005, IFC initiated an effort to advise the government on the Ethiopia-Djibouti Railway concession process, based on its positive prior experience with the Kenya-Uganda railway concession. While IFC was able to have a modest influence on the process, it was unable to play a leading role as the government's timetable and approach for processing the concession differed to that proposed by IFC. Following a study on the leasing sector, IFC decided to forego advisory services in leasing as it would not have been able to follow its assistance with an investment in the sector (which is current best practice) due to the prohibition on foreign investment in the financial sector. Efforts in the late 1990s to develop the private equity and leasing markets were severely impeded by outbreak of the conflict. FIAS work that aimed to reduce administrative barriers to investment and improve the functioning of the investment promotion agency also had limited success and a 2006 MIGA review of the agency's ability to meet investor information requirements found that its performance was still "very poor"1. In the water sector, while past efforts have had limited success, IFC and the WB are currently preparing an Options Study for private participation in the Addis Ababa Water and Sewerage Authority's ambitious expansion program.

Support for privatization was disrupted by border conflict and inconsistent progress on the privatization agenda. IFC also had no success in its efforts to support privatization. In the mid-1990s, the newly established Ethiopian Privatization Agency launched a broad privatization program. Good progress was made initially in privatizing about 200 small and medium enterprises in the trade and other service sectors but the privatization of larger enterprises was less successful. In 1997, IFC began to seek opportunities to support privatization of some of these larger enterprises and finance their rehabilitation and expansion. The conflict with Eritrea from 1998-2000 postponed the privatization agenda, however, and prevented any transactions from being realized. While the privatization program was restarted in 2001, progress has been uneven and slow. Factors limiting the success of the program included perceptions by potential buyers that the government set prices too high in an effort to maximize revenues; limited availability of commercial bank credit for local investors; and difficulties in obtaining audited accounts of enterprises for sale.[2]

The poor investment environment during the past decade hampered realization of investment projects. IFC's ability to develop investment opportunities in Ethiopia was limited by continuing weaknesses in the investment code and administrative barriers to private, particularly foreign, investment as well as ineffective implementation of the privatization and export promotion programs. A prohibition on foreign currency borrowing by the private sector other than direct export earners has restricted the potential to support companies serving the domestic market as well as suppliers to exporters. In the financial sector, the prohibition on foreign participation in financial institutions prevented development of several project opportunities. The financial sector, meanwhile, remains dominated by the state commercial bank and focused on provision of credit to the government and short-term financing.[3] The land tenure system under which the government owns all land and provides long-term leases to users, also continues to hamper growth in the industrial sector due to the inability of the private sector to use land as loan collateral. Public sector monopolies or dominant positions persist in the banking, transport, telecommunications, electricity, and other commercial sectors and the competitive environment is further undermined by politically-linked "foundation" companies that compete with the private sector.[4] The 2007 Global Competitiveness Index ranks Ethiopia near the bottom of the list – 123rd out of a total of 128 countries.[5] Key measures of Ethiopia's governance environment are also significantly worse than neighboring countries, particularly "regulatory quality," which reflects the government's ability to "formulate and implement sound policies and regulations that permit and promote private sector development" (Chart 1). The average gross fixed capital formation in the private sector as a percentage of GDP in Ethiopia is lower than Tanzania, Uganda and Kenya. As a result of low private sector investment, IFC's opportunities were constrained in Ethiopia (Tables 4, 5 & 6).

Chart 1. Significant weaknesses in governance have undermined the environment for the private sector in Ethiopia[6]



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2006: Governance Matters V: Governance Indicators for 1996-2005.

Some internal factors may have also undermined IFC's ability to exploit the relatively few opportunities in Ethiopia. Although difficult to have predicted, IFC, placed a senior investment officer in Ethiopia at the worst possible time – between 1997-2000, which coincided with the border conflict with Eritrea and considerable instability in the country. The lack of presence in the country since 2000 may have resulted in some lost opportunities as gradual improvements were made in the business environment. In the case of the railway concession, for example, the government initiated the process in 2001. By the time IFC endeavored to engage in the process in 2005, the government was already committed to its timetable and approach and was unwilling to accommodate IFC's advice. Moreover, after 2002, IFC staff were advised to adopt a somewhat cautious approach to developing new investments in Ethiopia due to concerns over unsettled expropriation claims from foreign investors against Ethiopia.

E. Challenges and Opportunities Moving Forward

Gradual improvements in the business environment may open new possibilities for investment. The Ethiopian Investment Agency (EIA) has successfully rationalized several of the procedures for investors and now provides a "one-stop shop" service that has reduced the time and cost of acquiring business licenses. The 2006 Doing Business indicators also show Ethiopia faring better than comparator countries in some aspects, such as starting a business, and paying taxes (Table 1). Moreover, some sectors previously closed to foreign investment have recently been opened – such as power generation and telecommunications for joint ventures with the government. Some progress has also been achieved in the financial sector since 2004, with some growth seen in the private banking sector. Gradual improvements have resulted in an increase in the stock of foreign direct investment in Ethiopia from 14.4% of GDP in 2000 to 24.6% in 2005, which is on par with the 24.7% average in East Africa.[7] According to EIA, examples of foreign investment in the past few years include establishment of a brewery by a French company; an Italian investment in a cotton plantation and ginnery project; and a Saudi investment in an agricultural production project.

Table 1. Recent reforms have made some aspects of the business environment more favorable

Doing Business Rankings 2006	Ethiopia	Kenya	Tanzania	Uganda
Doing Business	***97***	***83***	***142***	***107***
Starting a Business	95	111	127	107
Dealing with Licenses	59	24	172	110
Employing Workers	79	68	143	8
Registering Property	146	115	157	166
Getting Credit	83	33	117	159
Protecting Investors	118	60	99	60
Paying Taxes	31	127	113	43
Trading Across Borders	149	145	67	160
Enforcing Contracts	82	67	65	71
Closing a Business	55	128	105	44

Source: Doing Business 2006. Lower rank is better.

However, Ethiopia remains a difficult challenge for IFC. IFC's inability to make a significant contribution to Ethiopia's development over the past decade is in large part due to a consistently poor business environment as well as hesitant commitment on the part of the government in implementing needed reforms. Nevertheless, given Ethiopia's extreme poverty as well as gradual improvements in the business environment, IFC can play a potentially important role in the country by helping keep necessary reforms to improve the business climate on the agenda; facilitating the opening of specific new areas for investment; and through demonstration effects from future investments. A challenge remains for IFC to find the right balance that allocates sufficient resources to the country to enable development of the relatively few opportunities that are likely to arise in the context of the difficult overall environment that limits the prospects of success. Cooperation with the World Bank in addressing obstacles to doing business to leverage and complement its large assistance program in Ethiopia is warranted. Regular IFC staff visits would help to re-establish IFC's presence and demonstrate IFC's interest in the country.

ANNEX TABLES

Annex Table 1. Doing Business Indicators 2006

STARTING A BUSINESS	Ethiopia	Kenya	Egypt	Uganda	Region	OECD
Procedures (number)	7	13	10	17	11.1	6.2
Time (days)	16	54	19	30	61.8	16.6
Cost (% of income per capita)	45.9	46.3	68.8	114	162.8	5.3
Min. capital (% of income per capita)	1,083.8	0	694.7	0	209.9	36.1
DEALING WITH LICENSES						
Procedures (number)	12	11	30	19	17.7	14
Time (days)	133	170	263	156	230.2	149.5
Cost (% of income per capita)	1,235.5	37.6	1,002.0	832.8	1,024.5	72
EMPLOYING WORKERS						
Difficulty of Hiring Index	33	33	0	0	44.3	27
Rigidity of Hours Index	40	20	60	20	52	45.2
Difficulty of Firing Index	30	30	100	0	44.9	27.4
Rigidity of Employment Index	34	28	53	7	47.1	33.3
Firing costs (weeks of wages)	40.1	47.3	186.3	13	71.2	31.3
REGISTERING PROPERTY						
Procedures (number)	13	8	7	13	7	4.7
Time (days)	43	73	193	227	109.9	31.8
Cost (% of property value)	7.7	4.1	5.9	6.9	11.6	4.3
GETTING CREDIT						
Legal Rights Index	5	8	1	3	4.2	6.3
Credit Information Index	2	2	2	0	1.3	5
Public registry coverage (% adults)	0.1	0	1.5	0	1.5	8.4
PROTECTING INVESTORS						
Disclosure Index	4	4	5	7	4.4	6.3
Director Liability Index	4	2	3	5	4.5	5
Shareholder Suits Index	5	10	5	4	5.2	6.6
Investor Protection Index	4.3	5.3	4.3	5.3	4.7	6
PAYING TAXES						
Payments (number)	20	17	41	31	41	15.3
Time (hours)	212	432	536	237	336.4	202.9
Profit tax (%)	27.2	15.5	12.9	17.8	24.2	20.7
Other taxes (%)	5.6	51	8.6	2.9	33	3.5
Total tax rate (% profit)	32.8	74.2	50.4	32.2	71.2	47.8
TRADING ACROSS BORDERS						
Documents for export (number)	8	11	8	12	8.2	4.8
Time for export (days)	45	25	20	42	40	10.5
Cost to export (US$ per container)	1,700	1,980	1,014	1,050	1,561	811
Documents for import (number)	11	9	8	19	12.2	5.9
Time for import (days)	52	45	25	67	51.5	12.2
Cost to import (US$ per container)	2,455	2,325	1,049	2,945	1,947	883
ENFORCING CONTRACTS						
Procedures (number)	30	25	55	19	38.1	22.2
Time (days)	690	360	1,010	484	581.1	351.2
Cost (% of debt)	14.8	41.3	18.4	35.2	42.2	11.2
CLOSING A BUSINESS						
Time (years)	2.4	4.5	4.2	2.2	2.6	1.4
Cost (% of estate)	14.5	22	22	29.5	16	7.1
Recovery rate (cents on the dollar)	36.9	14.6	16.6	40.4	17.7	74

Source: World Bank Group Doing Business Database 2006

Annex Table 2. Recent FDI Flows into Ethiopia have been below Uganda and Tanzania, but Ethiopia's Average FDI Inflows as a % of GDP is below Tanzania, Uganda and Kenya.

