AFRICAN DEVELOPMENT BANK GROUP

ETHIOPIA

REVIEW OF BANK GROUP ASSISTANCE TO THE MULTI-SECTOR

OPERATIONS EVALUATION DEPARTMENT (OPEV)

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Abbreviations/Acronyms

ADB	:	African Development Bank
ADF	:	African Development Fund
AIDS	:	Acquired Immunodeficiency Syndrome
ADLI	:	Agricultural Development Led Industrialisation
AR	:	Appraisal Report
CPRR	:	Country Portfolio Review Report
CSP	:	Country Strategy Paper
COMESA	:	Common Market for Eastern and Southern Africa
DBS	:	Direct Budget Support
ECG	:	Evaluation Cooperation Group (of Multilateral Development Banks)
DFID	:	Department for International Development (UK)
EPA	:	Environmental Protection Agency
EPCP	:	Economic Prospects and Country Programming
ERRP	:	Economic Recovery and Reconstruction Programme
ESAF	:	Enhanced Structural Adjustment Facility
ESDP	:	Education Sector Development Programme
ESRDF	:	Ethiopian Social Rehabilitation and Development Fund
ETCO	:	Ethiopian Country Office (of ADB)
GoE	:	Government of Ethiopia
GTZ	:	German Technical Cooperation
HAPCO	:	HIV/AIDS Prevention and Control Office
HICES	:	Household, Consumption and Expenditure Surveys
HDI	:	Human Development Index
HIPC	:	Highly Indebted Poorest Countries
HIV	:	Human Immunodeficiency Virus
HSDP	:	Health Sector Development Programme
IDA	:	International Development Association (of the World Bank)
IGAD	:	Inter-Government Authority on Development
IMF	:	International Monetary Fund
I-PRSP	:	Interim Poverty Reduction Strategy Paper
JBAR	:	Joint Budget and Aid Management Review
MCD	:	Multilateral Cooperation Department (of MOFED)
MDGs	:	Millennium Development Goals
MOFED	:	Ministry of Finance and Economic Development
NCBP	:	National Capacity Building Programme
NPV	:	Net Present Value
OPEV	:	Operations Evaluation Department (of ADB)
PBL	:	Policy Based Lending
PCR	:	Project Completion Report
PFP	:	Policy Framework Paper
PIU	:	Project Implementation Unit
PPER	:	Project Performance Evaluation Report
PPESA	:	Public Enterprises Supervising Authority
SAL	:	Structural Adjustment Loans

SDPRSP	:	Sustainable Development Poverty Reduction Strategy Paper
TAF	:	Technical Assistance Fund (of ADF)
UA	:	Unit of Account (of the Bank)
UNDP	:	United Nations Development Programme (of the United Nations)
VAT	:	Value Added Tax
WAO	:	Women's Affairs Office
WMU	:	Welfare Monitoring Unit

PREFACE

1. This report evaluates Bank assistance to the multi-sector in Ethiopia for the period 1992-2004. The multi-sector is a generic term applicable to a collection of programmes which includes policy based lending, technical assistance support and institutional support to a government. In the case of Ethiopia, there were seven such operations during the period under review. Three of them are already completed while the remaining four at various stages of implementation.

2. Applying the usual evaluation criteria of relevance, efficacy, efficiency, institutional development impact and sustainability of the achievements, the finding of the report is that Bank assistance to the multi-sector was in general, satisfactory on all criteria except that of efficiency. Although subject to long implementation delays, the on-going programmes are potentially likely to achieve their objectives if the factors hindering their timely implementation are addressed.

3. Coming as it did from the ravages of a civil war and a highly controlled and centralized economic system, the economy has certainly made great strides towards a free market system. The response of the economy to the various policy reforms has been satisfactory. Considerable progress has also been made in the fight against poverty and social depravation. But progress is slow in the area of structural change—the economy remains highly dependent on rain-fed agriculture, the pace of privatization is slow and some monopolies still exist in the form of party affiliated companies (which do not favour a level playing field for the private sector operators), while the pace of reform in the financial sector is still a matter of concern.

4. Overall the economy has done well when examined against the background of its initial conditions (i.e. pre 1992). The highly regulated economy has been liberalised, while the scope for private sector initiative has been modestly widened. What remains is for the government to embrace, without reservation, the principles of a market system and open the economy fully to competition, through the deepening of structural reforms, including renewed commitment to privatization.

EXECUTIVE SUMMARY

1. This report evaluates Bank assistance to the multi-s sector in Ethiopia for the period 1992-2004. The multi-sector is a generic name covering policy based lending, technical assistance programmes and institutional support for capacity building. During the period under consideration, the Bank approved seven programmes in this sector for a total amount of UA 274.73, or 21% of total Bank lending to Ethiopia.