	FDI Net Inflows (BOP, US$M)			FDI Net Inflows per capita			FDI Net Inflows as a percentage of GDP (%)
	2003	**2004**	**2005**	**2003**	**2004**	**2005**	**Average 1990-2005**
Tanzania	527	470	473	14.3	12.5	12.3	2.76
Uganda	202	222	257	7.5	8.0	9.0	2.14
Ethiopia	**465**	**545**	**265**	**6.8**	**7.8**	**3.7**	**2.00**
Kenya	82	46	21	2.5	1.4	0.6	0.25

Annex Table 3: IFC has not limited business in countries with similar Institutional Investor Country Credit Risk Ratings (IICCR) since 1996

Country	FY96-06 Average IICCR scores	Total Disbursed YTD(US$'000)	IFC Committed Balance at end-FY06 (US$'000)
Madagascar	18.0	3,039	0
Moldova	17.8	61,058	5,000
Zambia	17.6	39,889	0
Myanmar	16.8	0	0
Togo	16.8	4,500	0
Nicaragua	16.7	11,500	0
Ethiopia	**16.4**	**0**	**0**
Albania	16.4	60,574	0
Belarus	16.0	41,576	517
Chad	15.8	13,900	0
Georgia	15.7	76,262	35,750
Guinea	15.3	1,749	0
Comoros	15.1	0	0
Angola	14.6	610	0
Tajikistan	14.1	15,234	184

Annex Table 4. Private Capital Flows as a % of GDP, 1995-2005: Ethiopia has the lowest private capital flows as a % of GDP compared with Tanzania, Uganda and Kenya

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Tanzania	2.28	2.31	2.05	2.06	5.98	5.10	5.04	4.43	5.15	4.16	3.78	**3.85**
Uganda	2.11	2.00	2.79	3.19	2.34	2.71	2.67	3.15	3.63	3.35	2.79	**2.79**
Kenya	0.42	0.17	0.39	0.09	0.05	0.93	0.14	0.27	0.81	0.74	0.38	**0.40**
Ethiopia	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2.33**	**0.21**

Annex Table 5. Gross Fixed Capital Formation of the Private Sector as a % of GDP, 1995-2005: Ethiopia's GFCF as a % of GDP is lower than the three comparator countries.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Tanzania	16.22	12.99	11.79	12.69	12.27	11.40	11.23	11.39	11.09	10.92	10.83	**12.07**
Uganda	11.82	12.61	12.91	11.27	13.84	13.25	12.37	13.68	15.41	16.85	16.39	**13.67**
Kenya	13.51	10.25	9.95	10.77	11.06	12.15	11.62	11.16	10.32	10.47	11.61	**11.17**
Ethiopia	**12.65**	**11.29**	**6.50**	**8.19**	**7.54**	**11.85**	**10.93**	**11.70**	**12.24**	**12.36**	**11.38**	**10.60**

Annex Table 6. Total Gross Fixed Capital Formation as a % of GDP, 1995-2005: Ethiopia's Average Total GFCF as a % of GDP is lower than Uganda's.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Uganda	16.37	16.97	16.89	15.92	19.27	19.64	18.17	18.95	20.11	22.05	20.95	**18.66**
Ethiopia	**17.96**	**16.60**	**12.70**	**14.40**	**14.41**	**19.17**	**19.55**	**22.45**	**21.61**	**21.36**	**20.49**	**18.25**
Tanzania	19.60	16.47	14.72	16.02	15.38	17.43	16.81	18.98	18.49	18.20	18.06	**17.29**
Kenya	21.39	16.01	15.39	15.68	15.59	16.71	18.16	17.48	16.12	16.29	18.14	**17.00**

Annex Table 7. IFC Advisory Service in Ethiopia 1996-2006

Approval FY	Project ID	Project Name	Sector/Business Line	Dept/Facility	Approx. AS Costs
2007	553065	Ethiopia Business Forum	Business Enabling Environment	CAFAF; FIAS	$1,500,000
2004	538791	Ethiopian Investment Commission: Needs Assessment Study	Business Enabling Environment	CICFA; PEP-AFRICA	$100,380
2001	169	Assisted the Ethiopian Investment Authority (EIA) in developing a basic strategic approach for promoting FDI in Ethiopia and provided advice improving Ethiopia's business environment.	Promotion Strategy	FIAS	$227,818
2000	168	Provided training to the Ethiopian Investment Agency (EIA) to help strengthen its capacity for investment promotion.	Institutions	FIAS	$202,776
2000	503715	TA to Establish a Stock Exchange in Addis Ababa	Finance & Insurance	CAFFM	$144,000.00
1999	502613	Financial Sector Development- Information Gathering & Economic Analyses	Finance & Insurance	CAFFM	$42,955.00
1998	502823	Plant Equipment Hire Feasibility Study	Rental & Leasing Services	CAFDR	$79,700.00
1998	502614	Market Study for Establishing Venture Capital Comp.	Finance & Insurance	CAFFM	$45,000.00
1997	502276	Bank of Abyssinia - Strategic, Management & Operating Advice	Finance & Insurance	CAFDR	$50,000.00
1997	502274	Equipment Leasing -- Feasibility Study	Rental & Leasing Services	CAFDR	$60,000.00
1997	167	Reviewed the investment climate and the approval process for foreign direct investment.	Diagnostic	FIAS	$118,326
	555885	Addis Water TA	C-BA - Water and Wastewater Utilities	CININ; TATF	
	552205	Ethiopia InfraAd	C-BA - Water and Wastewater Utilities	CASDR; FIAS	
	549748	PEP-SME ETHIOPIA	Other Promotion	CAFAF; PEP-AFRICA	
	24741	Ethiopia-Djibouti Railway Concession	E-AB - Rail Transportation; privatization advisory	CASAF; FIAS	
	500486	C-GCP-CAF-ETHIOPIA	Other Promotion	CAFDR	
	505110	NEW PROJECT EVALUATION-CIT-ETHIOPIA	C - Utilities	CITTM	
APDF Sub-projects					
1999		Meskel Flowers II & III	Agri-Business	APDF	$682,000
2000		Nefas Silk Thread	Manufacturing	APDF	$500,000
2001		Eth-Sung Bin	Manufacturing	APDF	$100,000

1. MIGA, Investment Promotion Agency Performance Review 2006: Investor Information Services, IPA Performance Results – Ethiopian Investment Commission (EIC), June 2006.

2. World Bank, Implementation Completion Report, Ethiopia Structural Adjustment Credit, December 2003

3. See IMF The Federal Democratic Republic of Ethiopia: Selected Issues and Statistical Appendix, 2005

4. See IMF, The Federal Democratic Republic of Ethiopia: Ex Post Assessment of Long-Term Fund Engagement, 2005

5. 2007 Global Competitiveness Report

6. Definitions: (i) Control of corruption measures the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests; (ii) Rule of law measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence; (iii) Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development; (iv) Government effectiveness measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies; (v) Political stability and absence of violence measures the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism; (vi) Voice and accountability measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2006: Governance Matters V: Governance Indicators for 1996-2005.

7. UNCTAD, World Investment Report 2006

This Country Evaluation Note was prepared by Asita De Silva (Evaluation Officer) and Vicky Viray-Mendoza (Evaluation Analyst) under the direction of Linda Morra (Head, Macro Evaluation) and Amitava Banerjee (Manager, IEG-IFC).

Appendix D: CAS Benchmarks and Targets (FY98-06)

The 1997 Country Assistance Strategy

I. Policy and Capacity	
Objectives	***Progress Benchmarks***
Maintain a policy framework conducive to putting the economy on a growth path of 7-8% that will double per capita income in 15 years and substantially reduce poverty. Relatedly strengthen the capacity to effectively and flexibly implement policies and projects. A key element is the development of the private sector.	• GDP growth of 7-8% per annum. *(i) Stabilization* • Maintain solid performance on macroeconomic stability • Inflation rate in single digits. • Continue policy of no or limited recourse to bank borrowing for financing the fiscal deficit. Increase utilization of external concessional assistance for financing the deficit. • Aim to maintain substantial international reserves; in case of adverse exogenous shock, reserves not to fall below 4 months of imports (except when necessitated to prevent famines resulting from severe droughts) • No recourse to public or publicly guaranteed external borrowings on commercial terms. *(ii) PSD* • Relax investment code restrictions. • Strengthen facilitation capacity of national and regional investment authorities. • Eliminate sector ministries' duplication of regulatory functions. • Streamline, deregulate private investment licensing and approval. • Complete 2nd round divestiture of 50 PEs. Accelerate privatization to cover larger PEs in the tradable sector. • Improve modalities of EPA privatization process. • Simplify/liberalize foreign exchange bureau operations. • Eliminate foreign currency declarations for visitors. • Liberalize export proceeds retention. • Liberalize current account. • Remove ban on non-guaranteed foreign borrowing by the private sector. • Reduce variance of import tariffs and liberalize import licensing. • Substantial increase in private investment. • Revise structure of interest rates, widening loan-deposit spreads and allowing banks greater discretion in setting rates. • Remove ceilings on interest rates for micro credit that are so low as to prevent access. • Open at least some banking activities to foreign banks and allow them to make equity investments. • Reform state-owned banking sector. • Substantially relax restrictions on foreign investments, including in infrastructure. • Streamline leasehold access – adopt 90 day limit for approvals. Increase frequency and efficiency of lease auctions in urban areas. • Extend lease auction system for commercial farming and tourism. • Facilitate mortgageability and transferability of lease titles.

	(iii) Capacity • Adopt comprehensive action plan for addressing capacity constraints. • Launch campaign to raise awareness in the bureaucracy of the reforms program and to change attitudes. • Effective implementation of the grant for building capacity in the PM's office. • Meeting of the "Project Managers Club" held on a quarterly basis. • Disbursement ratio on existing portfolio rises from around 14% in FY97 to 17% by FY98; 18% in FY99 and 21% in FY00. • Complete the ongoing restructuring of projects in FY98. • Consistency between the policies enunciated and their implementation in practice. • No IDA financed projects to be rated unsatisfactory on either development objectives or implementation (currently 3 projects are so rated). • Faster utilization of concessional aid (at least 75% grant element) not to be constrained by financial programming targets (either fiscal or BOP current account).
II. Infrastructure	
Objectives	***Progress Benchmarks***
Strengthen physical infrastructure of transport, energy and telecommunications to sustain economic growth target. Roads, in particular, are needed for providing the poor with access to markets, social services, and targeted interventions (especially disaster relief) and to facilitate their participation in both economic growth and direct poverty alleviation measures – 75% of farms more than half a day's walk from nearest road.	• Road network to increase by 80% in 10 years and proportion in "good" condition from 45-50% to 68%. • Power generation to increase by 644 Gw/h and dependable capacity by 184 Mw by 2002, when the Energy II project is completed. • Meet 100% of new connections requests once the Power Distribution Project is completed. • Ease restriction on private investment in power and telecommunications. • Establish Road Fund.
III. Sources of Growth	
Objectives	***Progress Benchmarks***
Focus on areas/sectors that will be crucial to achieving the GDP growth target and yield a pattern of growth which will be particularly conductive to the poor sharing in the benefits of growth. This entails special attention to accelerating growth in agriculture, exports and small & medium enterprises.	*(i) Agriculture/ Rural development* • Trend agricultural growth rate of 5%. • Increased use of fertilizer and improved seeds. • Expanded domestic consumption and exports of livestock products. • Reduce regional variance in food prices. • Reduce proportion of farms more than half-a-day's walk from nearest all-weather road from 75% to 50% over 5 years, and 25% over 10 years. • Implement the National Environment Action Plan *(ii) Exports* • Assure speedy access to free-trade status for all direct and indirect exporters. • Provide easy access to preshipment export finance (e.g., allowing import finance based on foreign commercial credits). • Remove hindrance to exports caused by export price "guidance" by the central bank (NBE). • Provide quick access to land for exporters (via improving land lease and supply system). • Put in place simplified procedures for various forms of export-oriented foreign/Ethiopian firm collaboration not limited to equity investment.

	• Liberalize export restrictions, such as allowing free entry to all stages of coffee production and exports. *(iii) Small and medium enterprises (SMEs)* • Rapid growth of SME sector.
	IV. Poverty and Human Development
Objectives	***Progress Benchmarks***
Improve human capital and provide direct and immediate benefits to the poor as foundation for sustained long-term development.	• Double per capita income over 15 years led by agriculture, exports and SMEs and improve infrastructure. • Commence implementation of a food security strategy. • Prevent famines, including by strengthening early warning systems. • Primarily enrollment ratio of 50% by 2002 (25% in backward areas). • Achieve 70% primarily health care coverage by 2002. • Child malnutrition to be reduced from 60% to 30% by 2004. • Contraceptive prevalence rate increase from present 7% to 15-20% by 2004. • Reduce male/female differential in educational enrollments. • Legal changes pertaining to women's status.

The 2000 Interim Support Strategy

Objectives	***Progress Benchmarks***
• Address the immediate human, infrastructure and economic emergency, and to set the economy back on a path of sustainable economic growth • Tackle weaknesses in the management of the IDA portfolio, which have accumulated during the war and which require urgent attention if an ambitious program of new interventions is to succeed • Engage in longer-term Bank assistance in three areas of critical importance to the Ethiopian economy—food insecurity, the spread of HIV/AIDS, and systemic weaknesses in Ethiopia's capacity to produce and deliver essential services	No specific benchmarks were indicated

The 2003 Country Assistance Strategy

I. Enhance Pro-Poor Growth	
Objectives	***Progress Benchmarks***
Accelerating rural growth	• Reduce rural poverty headcount • Increased rural access to finance • Increased agricultural productivity • Reduced perception of tenure insecurity
Fostering an enabling environment for urban growth	• Reduce urban poverty headcount • Growth of private sector value added in GDP, growth in domestic investment, and increase in FDI • GDP value added/ number of firms brought to the point of sale/privatized • Reduced cost and time for acquiring urban land • Reduced cost and time for registering new businesses

Supporting development of financial markets	• Increase market share of private sector banks • Reduce share of NPLs in banks' portfolios • Increase private sector credit to GDP
Promoting rapid growth of exports	• Increase in exports to GDP ratio
Availability of infrastructure	• Reduction in logistics/ transportation costs • Increase in road density per RSDP indicators • Access to power, energy and water
Ensuring a continued stable macroeconomic framework	• PRGF quantitative targets met
II. Enhance Human Development Outcomes by Improving Governance	
Objectives	***Progress Benchmarks***
Improving delivery of education services	ESDP II indicators including • Improvement in primarily education completion rates • Improvement in grade 1 and 2 survival rates • Reduction in primary education pupil-teacher-ratios • Reduction in primary education pupil-textbook-ratios • Reduction in primary education pupil-classroom-ratios • Improvement in gender parity in enrollments and completion rates • Share of budget to primary education
Improving delivery of health services	• Improvements in EPI coverage • Increase in ante-natal care coverage • Increase in contraceptive coverage rate • Increase in the coverage of health services • Reduction in malaria cases • Share of budget to primary health care
Improving delivery of clean water supply and sanitation services	• Percent of population with access to improved water source and sanitation
Support empowerment of communities in the utilization of public resources	• Improved quality of representation by local executives within woredas and municipalities • Increased accountability of local government staff to elected officials, and communities during budget formulation and execution
Strengthening the public sector enabling environment at federal, regional, and local levels	• Passage of enabling legislation for woredas and municipalities (including exp and revenue assignments) • Legislative benchmarks: adoption of key legislation on financial and personnel mgt (such as new chart of accounts, position classification system) • Size and Performance of grants or transfers, and improvements in own revenue mobilization in municipalities and woredas • Systems development benchmarks: Acceptance sign-off and completion of roll-out of financial and personnel systems • Institutional quality benchmarks: Compliance with financial calendar, issuance of interim budget estimates, submission of expenditure returns, budget variance, in-year predictability of fiscal transfers, transparency of personnel redeployments • Design of PSCAP as a federal specific purpose multi-sector capacity building grant to support all levels of government
Empowering, restructuring, and improving performance	

in ministries, bureaus, woredas, and municipalities	• Overall numbers of Ministries, Agencies, Bureaus, Woredas, and Municipalities participating in and completing corporate restructuring processes • Disaggregated administrative overhead and unit costs
Empowering civil society	• Increased responsiveness of local level budgets and service delivery • Increased legislative and external scrutiny of expenditure management decisions and processes including compliance with financial calendars, and appropriations processes • Improve female participation rates in decision making activities
Improving Monitoring and Evaluation (M&E) systems	• Increased use of data in PRSP monitoring
III. Reduce Vulnerability	
Objectives	***Progress Benchmarks***
Reducing vulnerability of the economy to terms of trade shocks	• Reduction in the volatility of export revenues • Increase in the diversity of exports and revenues
Reducing risk-included poverty traps for households and irreversible losses in human capital	• Decrease in chronic and transient food insecure population as a share of the whole population • Reduction in the share of population dependent on food aid • Increase in the number of small scale irrigation and soil conservation schemes • Increase in the population with access to micro-credit • Reduction in the inter-seasonal/inter-year volatility of domestic grain prices
Improving food aid delivery and other safety net instruments	• Increase in amount of cash aid relative to food aid for addressing food insecurity • Increase the share of food aid earmarked for long tern asset accumulation or asset protection
Reducing child malnutrition	• Reductions in under-5 stunting and wasting rates • Improvement in use of growth monitoring and IMCI
Enhancing programs to fight against HIV/AIDS	• Halting increase in the spread of AIDS • Orphans as share of all children
Increased attention to environmental issues	• Increase population with access to clean water and sanitation • Progress toward MDG of reversing loss of environmental resources

The 2006 Interim Country Assistance Strategy

Objectives	***Progress Benchmarks***
Overarching Objective: Developing, achieving consensus with citizens on, and implementing a strengthened program of institution building and governance reform with the goal of accelerating pro-poor growth.	• Building on existing initiatives, Government has developed, consulted with civil society (including the private sector), and begun to make progress in implementing a strengthened program of institution building and governance reform. • Government has taken adjustment measures to remove the subsidy on fuel prices and bring electricity tariffs to sustainable levels, with complementary actions to mitigate the impact on poor people.
Deepening Ethiopia's 'Core' Governance Program	• Strong implementation of recent agreements under PSCAP to enhance meritocracy in public service, expand woreda benchmarking to allow improved tracking of local government performance, and strengthen local-level consultation and redress mechanisms