2 Ethiopia was ruled in 1974-1991 by a socialist government which controlled key aspects of economic life. During the life of the regime, much of the physical and economic infrastructure was destroyed by a civil war. The combination of a civil war and poor economic performance really had its toll on living conditions, as poverty worsened considerably in a country adjudged to be one of the poorest in the world. Throughout the period 1992-2004, Bank policy was articulated in successive Country Strategy Papers (CSPs) which defined Bank strategy as one of rebuilding the economy's infrastructure, stabilizing the economy and reforming institutions. The ultimate objective of Bank policy was however poverty reduction but these intermediate interventions were to pave the way for the attainment of that ultimate objective. With the cessation of hostilities in 1991 and assumption of power by a new Government, the Bank approved in 1992 the Economic Recovery and Reconstruction Programme (ERRP) as its first multi-sector operation in the country. The aim of the programme was to contribute in rebuilding the war damaged and neglected physical and economic infrastructure and thereby pave the way for the resumption of economic growth.

3. The Structural Adjustment Programme I (SAP-I) –followed the ERRP- was a broad spectrum of macroeconomic stabilization and structural adjustment measures; all aimed at reducing both internal and external imbalances, removing structural rigidities which had stood in the way of economic growth and improve the efficiency of resource utilization. As a balance of payments support, the programme assisted in deregulating the economy and paving the way for the introduction of market forces in resource allocation.

4. SAP-I was successful in its objectives but it left behind some outstanding issues. There was need to deepen the reforms and create an enabling environment for the development of the private sector. Besides, the structural reforms had not gone far enough. The aim of the successor programme (SAP-II) was to address these outstanding issues, notably poverty reduction, the development of the private sector and the deepening of reforms particularly in the financial sector.

5. These programmes –all co-financed with other multilateral and bilateral development partners- were evaluated using the standard evaluation criteria of relevance, efficacy, efficiency, institutional development and sustainability. All the programmes performed satisfactorily on all criteria except that of efficiency. The programmes have made tremendous impact on the economy generally, particularly the SAP-I considered as one of the few SAP success stories in Sub-Saharan Africa. The economy is virtually deregulated and almost all prices are now market determined. The economy has responded well by positing reasonable growth rates. Partly as a result of the growth of the economy, progress is being made in poverty reduction and in private sector development.

6. But there are some areas of concern. The structural reforms have not gone far enough as party affiliated companies still compete unfavourably with private sector operators. The private sector itself has not developed as anticipated and progress on privatization has been slow. The economy remains highly dependent on a single product (coffee) for its export earnings, although there are indications that other products like horticulture and “chat” may be emerging as potential export products. The economy also continues to largely rely on rain-fed agriculture to generate growth in its dominant sector. This does not bode well given the unpredictability of rains in the region

7. In addition to these programmes, there were four others, all of which are at different stages of completion. These are the Capacity Building for the Ministry of Finance and Economic Development, Institutional Support for the Women Affairs Office, the Poverty Reduction Support Programme and the Privatization Technical Assistance Project. Like the three completed programmes, these programmes have the potential of achieving their objectives. But they are all experiencing long implementation delays, delays which could undermine their ultimate outcome. The Bank is advised to examine these programmes and see how it could speed up their implementation.

8. Overall performance of the Government was satisfactory but that of the Bank was unsatisfactory.

9. Three key findings stand out in this report. One is that the success of an adjustment programme depends on government ownership of, and commitment to a programme. This was the case in Ethiopia. Another lesson is that donor coordination is vital. Again, Ethiopia was lucky to have a set of donors who actively coordinated their efforts given that these programmes were invariably jointly financed. Another finding is that the availability of financing eases the pains of adjustment and thereby lessens the risk of policy reversals.

1. BACKGROUND

1.1 Objective, Scope and Method of Evaluation

1.1.1 The purpose of this report is to evaluate Bank's assistance to the multi-sector in Ethiopia for the period 1992-2004; with a view to establishing the extent to which Bank's lending programme in support of the multi-sector in Ethiopia was effective in achieving the overall goal of economic growth and poverty reduction[1]. The study will also draw lessons of experience from the evaluation that could make future Bank assistance in this area more effective.