	• Consolidation of federal and regional budgets, including all extra-budgetary accounts • Agreement between Government, the World Bank, and donors on plans for implementation of an integrated financial management information system (IFMIS) to facilitate federal and regional budgeting processes, strengthen public sector financial management, and improve fiduciary oversight • New federal remuneration policy in place • Increased number of ministries, agencies, and bureaus restructured and having adopted performance policy • Increased number of Regions and woredas that disclose public budget information at Regional, woreda and sub-woreda level. • Increased number of basic Service Providers disclosing facility budget and resource information and performance indicators in facilities for public consumption and comment
Providing basic services for poor people in a fair and accountable way	• Intergovernmental transfers reach intended recipients (regions and woredas) according to agreed distributional formula • Increased number of bednets distributed • Increased number of doses of vaccine procured • Increased percentage of facilities without stockouts of injectable contraceptives in the last 3-months • All chronically food insecure households covered under a multi-annual predictable safety net • Livelihoods of chronically food insecure households strengthened as reflected in improved productive asset base
Enhancing the investment climate and raising investor confidence	• Legal and judicial reform program established with a focus on Code of Civil Procedure • Competition policy under effective implementation • Simplified and faster business registration and licensing processes • Reduction in number of steps required to obtain and register land lease • Increased number of firms applying for and receiving grants for business development services • Increased share of enterprises with audited financial statements • Introduction of new financial products that are better tailored to borrowers' needs and can help lower the risks and costs faced by both borrowers and lender
Increasing agricultural productivity	• Increased capacity for agricultural research in the Ethiopian Agricultural Research Organization (EARO) and universities • Agreement on pilot initiatives to explore alternative institutional arrangements for delivery of extension services (private sector, NGOs)
Developing infrastructure to support development of towns and growth corridors	• More spending per capita on local infrastructure and services by urban local governments • Participatory planning and budgeting adopted in an increased number of urban local governments • Increased number of km of federal trunk, link and regional roads upgraded or constructed • Agreement on a work plan for scaling up of community roads in place • Increased number of rural communities with access to telephones, in a cost-effective manner • Increased number of people covered by new or rehabilitated water supply schemes in urban and rural areas • Increased number of rural towns electrified

Appendix E: List of People Met

Dr. Mulat Demeke, AAU - Economics Department, AAU
Dr. Belay Simane, Associate Professor and seed Specialist, Institute of Development Research, AAU - IDR
Dr. Workneh Negatu, Coordinator, Institute of Development Research, AAU - IDR
Ato Tekaligh Gedamu, Abysinai Bank
Ato Yaborwork Haile, Director, ACORD, ACORD
Ato Berhanu Deresa, City Maier, Addis Ababa Caretaker Administration
Ato. Fekadu Mogus, Deputy Secretary General, Addis Ababa Chamber of Commerce and Sectorial Associations
Dr. Tasewe W/Hana, Addis Ababa University
Wzo. Tigist Tesfaye, Project Officer, AEMFI, AEMFI
Dr. Bezabih Emana, President and SID consultant, Agriculture Economic Society Ethiopia, AESE
Tefera Derebewe, Agriculture and rural dev
Dr. Tadele Tefera, Research and Extension Director, Alemaya University, Alemaya University
Wzo. Asnakech Thomas, General Manger, Amaro Gayo Coffee and Bonnie Agro Industry PLC
Gashaw Bimrew, Secretary General, Chamber of Commerce and Sectorial Association, Bahar DAR
Dr. Yalew Endaweka, Vice President, Bahar Dar University
Ato Ayelaw Gobeza, Regional President, Bahar Dar, Amharic Region
Ato Demeke Mekonnen, Decentralization & Capacity, Bahar Dar, Amharic Region
Ato Mameru Tsediku, Water & Natural Resources, Bahar Dar, Amharic Region
Ato Muluken Lakachew, Water & natural resources, Bahar Dar, Amharic Region
Ato Abebe Haddis Wube, Manager, Credit Department, Bank of Abyssinia
Ato Hailu, Head BOFED, BOFED
Ato Tolosa, Head of BOFED, BOFED
Ato Adamu, Bureau of Capacity Building
Mr. Gerhard Mai, Program Coordinator, Capacity Building in Governance
Mr. Samia Zekaria, Gen-Manager, Central Statistical Office
Wz Almaz Abebe, Chairwoman, CFAA
Wzo. Tigist Alume, Director, Consortium of Reproductive Health Associations, COHRA
Ato. Getahew Cherinte, Manager, Crop Life Ethiopia
Ato Addisu Leggese, Deputy Prime Minister
Ato Simone Mechale, Commissioner, DPPC
Wzo. Hanna Masibo, Head Women's Affairs Dept, DPPC
Dr. Tadesse Biru, Associate Member, Development Studies Associates, DSA
Ato Newai Gebre-Ab, Econ Dev Research Institution
Dr. Gezahegn Ayele, Head, Agriculture Research, Ethiopian Development Research Institute
Dr. Tsedeke Abate, President, Ethiopian Institute for Agricultural Research, EIAR
Ato Afework G.Eyesus, Dep Gen-Man Eth Social Rehab Dev Fund, ESRDF
Ato. Hailu Gebre Hiwot, President, Ethiopian Coffee Exporters Association
Wzo. Amelework Getahun, Secretary General, Ethiopian Coffee Exporters Association
Ato Ledetu Ayalew, Member of the Parliament, EUDP-Medhin Party
Ato Mekonnen Manyazewal, State Minster, Finance
Prof. Baheru Zewdie, Director, Forum for Social Studies, FSS
Ato Akililu Kidanemariam, FPMU/EDRP
Ato. Tsegaye Abebe, Managing Director, Horticulture Producers and Exporters Association

Ato Samuel Alemayeu, Head of Secretariat, House of Federation
Ato Habtamu Nini, Head, House of Federation
Ato Ethiopia Beyene, Deputy Chairman, House of People's Representatives
Wzo. Gifty, Deputy Chairman, House of People's Representatives
Ato. Zegeye Asfaw, General Manager, Hundee (Oromo Grassroots Development Organization)
Ato . Mekonnen Tola, Project Coordinator, Inter-African Group, IAG
Wzo. Beletu Mengistu, Director, (AIDs Related Organization), ISAPSO
Ato. Tesfalidet Hagos, Manager, Livestock Exporters Association
Ato Abadi Zemo, Vice President, Tigray Region and Head, Capacity Building Bureau, Mekele, TIGRAY
Pres. Tsegaye Berhe, President, Tigray Region, Mekele, TIGRAY
Mr. Assefa Gebresilasie , President, Private Sector, Mekelle Chamber of Commerce, TIGRAY
Mr. Ghbre Teklu, Secretary General, Private Sector, Mekelle Chamber of Commerce, TIGRAY
Ato Gemeda Aleme, Program Manager, Emergency Recovery Program Management Unit, MFED
Ato Fikru Dessalegn, State Minster, Min of Capacity
Ato Bezabeth Gebreyeas, Director, Civil Service Reform Program, Min of Capacity Building
Dr. Solomon Moges, Head Higher Education, Min of Education
Dr. Teshome Yizengaw, former Vice Minister for Higher Education, Ministry of Education
Ato Melakuy Fanta, State Minister, Ministry of Federal Affairs
Ato Serage Segasa, State Minister, Ministry of Federal Affairs
Ato Gulilat Birhane, Head, Planning & Projects, Ministry of Water Resource
Ato Ahmed Mohammed, Ministry of Capacity Building
Dr. Kebede Woru, Ministry of Health
Dr. Tedros Adhanom Ghebreyesus, Minster of Health, Ministry of Health
Ato Gulilat Berhane, Advisor to the Minister of Water, Ministry of Water
Ato Siraj Fegessa, Minster, Ministry of Federal Affairs
Ato Tadesse Haile, MIT
Dr. Adhana Haile, State Minister, Ministry of Education
Ato Dego Lakew, Head of Accounts, MOFED
Ato Musa Mohammed, Expenditure Management and Control Reform Program, MOFED
Wzo Aster, Head of Accounts, MOFED
Gleen Anders, USAID/Ethiopia, MOFED
Assefa Ashengo, MOLSA
Wzo. Hellina Kassahun, Program Manager, Network of Ethiopian Women's Associations, NEWA
Ato Teferra Beyne (Jagan), Nile Basin Initiative
Mesfin Megestu, Office of Federation
Ato. Tezera Getahun, Director, Pastoralist Forum Ethiopia, PFE
Mr. Desta Bizuayene, Manager, Photo Desta & Desta Bricks Factory
John Skibiak, Regional Coordinator, Population Council
Ato Bulcah Demeksa, Position Group
Ato. Ahmed Nuru, Vice President, Privatization Agency
Ato Beyene Gebremiskel, General Manager, Privatization and PE Agency
Ato. Berhanu Geleto, Director, Rift Valley Children & Women Development Association, RCWDA
Dr. Getachew Alemayehu, Head, Regional Research Institute
Ato Zaid Woldegebrel, Dir-General, Roads Authority
Ato. Tsegaye Abebe, Chairman, Seed Growers Association
Dr. Sema Debela, Former Director of EIAR, Private Consultant, Sema
Kefyalew Kinfemichael, Bureau Head, Bureau of Labor & Social Affairs, Tigray region
Dr. Merara Gudina,, Professor of International Relations, University of Addis Ababa

Wzo. Tisge Haile, Director, Women in Self Employment, WISE
Beneficiaries of health and education projects near the city of Awassa, Southern Region.
Beneficiaries of food security and productive safety nets projects in villages near the city of Mekele, Tigray Region.
Beneficiaries of the public sector capacity-building project near the city of Bahar Dar, Amhara Region

DONORS AND NGOS

Ms. Monique Angus, Canadian International Development Agency, CIDA
Mr. Malcolm Smart, Economic Advisor, DFID
Mr. Paul Ackroyd, Head of Development Cooperation, DFID
Mr. Nicola Delcroix, Head of Development Cooperation, European Commission, EC
Ms. Katja Ahlfors, Deputy Head of Mission, Finnish Embassy, Finland
Mr. Gerhard Mai, Coordinator, Capac Bldg & Governance, GTZ
Mr. M. Niebelungen, Rep. for Mr. Hartmut Troeger of the German Embassy, GTZ
Mr. Toshiyuki Omoto, Head of Development Cooperation, Japanese Embassy, Japan
Mr. Ando Naoki, Deputy Res. Rep., Japan International Cooperation Agency, JICA
Mr. Ketil Kit, Head of Development Cooperation, Norwegian Embassy, Norway
Ato. Ahmed Ali, Country Program Director, OXFAM Ethiopia, OXFAM
Mr. Borja Cortes-Bret, Deputy Head of Mission, Spanish Embassy, Spain
Ms. Vinette Robinson, United Nations Development Program, UNDP
Mr. Kevin Rushing, Deputy Director US Agency for International Development, USAID
Mr. Walter Knausenberger, Regional Environmental Advisor, USAID
Mr. Michael McCord, Project Dev Officer, USAID Democracy & Governance

WORLD BANK

Amin Magdi, Senior Private Sector Development Specialist
Armstrong Jill, Former Country Program Coordinator
Christiaensen Luc, Senior Economist
de Groot David, Senior Urban Specialist
Diwan Ishac, Country Director
Fichtl Florian, Country Manager
Girishankar Navin, Adviser
Haque Trina, Lead Economist,
Klugman Jeni, Lead Economist
Meesook Oey, former Country Director
Merotto Dino, Senior Economist
Nielson David, Senior Economist
Ofosu-Amaah Wafaas, Senior Gender Specialist,
Pigato Miria, Sector Manager
Ritchie Dan, Consultant
Riverson John, Lead Transport Specialist
Roberts Nigel, Country Director
Roche Bob, Lead Sanitary Engineer
Ronsholt Frans, Program Manager
Stiglitz Joseph, former Chief Economist
Theisen Gary, Senior Education Specialist
van Dyck John, Operations Officer
Wiederhofer Ingo, Senior Operations Officer

ATTACHMENT I: COMMENTS FROM THE GOVERNMENT

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
Washington, D.C. 20433
U.S.A.