1.1.2 The evaluation will serve as an input into a larger evaluation of Bank's overall assistance to Ethiopia. Thus it is a comprehensive review of Bank's operations in support of macroeconomic stabilization, adjustment, institutional reforms, and capacity building in Ethiopia, covering all completed project in the sector. Some preliminary views will also be expressed on the performance of on-going projects. The evaluation focuses on Bank's products and services, the achievement of objectives of those products and services, their efficiency, the sustainability of the achievements, their institutional development impact as well as economy-wide impact. The performance of development partners (the Bank, government of Ethiopia and other donors) is also assessed.

1.1.3 The evaluation was carried out in two phases. The first phase dealt with a review of project documents and other relevant literature. This was complemented with a field mission to Ethiopia from September 5 to September 17, 2005, during which time additional project data and information were collected and consultations were held with officials of the government and development partners. Some preliminary evaluation of the projects was carried during this period. The second phase of the study was carried out at the headquarters of the Bank in Tunis after the mission. This phase witnessed the evaluation of Bank assistance to the multi-sector in Ethiopia using the evaluation framework developed by the Evaluation Cooperation Group (ECG) of the Multilateral Development Banks. The phase also witnessed report writing and further consultations with relevant Bank staff.

1.1.4 The rest of the report is sketched as follows: Following this introductory background, section 2 deals with Bank and government policies and strategies in the sector, while section 3 deals with the evaluation of Bank assistance programme. Section 4 contains the assessment of the development impact of Bank assistance while section 5 deals with the assessment of the performance of contributors to the assistance programme. Section 6 contains the conclusions, lessons and recommendations.

1.2 Country Background, Economic Conditions and Emerging Challenges

1.2.1 Ethiopia is a landlocked country with an estimated population of 72.4 million (see box 1), which is estimated to be growing at the rate of 2.7% per annum. About 85% of the population live in the rural areas. The economically active segment, between 14 and 60 years of age, is

[1] The Multi-sector covers the Bank's assistance for policy-based support (including adjustment; policy-based lending; direct budget support), technical assistance programme and institutional support for capacity building.

about 50% of the population. With a per capita income of US$115 in 2003, it is one of the poorest countries in Africa. The Ethiopian economy is mostly dependent on a rain-fed agricultural sector, and it is also subject to shocks like severe climatic changes, terms of trade shocks and political conflicts. These shocks have been largely responsible for the observed erratic agricultural performance as well as general economic performance.

1.2.2 The Derg socialist regime, which took power in 1974, transformed the economy from liberal to a state-controlled economy during the period 1974-1990. With the fall of the regime in 1990, a new government reintroduced liberalization, which was later deepened through a series of economic and political reforms. The economic reforms were meant to enhance the performance of the economy and reduce poverty. As part of the reform process, multi-party parliamentary democracy was introduced in 1992.

Box 1: Selected Basic Data on Ethiopia

Land area	1.14 million sq. km
Population (2004)	72.4 millions
GDP per capita (2003)	115 US$ (1985 prices)
GDP per capita annual growth rate (1990-02)	2.3%
Agricultural GDP annual growth rate (1992-01)	0.2%
Annual population growth rate (1975-02)	2.7 %
Inflation (1992/93-1999/00)	3.8%
Annual export growth (1997-2001)	-10.9%
Fiscal balance/GDP, before grants (2002/03)	-15.2%
External debt/GNP (2002)	108.6 %
Human Development Rank (2002)	170
National Head Count Poverty (2000)	44.2%
Undernourished Population (1999-01)	42%
Life Expectancy at Birth (2003)	45.5 Years
Adult literacy (2002)	41.5%

Sources:
MOFED/UN Country Team, Millennium Development Goals Report 2004
World Bank, World Development Indicators 2004
UN, Human Development Report 2004
OECD/ADB, African Economic Outlook 2004/2005, 2005

1.2.3 The combination of the civil war mentioned above, the pursuit of inappropriate economic policies and natural disasters of the 1980s, and acute social crisis in the form of displaced, homeless and unemployed persons, left the country devastated. In order to get the economy moving again, the Government of Ethiopia (GOE) embarked in 1992, on a programme of economic recovery aimed at restoring the country's productive base, rebuilding the war-damaged and neglected infrastructure and reactivating economic activity. Since then, there have been series of structural adjustment programmes aimed at turning the economy from a command economy to a market-oriented one. These reforms have resulted in an improved economic performance with GDP annual growth rate averaging 2.3% during 1990-2002. Agriculture, the mainstay of the economy, grew on annual basis at the rate of 0.2% during the same period. Inflation was low at an annual average rate of 3.8% during 1992/93-1999/00. Life expectancy remains low at 45.5%, while the proportion of the population living below poverty line was 44.2% in 1990/00, making Ethiopia one of the poorest countries in Africa.

1.2.4 In addition to poverty, Ethiopia also faces a host of other macroeconomic constraints. These include low savings, reliance on one single commodity (coffee) for export earnings and foreign assistance, high external debt and weak financial intermediation. The savings-investment gap ranges from 15-17% of the GDP during 1998/99-2000/2001. In addition, the World Bank estimates that Ethiopia relies on development assistance to the tune of 40 percent of its public sector spending (30, p.25). The high degree of dependence makes domestic investment highly dependent on foreign savings thereby introducing some degree of uncertainty into policy making as a significant shortfall in foreign resource flow could put growth prospects at risk. The country has a high external debt, estimated at about US$ 5,358 million (about 89% of GDP) and external debt ratio of 23%[2] in 2000/01. Needless to say that such high debt burden impedes growth and poverty reduction efforts. But this constraint is being eased by debt relief from the Paris Club and the enhanced HIPC initiative. When Ethiopia reached the decision point under the Initiative in November 2001, the Boards of the World Bank and the IMF approved US$ 1.275 billion worth of debt relief in 2000/01 net present value (NPV) terms as of July 2001. Bank's contribution to the HIPC debt relief amounted to US$ 339.46 million. During the interim period January 2002 to April 2004, the Bank Group delivered US$ 75.74 million (in nominal terms) in debt relief. Having now reached the completion point, Ethiopia stands to receive additional debt relief and this ought to alleviate the debt burden.

1.2.5 Ethiopia also faces severe human and institutional capacity constraints. There is acute shortage of manpower at all levels of administration, particularly in the key ministries. This shortage adversely affects policy formulation, analysis and implementation. The observed shortage of capacity is at the root of Bank decision to provide technical assistance grant for capacity building for the Ministry of Finance and Economic Development (MOFED) and the Ministry of Women Affairs. The legal and regulatory environment is also weak but the government has prepared a comprehensive National Capacity Building Programme (NCBP) to enhance institutional capacity.

1.2.6 Inadequate and weak physical infrastructure such as road, energy, telecommunications, water and sanitation facilities constitute bottlenecks to development and poverty reduction in Ethiopia. The road density of 24 km per 1000 sq km and 0.45km per 1000 population is one of the lowest in Africa. About 75% of farms are more than half-a-day's walk from all weather roads. Limited rural access hampers the spread of extension services, agricultural input supply and product marketing. Inadequate infrastructure facilities such as energy and telecommunications hamper the expansion of information technology and the development of the private sector. In the water and sanitation sub-sector, only 24% and 15% of the population have access to safe water and sanitation facilities respectively.

1.2.7 With 7.3% of the population living with HIV/AIDS in 2000/01, this pandemic is another major constraint on Ethiopia's development efforts, which is capable of producing long-term negative consequences. In the short to medium run, it could lead to reduction in labour supply,

[2] This ratio fell from 52% in 1999/00 to 23% in 2000/01 as a result of debt relief.

loss of productivity and loss of skills and experiences. Thus, if unchecked, it could pull down economic growth and jeopardize poverty reduction efforts.

1.2.8 Yet another constraint facing Ethiopia is the fact of geographical location. As a landlocked economy, Ethiopia depends on regional port facilities for the movement of bulk cargo. This fact makes regional cooperation an imperative. The development of efficient regional ports could lower transportation costs and improve the efficiency of investment. Thus Ethiopia has much to gain from regional cooperation. As a member of the Inter-Governmental Authority on Development (IGAD), the Common Market of Eastern and Southern Africa (COMESA), and a key player in Nile Basin Initiative and a member of the Steering Committee of New Partnership for Africa (NEPAD), the country has a lot to gain from these regional and sub-regional initiatives.

2. GOVERNMENT AND BANK POLICIES AND STRATEGIES

2.1 Government Development Policies and Strategies

2.1.1 The thrust of government economic policies during the period 1992-2004 was poverty reduction encapsulated in key documents comprising: Ethiopia’s Economic Policy during the Transitional Period (1991); An Economic Development Strategy for Ethiopia (1994); Ethiopian People’s Revolutionary Democratic Front Five Year National Development Programme 1995-2000; Annual Policy Framework papers; Interim Poverty Reduction Strategy paper (I-PRSP); and Sustainable Development and Poverty Reduction Strategy (SDPRP). But as poverty reduction is a long term process going through many milestones, the government initially focussed on the reconstruction of the war-damaged economy. This was followed by the implementation of reforms aimed at ridding the economy of distortions, stabilizing the macroeconomic framework and the reform of institutions.