MULU KETSELA
EXECUTIVE DIRECTOR

Ref: WB/46/08

April 14, 2008

Ms. Cheryl W. Gray
Director
IEGWB

Dear Ms. Gray

Please find attached herewith the revised comments from the Ethiopian Government, on the IEG report sent earlier.

Sincerely,

Mulu Ketsela
Executive Director

cc: H.E. Ato Sufian Ahmed
Minister of Finance and Economic Development
Addis Ababa, ETHIOPIA

Mr. Kenichi Ohashi
Country Director
World Bank Office
Addis Ababa, ETHIOPIA
HQ Country Team

Comments of the Ethiopian Government on the IEG Report Regarding World Bank's Country Assistance

March 27, 2008

1. We have received the IEG document on Ethiopia: Country Assistance Evaluation, 1998 - 2006". Although the assessment is primarily about the achievements of the Bank, specifically in relation to the CAS of 1997 and 2003, and ISS of 2000 and 2006, it inevitably engages in discussions of the performance of the country, which are the focus of the comments below.

2. Achievements of the Bank's objectives and ipso facto the country's performance are evaluated in five areas, namely; pro-poor growth, private sector development, human development, improved governance and post-conflict and emergency rehabilitation. Our comments, therefore, cover each of these areas, excepting the last.

3. To let facts speak for themselves, and weigh IEG's evaluation of the country's performance against the reality on the ground, the MDG consistent socio-economic indicators of Ethiopia are presented upfront in the Table below.

Table 1
MDG Consistent Economic and Social Indicators

A. Growth rates*

	1998-2003	2003-06	2003-07
GDP	2.7	10.7	10.5
Agriculture	-0.6	14.0	13.2
Industry	4.7	8.5	9.1
Services	5.1	8.3	8.6

B. Poverty headcount ratio

	2000	2005	2007
% of population	44.2	38.7	33.4**

C. Universal primary education

	1994	1998	2005	2006
Persistence to grade 5 (cohort %)	38.1	48.1	59.3	
Primary school enrolment (net)		35.5		77.5
Primary school enrolment (gross)		41.8		91.3

D. Reduction of mortality

	1990	1997	2003	2006
Infant mortality rate (per 1000)	122	105	97	77
Under 5 mortality rate (per 1000)	204	172	140	123
Maternal mortality rate (per 100,000)		850	871	673
Children immunization coverage (DPT3) (in percent)	28	67	50	76

E. Insecticide Treated Nets Coverage

	2005	2006	2007	Total
Number of ITNs distributed (in million)	3.95	8.50	8.14	20.59
Number of Households	1.97	4.25	4.07	10.29

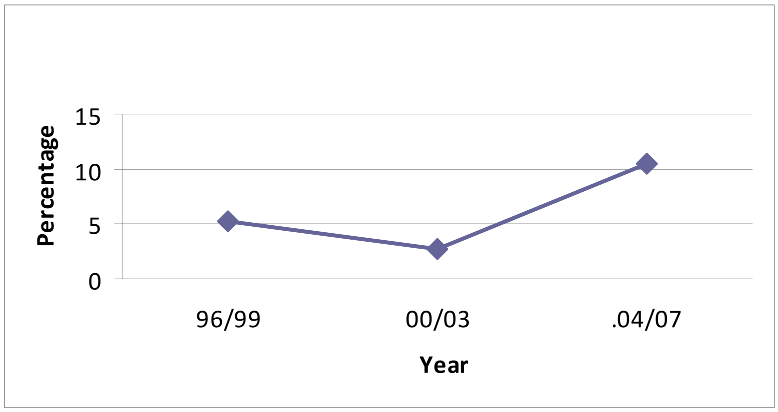
F. Access to Clean Water (% population)

	1995	2003	2006	2007
Rural	19	25	41	46

Urban	80	85	79	82
Total	27	34	47	53

* The revised figures of GDP show an average growth rate higher significantly higher-than 10.5 percent per year. However, since IEG"s data refer to the earlier estimates, the revised figures are not used.
** Estimate based on growth elasticity of poverty headcount reduction.

Fig. 1



Growth Rate of Real GDP

I. GDP Growth Rate:

4. IEG: The growth rate for the entire period of FY98 - FY06 is averaged into an annual rate of 5 percent. This is then found to be below the 7 - 8 percent target of the government as well as the Bank to attain the MDG of reducing poverty by half in 2015 (p.20)[+]. Furthermore, taking a longer period between 1992 and 2005, per capita income measure in terms of US $ Atlas Method, Ethiopia is shown to compare unfavourably with Uganda and Vietnam, as in 1992 the per capita income for Ethiopia was higher than the other two while in 2005 it was considerably below that of Uganda, let alone Vietnam (p.20).

Comment: It is obviously incorrect to compare a country's per capita income between two periods using the US $ Atlas Method, if in the intervening years the domestic currency exchange rate to the US $ is substantially altered. In 1992 the domestic currency exchanged at the rate of 2.07 Birr per USD, being highly over-valued. Consequently the Birr was devalued by 142 percent fixing the rate at 5 Birr per USD in FY 93, and was allowed to depreciate so as to reach an "equilibrium" level of 6.4 Birr per USD by the end of FY95. Thus Ethiopia's per capita income in USD before and after FY96 cannot be compared using prevailing exchange rates.

If comparison is to be made between Ethiopia, Uganda, and Vietnam, the base year would have to shift to 1996 (at least from the perspective of Ethiopia). This would clearly show a narrowing of the gap between Uganda and Ethiopia during 2004-07.

More importantly, the performance of the economy was markedly different between FY98 - FY03 and FY04 - FY06. The average annual growth rate for the six years of the first period was

[+] Refers to page 20 of the IEG report

2.7 percent, while in the second period it was 10.7 percent. Despite these differences in growth rates, the IEG prefers to lump the two periods together and present a single figure for the entire period, which implies that the period of high growth rate is considered as a one-off short-term phenomenon. Indeed the IEG report explains that, "the rapid growth since 2004 was largely attributable to the recovery in agriculture following the earlier years in which the rains failed" (p3). But the recovery story was, in fact, more or less over in FY 2004, and data for FY2007, which IEG could have referred to (in the same fashion as it did with respect to data on inflation), shows that the high growth rate in FY04 - FY06 also continued for the fourth year, with an annual growth rate of 10.1 percent. Thus the available data indicates strongly that there is a point of departure in the performance of the economy starting from FY 2004. The appropriate question that the IEG should have raised is that of sustainability of the 10 percent or so growth rate, rather than discounting the possibility of the economy to undergo a take-off to a higher growth rate.

II. Pro-Poor Growth:

5. IEG: Given that the economy grew at an average rate of 5.3 percent per year during FY98 - FY06, and that the attainment of MDG of reducing the head count ratio of poverty by half requires a minimum of 7 percent of growth rate of GDP, the reader is meant to conclude that Ethiopia will not be able to meet the target of poverty reduction by 2015.

Comment: First the requirement of 7 percent growth rate of GDP kicks off from 2005 and not from FY 1998. This in itself should have made IEG search for any clues of higher growth rate in recent years that would lead to the realization of the 7 percent growth rate.

In FY 2000 the headcount ratio of the population below the $1 per day in terms of purchasing power parity stood at 44.2 percent, and declined to 38.7 percent by FY 2005. During the same period GDP increased by 5.5 percent per year and GDP per capita by 2.8 percent, assuming a population growth rate of 2.7 percent. This would work out to a decline of the headcount of poverty by 0.40 percent for every 1 percent of growth of GDP per capita. Applying this coefficient of -0.40, to the GDP per capita increase of 14.3 percent in the two years of FY06 - FY07, the headcount ratio would be expected to fall from 38.7 percent to 33.0 percent in 2007. Alternately, if a lower coefficient of -0.37 is applied, based on a paper by A.Bigsten et al in World Development, 2003, to the per capita GDP growth of the same two years, the headcount ratio would be expected to fall from 38.7 percent to 33.4 percent. Keeping the GDP growth rate constant at the FY04 - FY07 level, the poverty headcount ratio would fall to 20.5 percent by the end of 2010, or to 21.9 percent (using the lower coefficient of -0.37) compared to 44.2 percent in FY 2000. Alternately, it would suffice for the GDP to grow at an annual rate of anywhere between 6.2 to 6.6 percent during FY2007 - FY2015 to decrease the poverty headcount by half from its level of FY2000. In short, the poverty reduction target, which is perhaps the most important of the MDGs, can be said to be easily within reach for Ethiopia.