2.1.2 Following the end of the civil war in 1991, the government -- Ethiopian People’s Revolutionary Democratic Front (EPRDF)- focused in the transition period on restoring the country’s productive base, rebuilding the war-damaged and neglected infrastructure and reactivating economic activity. The Government also initiated with external support (especially the Bretton Woods Institutions) macro-economic stabilisation, and structural and financial reforms. The overall basis of the Government economic policy was the policy of Agriculture development Led Industrialization (ADLI). Also developed were policies for key sectors; transport, agriculture, education, health and energy.

2.1.3 One of the first initiatives of Government during the transition period was the design and implementation of the Emergency Recovery and Reconstruction Programme (ERRP) with the assistance of the donor community. This was basically a post war reconstruction programme, whose underlying strategy was the recognition that for economic growth to resume the economic infrastructure must be restored and this could be followed later by policy reforms. A key aspect of this programme was the initiation of community-based development in order to facilitate mass participation in the development process. To this end, the pilot phase of the Ethiopia Social Rehabilitation Fund (ESRF) was launched as a component of ERRP in 1992. The goal of the

US$ 13 million ESRF was to provide financial assistance for community-based projects in three centres (Addis Ababa, Southern Shoa and Tigray). The pilot programme focussed on the rehabilitation/construction of basic health facilities, primary schools, micro-dams, feeder roads, water supply, sanitation facilities, adult skills development and literacy training.

2.1.4 Following the successful implementation of ESRF, the government launched a major poverty-reduction programme—the Ethiopian Social Rehabilitation and Development Fund (ESRDF) to be implemented over a five-year period at a cost of US$ 242.40 million. The project was supported by the International Development Association (IDA), and the UNDP/Norwegian grants for capacity building. The government itself contributed US$ 36.36 million (15%). The programme consisted of community-based micro projects involving rural water supply, small-scale irrigation, health, education, urban sanitation and local capacity building.

2.1.5 During the second half of the 1990s, the Government continued to pursue poverty reduction as its main objective. The focus was on sustaining economic growth, and improving basic social services through community-based initiatives and specially targeted social safety net measures aimed at improving the welfare of the poorest of the poor. Such measures include rehabilitation programmes for over half a million of refugees returning from Somalia, Sudan and Djibouti; credit and retraining programmes for retrenched public service employees; credit and rehabilitation programmes for over half a million demobilized soldiers; programmes for 25,000 highly vulnerable urban households; cash assistance to 160,000 of the poorest households to purchase fertilizer, seeds, tools, and veterinary drugs; food/cash-for-work programmes to improve infrastructure in 15 towns; essential agricultural inputs for 150,000 displaced people resettled on farms in Tigray, Amhara, Oromiya and Sepra; urban food subsidy schemes for slum dwellers in Addis Ababa; and cooperative programmes with World Food Programme and UNICEF for destitute farmers, women and the unemployed.

2.1.6 Committed to improving its effectiveness in addressing the serious poverty situation in the country, the government adopted the national Interim Poverty Reduction Strategy Paper (I-PRSP) in 2001. The I-PRSP facilitated Ethiopia's access to interim debt relief under the heavily indebted poor countries (HIPC) initiative. The I-PRSP, had four pillars—Agricultural Development-Led Industrialisation (ADLI), legal and judicial reform and civil service reform, decentralisation and empowerment, and capacity building. It also contains sector development programmes for education, health and roads, and emphasis on food security, gender equality and reduction in HIV/AIDS prevalence. This poverty reduction strategy, like previous government development strategies, is premised on the ADLI, in view of the importance of the agricultural sector to overall growth and poverty reduction. The ADLI strategy aims to improve the productivity of peasant farmers and rural living conditions and provide impetus for industrial development through extensive use of domestic natural and manpower resources. The I-PRSP policy matrix contains specific measures for strengthening the macroeconomic framework, improving public expenditure management, enhancing tax administration and revenue collection, financial sector reform, reform of trade and foreign exchange regime, among others.

2.1.7 The scope of the I-PRSP was widened and deepened in the full PRSP document titled the Sustainable Development and Poverty Reduction Programme (SDPRP) for the period 2002/03-2004/05. The SDPRP, as in the case of the I-PRSP, aims to consolidate the gains made so far in building a free-market economic system, which would enable the country to develop rapidly, extricate itself from dependence on food aid and render more benefits of economic growth to the poor. The SDPRP consists of four major building blocks: agricultural-led industrialization (ADLI), judiciary and civil service reform, decentralization and empowerment, and capacity building. Cross-cutting issues (gender, environment, private sector development, good governance, population and HIV/AIDS) are also elements of the poverty reduction framework. As the life of the SDPRSP ends in 2005, the government has begun the preparation of phase II. It has held consultations with donors, regional and federal government officials and other stakeholders on a background document titled *Sustainable Development and Poverty Reduction Programme: Retrospective and the Way Forward*[3]. The document reviews the first phase of the SDPRSP and proposes a roadmap in the country's continued effort for sustainable growth and poverty reduction.