6. IEG: Although poverty is predominantly a rural phenomenon in Ethiopia, the prospects for reduction of poverty through improvements in smallholder agriculture are held to be so small as not to merit discussion. The fact that "subsistence farming is dominant in agriculture, with almost 90 percent of the area under cultivation devoted to it" (p3), and, presumably, that only 10 percent is devoted to commercial agriculture appears to be taken as adequate evidence for the impossibility of a meaningful poverty reduction to take place within smallholder agriculture. Noting that two-thirds of the landholdings are less than 1 hectare "which is not adequate to produce enough food

for an average family" (p.5), smallholder agriculture is doomed as stagnant. Hence, the discussion of poverty reduction is confined to non-farm activities.

Comment: For a start the available data on performance of agriculture is given below.

Table 2
Performance of Agriculture

A. Growth rates

	1998 - 03	2004 - 06	2004 - 07
Sector	- 0.63	13.5	12.9
Crops	- 1.43	19.2	17.7
Livestock	- 0.24	4.5	5.3
Forestry	2.8	2.2	2.4

B. Grain production

	1998	2001	2003	2004	2006	2007
Output (in mn tons)	10.3	11	7.4	10.6	14.4	16.1

C. Smallholder agriculture

	1990	1998	2002	2004	2006	2007
Fertilizer consumption (in '000 tons)	146	281	232	323	376	388
Fertilizer procurement (in percent)						
Own finance						27.8
Credit						72.2
Water harvesting structures ('000)					952	

D. Extension service

	2005	2006	2007
Farmer Training Centres	5476	6432	7401
Development Agents	9434	23359	34446

The agricultural sector including crops, livestock, forestry and fisheries grew at an average rate of - 0.6 percent in FY1998 - FY2003, 13.5 percent during FY04 - FY06 and 12.9 percent during FY04 - FY07. Adverse climatic conditions explain the poor performance during FY98 - 03. Particularly output of grains which had reached a peak level of 11mn tons in FY 2001 fell sharply to 7.4mn tons in FY2003. In FY 2004, however, output had almost recovered as shown in the Table above, and reached 16.1mn tons by FY 2007.

While area under cultivation has obviously increased over the long period since the early 1990s, it is obvious that productivity in grain production has also improved as may be inferred from the increase in the consumption of fertilizer. Assuming an application rate of 100 kg per hectare (which is the average recommended rate) the number of small farmers who use fertilizer can be said to have increased from 1.46 million in FY1990 to 3.88 million in FY2007. This implies that no less than one-third, and possibly as high as 40 percent of small farmers (totaling about 12 million) make use of chemical fertilizer, which is a very high ratio in the context of Sub-Sahara Africa.

Underlying the uptake of fertilizer by farmers was the support given through extension services and provision of credit by banks and micro finance institutions. As shown in the Table above there has been a massive expansion of the agricultural extension service resulting in the current ratio of farmers to extension agent of 348, which compares favourably with the FAO recommended ratio of 600 to one. Equally important has been the provision of credit to enable farmers purchase fertilizer. In FY 2007 about 72 percent of small farmers making use of fertilizers were recipients of credit, while 28 percent are thought to have made their purchase from own source of finance. Own financing of the purchase of fertilizer is a recent practice, which evidences increase in cash income and savings on the part of farmers. At the same time it has been possible to provide credit within the formal sector to upwards of 2 million farmers.

Since the harvest failure of FY2003 due to drought, construction of water harvesting structures at the household level has been pursued actively as part and parcel of promoting micro-and small-scale irrigation. By FY 2007 some 953,000 of these structures have been built at farm level. Including other forms of irrigation, over one million farmers are now engaged in irrigation, even if the area under irrigation per farmer may be only a fraction of a hectare. This means that about 10 percent of the farmers have exposure to irrigation. The challenge for the future would then be to improve the practice of irrigation and expand area of cultivation.

The performance of agriculture has depended not simply on expansion of land under cultivation and adverse weather conditions, as IEG claims, but on dynamic changes within smallholder agriculture. Over the years there has been successful diffusion of simple technology comprising the adoption of fertilizer, commencement of the use of improved seed varieties, improved cultural practices and tools, micro- and small-scale irrigation, as well as steady improvement of natural resources through terracing, soil and water conservation, tree planting, regulating free grazing on hill slopes, and watershed management.

Ethiopian agriculture has in fact reached a critical stage of transformation from subsistence production to commercialization of smallholder agriculture. But this is lost on IEG, because it gives no recognition to the fact that smallholder agriculture is an engine of growth in Ethiopia, and attributes, even the double digit growth rate of agriculture in recent years, to "expansion in the area under cultivation" as "agricultural productivity has essentially been flat" (p21).

7. IEG: The recent change in the organizational set-up of the extension service so as to revolve around newly created "Farmers' Training Centre"(FTC), is taken as a reflection of the government's top-down approach. "Consequently" it is held that, "the authorities place little weight on the role of markets as helping economic actors to discover economically viable alternatives and to respond to such learning" (p.21).

   Comment: The FTCs were started inFY05 and at the end of FY 2007 there were 7401. The aim is to reach a total of 15000. Each FTC has a staff of three development agents covering crops, livestock and natural resources. The training for development agents is offered at the post junior-secondary level for three years. Technical backstopping is offered by staff of higher qualification, as is the common practice in any extension service. There is nothing in this arrangement that could substantiate even remotely the conclusion of IEG that the creation of FTCs as the "locus of agricultural extension" is reflective of a top-down approach.

   FTCs are, in fact, part of the drive by the government to foster commercialization of smallholder agriculture. Although their effectiveness has not been assessed, as they have been in operation only three or four years, and it is, at any rate, difficult to measure the net benefit of an extension service in developing countries, it may be noted that the period since the establishment of FTCs has witnessed a sharp increase in agricultural output.

The other contention that the government places "little weight on the role of markets", is simply an allegation, which does not fit the reality on the ground. Commercialization of smallholder agriculture, which is a key policy of the government, speaks of a paradigm shift of the behaviour of farmers and their ability to interact with markets, and not of neglect of markets. Likewise the policy to establish a commodity exchange (of agricultural products) adopted by the government attempts to promote an efficient and transparent market for price delivery, and hence resource allocation by farmers, attest to the importance that the government attaches to well functioning markets.

8. IEG: Having argued, as it were, that the prospects for Ethiopia's agriculture to reduce rural poverty are poor, IEG turns to non-farm activities in rural areas, only to find that these are "unusually low in Ethiopia compared to most African countries" partly due to the land tenure policy "that deters diversification within rural areas as well as rural-urban mobility" (p.23). It goes further to explain that, "without the option of selling family plots when they move, most households have little wherewithal to meet the initial relocation expenses or start-up investment costs" (p.34). In this way, the second leg of rural poverty reduction is also found to be weak.

   Comment: The rural land tenure system of Ethiopia forbids selling of land but, otherwise, allows inheritance and renting of land. On the ground, there is no evidence that either diversification or rural-urban migration has been deterred by this land tenure system. Within smallholder agriculture it is common to find renting of land. For instance inFY02, about 20.2 percent of the holdings were rented out to small farmers. Farmers can thus readily switch their labour partially to non-farm rural activities. Clearly, however, not all of those who rent out their holdings are engaged in non-farm activities, or willing to do so. In other words, there is no evidence of the land tenure system deterring the partial switching of labour into non-farm activities.

   As to complete diversification of activity entailing a permanent switching over of labour from agriculture to non-agricultural activities, be it within the rural areas or migration to urban areas, distinction needs to be made between the head of the household and young members of family. In the case of the latter, whether the land tenure system allows sales of land or not is irrelevant, as they would have no land to sale so long as the head of the household or a spouse is alive. In the case of the head of the household, sales is a possible way out, but it is not the only option as the switch over can be extended over some years during which funds can be accumulated to make the transition without the need to sale, which would have the additional benefit of renting land and getting a second source of income.

   Quite apart from the effect of the land tenure system on shifting from agriculture to non-farm activities, the basic flaw in the argumentation of IEG is that size of the rural non-farm sector by itself cannot be taken as a valid indicator for reduction of rural poverty. A distinction would need to be made between diversification that reflects successful structural transformation of rural economies from that driven by growing land scarcity and poor agricultural growth. It is not the size of the non-farm activities that matters as the process by which these activities emerge. But the IEG could not delve into this as it starts with a pre-determined conclusion that smallholder agriculture is not a credible vehicle for poverty reduction in Ethiopia, as if to negate the government's long -term development strategy of "agricultural-development-led industrialization".

9. IEG: Concurs with the UN Human Settlement Program observation that "the [Government's] preoccupation with agriculture has been a factor behind the reluctance to address the glaring problems of urban Ethiopia, such as rising unemployment, deepening poverty, acute housing shortages.... and problems surrounding urban governance" (p.23).

Comment: "Agricultural-development-led industrialization" (ADLI) was adopted in mid-1990s as a long-term strategy intended to cover two decades. It is a strategy that gives priority to agriculture at the initial stage of growth whilst envisaging a progr essive shift of emphasis towards industry over time. Presumably, it is this strategy that is misread by the UN Human Settlement Program and, apparently, by the IEG as well, leading to a commonly shared assumption that the urban poverty is neglected by the government. The outturn of urban development, however, disproves the perception of IEG.

To start with urban population in Ethiopia has been growing at a comparable rate with other African countries.

Table 3
Growth Rate of Urban Population, 1990 - 2006
(in percent)

Ethiopia	4.4
Ghana	4.2
Kenya	3.7
Nigeria	4.8
Tanzania	4.4
Uganda	4.1

Source: UNICEF; The State of the World's Children 2008, Table 6

There is no indication here that the strategy of ADLI (or the rural land tenure system as argued on page 23 by IEG) has hampered the expansion of urbanization. More specifically IEG's claim that the government has neglected urban development and reduction of urban poverty is baseless. Urban development, both in relation to infrastructure and housing has been encouraged throughout the country since the early 1990s. In earlier years the focus of housing policy was to provide access to urban land with the aim of fostering home ownership. Urban dwellers who did not have their own accommodation were encouraged to form associations for the purpose of construction of housing units according to pre-approved designs. Measures were also taken to facilitate legalization of ownership of dwellings for which title deeds were lacking, by allowing indirect evidences possession to be taken as adequate. Since the launching of PASDEP (Plan for Accelerated and Sustained Development to End Poverty) in 2005/06, however, an ambitious "Integrated Housing Programme" was initiated, revolving around the construction of relatively low-cost apartment buildings. The project has three distinct features. First, access to ownership is based on random selection so as to create equal opportunity for all applicants. Second, the programme serves in part as a means of re-development of un-fit residences and slums within city centres. Third, the scale and depth of the integrated programme is massive by the standard of least-developed countries as shown below.

Table 4
Five-Year Urban Development Programme

A. Housing	Target	Completed	Under construction	Planned for FY2008
- Units, in '000	400	33*	61**	85***

- Jobs created in 2007 and 2008 first quarter	130,000
- Number of small enterprise created	2800
B. Micro and small enterprises (MSEs)	
- Number of production premises	537
- Number of MSEs created	22,723

- Jobs created	200,000
- Credit extended in FY2007	534 million birr

* in Addis Ababa only
** in Addis Ababa and other 35 towns
*** in Addis Ababa and other 54 towns

The urban development programme summarised above, was initiated in Addis Ababa in 2004, and was scaled up at countrywide level in 2006. Figures for job creation include both seasonal and permanent employment and are estimates meant to show the magnitude of employment generated through the "Integrated Housing Programme" and MSEs, both of which are labour-intensive. The development of MSEs is backed by a programme of Technical and Vocational Training (TVET), started in recent years, and provision of urban land and credit, and is clearly an outcome of a policy to reduce urban poverty through private enterprise.

III. Private Sector Development:

10.IEG: Though no evidence is indicated, it is claimed that the development of the private sector has been hampered by lack of access to finance, which is viewed as "a major problem for all but the largest businesses, reflecting weaknesses and lack of competition in the financial sector" (p.25).

Comment: The contention is that first, only the largest businesses have access to bank loans, and second, this is due to lack of competition among banks. It would have sufficed, however, to have a cursory knowledge of the private sector to realize that the vast majority of bank loans in number are relatively small and medium. Indeed this is what would be expected normally by any one looking into bank borrowing in a developing country, irrespective of whether the banking sector is competitive or not.

It would be extremely far fetched to assume that the distribution of loans is so much skewed as to make the largest borrowers the most numerous.

Regarding competition in the financial sector, it is not surprising to find that the state owned banks, particularly the Commercial Bank of Ethiopia (CBE), have a dominant position, given that it is only about a decade since domestic private banks started to operate in the country. But even then, there is now a contestable market.

Table 5
The banking sector in FY 2006

A. Number of branches	
State owned banks	236
Private banks	185
Total	421
B. Loans disbursed (in million birr)	
State owned banks	5118.5
Private banks	7283.5
C. Outstanding loans (in million birr)	
Public enterprises	3017.4
Cooperatives	1848.8
Private sector	21610.0

The share of the private banks in the loan amounts disbursed during FY06 was 58.7 percent compared to 41.3 percent share of state owned banks. This clearly implies that in terms of service the market is clearly contestable. Furthermore the Table above shows that the bulk of the bank loans, accounting for 81.6 percent, is extended to the private sector, as against 11.4 percent for state owned enterprises. Thus not only is there effective competition in the banking sector, it is also the private sector which is the dominant beneficiary of bank loans, not including Government.

What is more revealing about the ability of the financial sector to support private sector development is the extent to which financial deepening has taken place in Ethiopia compared to other developing countries. Broad money as a proportion of GDP in 2006 stood at 41.1 percent in Ethiopia compared to 39.8 percent in Kenya and 19 percent in Uganda, while credit to the private sector as a proportion of GDP was 20.7 percent in Ethiopia compared to 25.3 percent in Kenya and 8.7 percent in Uganda. At the same time the spread between deposit rates and lending rates was much smaller in Ethiopia and likewise the lending rate was much lower, indicating greater efficiency in the financial intermediation.

Additionally micro-finance is, in relative terms, highly developed in Ethiopia. In the agricultural sector more than two and half million farmers are recipients of credit, while in the non-agricultural sector micro credits are distributed to some one million borrowers.

Table 6
Broad Money and Loans to Private Sector in 2006
(Percent of GDP)

Country	Broad money	Non-financial private sector
Ethiopia	41.1	20.8
Ghana	35.7	21.3
Kenya	39.8	25.3
Nigeria	24.8	16.6
Tanzania	26.8	10.3
Uganda	19.0	8.7

Source: IMF, Regional Economic Outlook, Sub-Saharan Africa, Oct.07

IV. Human Development:

11. IEG: The MDGs regarding education are the most difficult for Ethiopia simply because the starting position for enrolment in primary education was clearly far below the Sub-Saharan average if not the lowest. Yet the achievements receive a cursory mention with a short statement that "primary education did post improvements in coverage, quality, and efficiency" (p.29), only to be followed by a discussion of "issues of quality and equity", the latter relating to gender gaps and disparities among regions in enrollment.

Comment: Table 1 shows that the starting position for Ethiopia in regard to primary education was extremely low, with net and gross enrolment ratios of 35.5 percent and 41.8 percent respectively, and the proportion of pupils starting Grade 1 who reach Grade 5 standing at 38.1 percent in FY 94. In a space of ten years the enrolment ratios more than doubled reaching 77.5 percent and 91.3 percent respectively for net and gross ratios of enrolment. Given this track record one can confidently conclude that by 2015 the targets of enrolment ratio as well as completion rate of the first cycle of primary education would be attained, except for the Administrative Regions and localities where the bulk of the population is pastoral. While an alternative basic education scheme has been introduced in these areas, it would still be difficult to attain universal primary education within pastoral communities, as is commonly observed in other countries as well. It is to this exception that the IEG refers when it writes about disparities among regions.

Regarding gender equity the progress underway is shown below.

Table 7
Enrolment in Education

	1994	1998	2006
Primary education, by gender			
Student number (in '000)			
Boys	1635	3224	7365
Girls	1054	1867	6109
Total	2689	5091	13474
Enrolment ratio (in percent)			
Boys	60.8	63.3	54.7
Girls	39.2	36.7	45.3
Girls as percent of boys	64.4	58.0	82.8
Junior secondary education			
Student number (in '000)			1066
Gross enrolment ratio (%)			33.2
Tertiary education, degree level	1995	1999	2006
Student number (in '000)	6	20	174

The figures show that the gender gap in primary education has substantially narrowed by 2006 and is well positioned to attain a desirable level of equity by 2015.

Apart from primary education, immense progress has been attained in enrolment in secondary and tertiary education. In recent years a new focus has been placed on university education, in which the number of state universities has been raised from 2 in FY99 to 9 in FY06 and to 21 in FY07. Significantly, the enrolment ratio of girls in the universities has also sharply risen from under 10 percent in 1999 to about 23 percent in 2006.

12. IEG: The health sector objectives of the MDG, particularly those of reducing the mortality rate of the under-fives, maternal mortality rate, halting the spread of HIV/AIDS and reducing the incidence of malaria are all considered "unlikely" to be attained based on a UNDP study of 2004 (pp.27-28). A similar conclusion is also made regarding the objective of sustainable access to safe drinking water.

Comment: Table 1 shows the progress to date on reduction of mortality rates and on access to safe drinking water. The under-five mortality rate declined at annual rate of 2.1 percent between 1990 and 1997 2.9 percent during 1997 - 2003 and 4.1 percent during 2003 - 2006. It would need to decrease by 4.3 percent per year in the nine years between 2006 and 2015 to attain the MDG of reducing the mortality rate by two-thirds. Given the performance of recent years the target set in the MDG is within reach. Maternal mortality rate, which, in fact increased between 1997 and 2003, but fell sharply during 2003 - 2006 at an annual rate of 21 percent, would need to decline at the rate of 5.9 percent per year during 2006-2015 to meet the MDG of reducing mortality rate by three-quarter from its level of 2003. Admittedly this is a difficult task, but not impossible to attain given recent achievements.

In a sense, from the standpoint of 2004, the conclusions of UNDP were justifiable. But the IEG should have updated its data to 2006 to capture the dramatic changes that have taken place in this sector. This same failure of looking more attentively to the recent years made it come to a rash conclusion that "two thirds of the population is exposed to malaria, yet few families have mosquito nets" (p.29) when, in fact, by 2006 12.5 million nets have been distributed covering 6.226 million households. At the end of 2007, distribution of bed nets had increased to 20.6 million and reached 100 percent coverage of 10.3 million households. Indeed this has now received worldwide acclaim, and it is partly financed by the World Bank!

The primary health programme the country has been following for nearly a decade was refocused and dramatically scaled up in FY 2005, and it is this, which is already yielding phenomenal results in the health sector. In FY03 there were 1432 health post in the rural areas. This was increased to 5955 in FY 06 to 9914 in FY07, while health extension workers (all females) increased from 2737 in FY05, the year when the scheme was started, to 17,653 in FY07. The target is to deploy 30,000 health extension workers to offer key health services such as personal and environmental hygiene, child immunization, and family planning.

13. IEG: "Sustainable access to an improved source of water" is held by IEG as "a key Millennium Development Goal", only to find that in Ethiopia it has "declined from 23 percent [of the population] in 1990 to 22 percent in 2006, according to the Human Development Report. This puts Ethiopia in last place among 177 countries for which information is available"(p.31).