2.2 Bank Assistance Strategies and Programmes

2.2.1 In supporting the government's efforts in addressing the economic and social problems of the country in 1992-2004, the Bank designed and implemented four successive strategies –all with poverty reduction as the main objective. For the period 1993-95, The Bank Economic Prospects and Country Programming (EPCP) paper; 1993-1995 had a five-pronged approach namely: (i) the promotion of increased food production through improved peasant production; (ii) the promotion of social investments; (iii) encouragement of income-generating activities in small and medium-scale enterprises; (iv) promotion of investment in key economic infrastructure and (v) support for the key Government adjustment efforts aimed at creating a policy environment conducive to sustainable growth and private sector development.

2.2.2 The proposed assistance under this programming period was UA 270 million. The financing arrangement was broken down as follows: UA 67 million of ADF-VI resources, UA 150 million from then on-going ADF-VII negotiations (including additional resources for Policy-based lending, PBL) and UA 53 million of ADB resources. An amount corresponding to 80% of the proposed lending was thus expected from ADF resources with the rest coming from the ADB. But due to delays in the replenishment of ADF-VII resources, only three operations (one PBL and two studies) were executed. As a result of resource constraint, only 26% of planned investment could be realized. The country was also unable to draw from ADB resources at it had by now reclassified as an ADF-only country.

2.2.3 The 1996-98 Country Strategy Paper (CSP) continued Bank emphasis on poverty reduction and the deepening of policy reforms. Indeed it claimed that while the government has made significant progress on economic reforms and poverty reduction, there were outstanding issues in certain areas. These include the need for more vigorous attempts at privatization and reform of public enterprises in line with the private sector development focus of the reform programme; further reductions in fiscal imbalances; substantial reduction in external imbalances; and elimination of bottlenecks especially at the regional level. The need to intensify domestic resource mobilization as a means of reducing dependence on foreign savings and stimulating domestic investment was also emphasised in the CSP.

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[3] Ministry of Finance and Economic Development, Addis Ababa, June 2005.

2.2.4 The focus of Bank lending programme under the 1996-98 CSP was on poverty reduction. The strategy was pursued through the promotion of increased food production by focussing resources on improvements of the productivity of peasant farmers; provision of basic services to expand the access of the poor to basic health and educational facilities; and the development of key economic infrastructure in support of growth. The Bank also continued to support policy reforms as a step towards the creation of a more conducive environment for private sector development and poverty reduction.

2.2.5 The indicative lending programme for the CSP period was UA 189.79 million. The sum of UA 173.06 millions (for project lending) was concentrated on sectors capable of achieving the goal of poverty reduction. These were agriculture (40%), social (30%) and transport (30%), while an amount equal to UA 16.73 million was for TAF operations. In implementing the programme, projects were carefully selected to ensure that they paid attention to poverty reduction, while cross-cutting issues were systematically integrated into projects and programmes at preparation and appraisal. At the end of the CSP period, it was clear that sectoral distribution was respected and that the poverty focus was achieved with 75% of commitments in agriculture and social sectors.

2.2.6 Bank sectoral strategies for the 1999-2001 CSP period were designed in the light of Bank Group's own Vision, ADF priorities and government development priorities as expressed during a participatory seminar which was specifically conveyed to discuss the CSP. The CSP and the Interim Poverty Reduction Paper (I-PRSP) derived their inspirations from Ethiopia's fifth Policy Framework Paper (PFP), with the latter also serving as the driving force behind the government's agricultural led industrialisation (ADLI) strategy. The poverty situation has been worsened by the border conflict with Eriteria, as the war led to the displacement of large numbers of people and consequent loss of means of livelihood. Thus the focus of Bank strategy continued to be on poverty reduction and rural development in support of Government's own agenda and to meet Ethiopia's post-conflict rehabilitation and reconstruction needs in war affected areas. The strategy attempted to address some of the dimensions of poverty by providing support for agriculture and rural development and the development of socio-economic infrastructure in the context of government's sector development programmes.

2.2.7 Total allocation during this period was UA 120 million and TAF resources of UA 9.49 million. These resources were committed to poverty-oriented investments in agriculture (34%), transport (34%) and public utilities (32%). The social sector was left out because two Bank projects {the Education Sector Development Programme (ESDP) and the Health Sector Development Programme (HSDP)} were under implementation, partly because there were other donors who were active in the two sectors. Consequently Bank strategy for the two sectors was confined to project implementation. An amount of UA 60 million, part of the support to the multi-sector, was provided for the implementation of policy reforms articulated under the I-PRSP. Fifty-nine percent of the resources of the Technical Assistance Fund (TAF) were utilised for capacity building in view of Ethiopia's serious capacity constraints while the balance was committed to a study on irrigation.