    Comment: Unfortunately for the authors, the Human Development Report, which they quote, refers to Uganda and not Ethiopia as shown in the footnote of the IEG report itself (p37). On this "key Millennium Development Goal" Ethiopia's performance is, in fact outstanding as the proportion of the population without sustainable access to safe drinking water has dropped for 73 percent in 1995 to 47 percent in 2007 and is well poised to achieve the target of reducing the ratio by half (i.e. 36 percent)

V. Improving Governance:

14. IEG: Decentralization and empowerment of civil society are correctly identified as key areas of focus for the improvement of governance. While progress made in making inter-regional allocation of resources "more transparent and objective" is given some recognition, it none the less concludes that "the degree of local autonomy is both limited an uneven across regions" and asserts that "service provision at the local level is rooted in traditionally authoritarian political, bureaucratic and social cultures"(p.36).

    Comment: Decentralization in Ethiopia is a double-layered phenomenon. The first and fundamental layer is that of devolution of power to the Regions (or national states) within a federal system of government. Constitutionally, the extent of the devolution goes as far as recognizing the right of self-determination of Regions. It is on this deep foundation that decentralization is constructed within the devolved authority of the regions. Since the objective of decentralization is commonly shared, there is no room for the degree of "local autonomy" to be "uneven across regions", as the architecture of devolution and decentralization is uniform throughout the country. Neither is the extent of decentralization "limited" given the fact that the delegation of authority is from the region rather than the federal or central government (in the case of countries which follow a unitary state system). It bears recalling that in Ethiopia decentralization is an instrument of democratisation, of taking power nearer to the electorate and its representatives, precisely through fiscal decentralization and service delivery.

15. IEG: It is argued that the Bank's efforts to "expand the role of civil society.... and participation of nongovernmental organizations and communities" were handicapped by lack of "government's buy-in".

Comment: There is no "buy-in" on the role of externally financed NGOs on the part of the government. The objective of empowerment of civil society so as to "strengthen accountability of the state.... outside the three branches of government" referred to by IEG (p.36) is shared by the government. But the appropriate vehicle for this is civil society that is owned, driven and financed by citizens and not externally installed by NGOs from abroad. Equally there is no "buy-in" for the stance held in some quarters (other than IEG) that the state in developing countries should give way to NGOs on service delivery at the local level.

16. IEG: In addition to the above the report raise two types of other concerns. The first relates to "public control of, or restrictions on, key economic assets, goods, and activities (for example, land, fertilizer, foreign exchange, and entry into key industries)" (p.37). The second concern is political, and relates to "dominance of 'party-state' (p.37)

Comment: The issue of control or regulation of economic activities in Ethiopia is an issue of economic policy and should be evaluated as such. The arguments against public control/regulation of "economic assets, goods, and activities", ought to be settled first on economic rational rather than pre-empting discourse by converting the issue into that of economic governance.

As to the nature of the Ethiopian state it is beyond the competence of IEG to comment upon.

VI. Overall Assessment:

IEG: The "overall contribution of Bank assistance to Ethiopia's development" is considered "moderately unsatisfactory" (p.45).

Comment: IEG agrees with the objectives of the Bank's programme both in its coverage and relevance (p.11), and underscores that "the Bank's overarching objective during the period under review (FY98 - 06) was to support the government in its effort to reduce poverty". Despite this, it asserts that, "the most important objective outlined in Bank strategy for Ethiopia was clearly to improve governance" (p.45), giving improvement of governance more weight than poverty reduction, and conveniently puts its overall assessment of the performance of the Bank, and per force that of the country as well, as "moderately unsatisfactory". Put differently, IEG is claiming that the goal of reducing poverty by half, set in the MDG, is unlikely to be attained, unless there is improved governance. Fortunately for the country, however, it is following a growth path that is quintessentially poverty reducing, and the record of its performance so far, particularly since FY2004, strongly indicates that by 2015 the target of reducing poverty by half from its level of 1990 is attainable.

ATTACHMENT II: IEG's Response to Government*

The World Bank
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February 27, 2008

Ms. Mulu Ketsela
Executive Director for Ethiopia
The World Bank
Washington, DC, USA

Dear Ms. Ketsela:

Re: Ethiopia Country Assistance Evaluation

I would like to acknowledge with appreciation and gratitude our receipt via your good offices of the comments on the draft Ethiopia Country Assistance Evaluation (CAE) from the Government of Ethiopia. We especially appreciate the fact that the Government was willing and able to provide us with such in-depth comments by our requested deadline of January 4, 2008, given the proximity to the Holiday season. We also received the revised version January 24, 2008. As you are no doubt aware, the tight turnaround time was driven by our concern that the draft CAE be ready for discussion in the Sub-committee of the Committee on Development Effectiveness (CODE) in advance of a discussion of the Bank's new Country Assistance Strategy (CAS) for Ethiopia by the Board. As the CAS date has recently been moved back, we have also rescheduled the Sub-committee discussion to March 17, 2008.

We have taken careful note of the Government's comments on the draft CAE. In general, we found the comments very helpful, and I would like to draw your attention to a few key points.

As regards what we understand to be your main concern with the draft CAE, namely that the document erroneously underrates World Bank support to Ethiopia, the concern may be driven at least in part by a lack of clarity as to the approach used in CAEs, and more specifically the ratings. These are intended to assess neither the extent of the Government's satisfaction with the support it has received from the Bank, nor the degree—at least in an absolute sense—to which World Bank support has been helpful to the Government in its efforts to reduce poverty and foster development in Ethiopia. We recognize, of course, that these are two very important variables, and we are pleased to learn that the Government is both satisfied with World Bank support and believes it to have been helpful to its poverty reduction and development efforts. We will endeavor to highlight this in the final version of the document.

* This letter responded to an earlier version (dated December 31, 2007) of the Government's comments on IEG's Ethiopia CAE. The original comments are largely similar to those in the revised comments, dated March 27, 2008 and included as Attachment I above.

The approach taken in a CAE focuses on the outcome—loosely speaking, the "results"—of the World Bank program in the country relative to what was targeted in the relevant strategy document(s). We are taking another look at the CAE content, including the ratings, in light of the various comments we have received, and we are committed to being as unbiased and objective as possible in arriving at the overall rating—which is built up of many different "sub-ratings". We do acknowledge that the way in which the various points on the rating scale are labeled (highly unsatisfactory, unsatisfactory, moderately unsatisfactory, ….. and so on) can be misleading in connoting that the Bank's program was not appreciated by the Government or did not help the country's development process. Our concern about this labeling is just one of the many issues that have prompted us to revisit the way in which we will approach CAEs (and/or successor evaluation products) in the future. In the meantime, when finalizing the present document, we will do our best to be as explicit as possible with respect to what the ratings mean (and do not mean).

The Government's comments also convey a major concern with respect to IEG's use of a "flawed" methodology in allowing unequal weights across objectives and sub-objectives to arrive at the overall rating, and in particular giving greater weight to governance. While we take note of and respect the Government's view on this matter, we also respectfully beg to differ for two broad reasons. First, there is no reason in our view to consider equal weighting any more arbitrary than differential weighting —indeed, we would consider our methodology flawed if it did not provide for the possibility of differentiating among the weights. Second, in our judgment—and as reflected in a substantial and growing body of empirical work—the quality of governance is an important driver of "higher-order" goals such as long-term growth and poverty reduction; but it is also a driver of more proximate objectives (which in turn affect growth and poverty reduction) such as private sector development and increased "voice" for the poor and vulnerable. In other words, the objective of strengthening governance is arguably more "basic" than others, hence may deserve slightly greater weight.

Progress notwithstanding, two specific aspects of (economic) governance appear particularly important to continue strengthening in Ethiopia's case. One is the climate for competition and private sector development, which has clear links to investment and future growth potential. The second is the extent to which national non-government stakeholders (including the voluntary sector and the media), through an unrestricted flow of information and expression of diverse views, can provide checks and balances to help bolster the accountability of the Government to the population in its leadership of the country's development process. Providing for free flow of information and expression of diverse views can also help spotlight the plight of the extremely poor in the face of adverse shocks such as drought, facilitating early action by the Government as well as non-government stakeholders. We were pleased to note that several aspects of governance in Ethiopia—insofar, of course, as these can be meaningfully captured by perception-based measures—have been on an improving trend for many years, albeit with some setback in certain dimensions of governance in the wake of the tragic events of late 2005.

The remaining comments can be classified into two broad groups:

- *Factual errors or inaccuracies*. In several cases, the Government is the best (sometimes the only) source of information; in these cases, we have rectified the appropriate text. In other cases, while recognizing the merit of the Government's arguments, we have nonetheless stuck to the original data/information, as alternative sources would have entailed greater difficulties. An illustration arises with regard to Official Development Assistance (ODA) flows to Ethiopia, which the Government believes are significantly inflated. While acknowledging that the Government's perception is no doubt accurate (similar complaints are voiced in many other countries), we will nonetheless preserve the data source (the OECD DAC) given its multi-country character and across-country comparability of data compilation methods.

- *Perceived unfavorable bias.* In several places, Government comments decry "imbalance" in the discussion, with the emphasis typically on negative developments at the expense of many significantly positive developments associated with the Bank program in the country. In response to the comments in this category, we will review the text in light of the data/information provided by the Government.

In closing, I would like once again to thank you, your staff, and your authorities for the fast turnaround and in-depth comments. We will consider these comments seriously as we finalize the document. Should you have any further queries, please do not hesitate to be in touch with me or my staff.

With best regards,

Sincerely,

Cheryl Gray

Cheryl W. Gray
Director
Independent Evaluation Group
World Bank

cc:

The Government Counterparts

H.E. Ato Sufian Ahmed, Minister, Ministry of Finance & Economic Development, Ethiopia

The World Bank
Mr. Felleke Mammo, Advisor to the Executive Director
Mr. Kenichi Ohashi, Country Director for Ethiopia
Mr. John Van Dyck, Operations Officer
Mr. Ali Khadr, Senior Manager, Country Evaluation and Regional Relations, Independent Evaluation Group, World Bank
Mr. Jim Sackey, Task Manager

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