2.2.8 The Sustainable Development Poverty Reduction Paper (SDPRP) underpinned the 2002-2004 CSP. The interventions within the CSP are therefore closely aligned with the priority sectors indicated in the SDPRP. The strategy also took advantage of the New Partnership for African Development (NEPAD) in terms of regional projects which could benefit Ethiopia. As with the previous CSP, the 2002-2004 CSP benefited from consultations with stakeholders within the economy. The goal of Bank strategy during this period continued to be on poverty reduction by focussing on three priority sectors, namely agriculture and rural development, road transport, water supply and sanitation. In addition the Bank continued to support improvements in Ethiopia's institutional and policy environment through capacity building and policy-based operations.

2.3 **Relevance of Bank Assistance Strategy**

2.3.1 Ethiopia came out of a civil war in 1991 with the productive base and infrastructure virtually destroyed with the economy barely growing because of controls and distortions. The government saw the challenge before it as one of first restoring the economy's productive base, rebuilding the infrastructure and then activating economic activity through policy reforms. The Bank endorsed this strategy and consequently provided support for the ERRP, which was aimed at addressing those emerging problems of a war-damaged economy. Thus Bank policy in this regard was relevant as it aimed at addressing the observed problems which came up in the aftermath of the war. The policy also coincided with that of the government in its desire to get the economy moving again after a protracted war.

2.3.2 While making progress in restoring economic infrastructure, the government turned its attention to economic stabilisation and policy reforms as basis for the resumption of growth and poverty reduction. The objective of the government as stated in the 1992/93-1994/95 medium-term programme was sustainable development through a fundamental transformation from central planning to a market-based economy. The Bank joined the government in the pursuit of this objective by financing jointly with other donors, the first structural adjustment programme. Thus Bank strategy in this context was relevant to the development programme of the government.

2.3.3 Subsequent strategies and policies in the sector were similarly relevant as they sought to support government's own development programme. For example, the second structural programme was situated within the context of government's own I-PRSP in which specific policies to be implemented for poverty reduction, were articulated. This programme sought to assist the government to deepen economic reforms in order to restore macroeconomic stability, promote equitable growth and poverty reduction in line with international development goals.

2.3.4 Bank strategy and policies in Ethiopia during 1992-2004 can thus be described as relevant in that they sought to address the fundamental problems of the economy as identified by the government itself. They were also compatible with those of other development partners. Furthermore, the Bank lending programmes, during the period 1992-2004, were generally consistent with the corresponding Bank assistance strategies.

3. EVALUATION OF BANK ASSISTANCE TO THE MULTISECTOR

3.1 Bank Lending to the Multi-sector

Bank lending to the multi-sector in Ethiopia started in 1992 with the Emergency Recovery and Reconstruction Project. This has been followed by other programmes aimed at stabilising the economy, promoting growth and reducing poverty. In total lending to the sector amounted to UA 271.73 millions, or 21% of total lending to Ethiopia during the period (Table 1). Three of the projects (ERRP, SAP-I and SAP-II) have been completed, while the rest are at various stages of completion. The evaluation of Bank assistance to the multi-sector is based on the three completed projects while some opinion (based on the review of project and other documents) will be provided on the on-going projects.

Table 3.1: Ethiopia- Multi-Sector Operations (in million UA), 1992-2004

Project	Fund source	Approval date	Amount		Status
			Net Approved	% Disbursed	
ERRP	ADF	1992	86.62	100	Completed
SAP-I	ADF	1993	63.54	100	Completed
SAP-II	ADF	2001	60.00	35.94	Completed
Capacity Building of MoFED	ADF	2001	0.52	29.69	Ongoing
Support for Women Affairs Office	ADF Grant	2004	1.05		Ongoing
Poverty Reduction Support	ADF	2004	60.00		Ongoing
Privatization Technical Assistance Project	ADF Grant	2002	3.0	7.9	On-going
Total			274.73 (21%)		

Source: Compiled from ADB database

3.2 Evaluation of Bank Assistance by Project

3.2.1 In this section of the report, each of the completed projects is evaluated and rated using the generally accepted evaluation criteria of relevance, efficacy, efficiency, sustainability and institutional development impact. The ratings are aggregated at the sector level in order to determine the effectiveness of Bank operation in the sector.

3.2.2 Completed Projects

3.2.2.1 Emergency Recovery and Reconstruction Project

3.2.2.1.1 The main objective of the Emergency Recovery and Reconstruction Project (ERRP) was to restore the country's productive capacity, rebuild a war-damaged and neglected infrastructure and reactivate economic activity. The World Bank took the initiative in preparing this nation-wide project and was joined by other donors such as the European Union, the African Development Bank, Sweden, Germany, Denmark and others. The Bank, through the African Development Fund (ADF), joined the donors with an amount of UA 47.89 million for assistance to the agricultural sector. In addition, a further UA 44.18 million was approved for the project from loan balances from five existing ADF projects. These are the Addis Ababa Fuel-wood Project, Gore-Tepi Road Project, Dairy Rehabilitation and Development Project, Small Irrigation

Project and PADEP. The reallocated balances totalling UA 44.18 million were used to support activities in industry, health and transport sectors of the ERRP, bringing the total ADF loan to UA 92.07 million.

3.2.2.1.2 The production component of the project covered agriculture and industry. In agriculture, the ERRP provided essential inputs including fertilizer, seeds, agro-chemicals and veterinary drugs for the 1992 and 1993 seasons. New machinery and equipment, spare parts were also imported to replace those damaged or stolen during the war. In industry the project provided foreign exchange to the public and private enterprises for the importation of raw materials and spare parts.

3.2.2.1.3 In the social sector, the project provided for the reconstruction of schools and other facilities damaged during the war. In health, it provided for the importation of essential pharmaceuticals. A pilot Social Rehabilitation Fund was established to help settle and create income generating activities for displaced or unemployed persons, particularly demobilized soldiers. The infrastructure component reconstructed roads, water, telecommunication and civil aviation facilities.

3.2.2.1.4 *Relevance:* Coming as it did in the aftermath of a protracted war which damaged economic infrastructure and ushered in economic declines, the project was highly relevant as it targeted the inherent problems facing a post-war economy. Although the World Bank assisted with the preparation of the programme, it was basically the government’s recovery programme. To this extent it was owned by the government right from the onset. In terms of overall objective, the project can be rated as highly relevant to prevailing development problems and also to development agenda of the government.

3.2.2.1.5 *Efficacy:* The project was highly efficacious in that it achieved its major objectives. In agriculture, inputs, machinery and equipment were made available to farmers on time. Fertiliser consumption increased from 100,000 tons in 1991 to 260,000 tons during 1993-96. The result was that agricultural output grew at the rate of 5.8% over the same period (1993-96), while grain production rose from an average of 6 tons in the 1980s to over 10 million tons by 1996. As a result of the imports financed by the project, capacity utilization in both private and public industrial enterprises rose from 20% in the early years of the project to 80% by 1996. Value added in large and medium scale manufacturing increased from 306.1 million Birr in 1991/92 to 606.2 million Birr in 1995/96. Small scale manufacturing and handicrafts similarly grew from 201.3 million Birr to 274.8 million Birr during the same period. In the health sector, the project made it possible to distribute three rounds of drugs and medical supplies to 1,600 health stations, 160 health centres and 59 hospitals, and a fourth round was distributed to 1,700 health stations, 179 health centres and 40 rural hospitals. The purchased machines made it possible to rehabilitate the Ethiopian Pharmaceutical Manufacturing company and increase its capacity. These interventions resulted in an increase in attendance in hospitals and health institutions by over increased by 25-30% over the 1991 level. The interventions in the transport sector increased the transport capacity of the country such that it became easier and cheaper to move agricultural output from farm gates to market centres. The project also made it possible to liberalise the transport sector by removing all restrictive controls hitherto existing in the sector.

3.2.2.1.6 *Efficiency*: Efficiency should normally measure the cost per unit of assistance delivered. But in the absence of this information from cost centres in the Bank, efficiency is herein measured in terms of cost and time over-runs of the project. In the case of ERRP, there were no cost over-runs, but there were substantial time over-runs. There was a 4 month slippage in effectiveness, 15 months on completion and 24 months on disbursements. Deadlines for disbursement were extended 3 times. The life of the project was supposed to be 24 months but it ended as a 48 month project. Thus on this score, the implementation of the ERRP was inefficient.

3.2.2.1.7 *Institutional Development Impact:* The implementation of the ERRP was marked by a rapid turn-over of staff in the Project Implementation Unit (PIU). Indeed the PIU was already dissolved even before the Bank could prepare its Project Completion Report by the Bank (PCR). Thus the project made minimal impact on the PIU. But it did make significant impact on the government agencies which were responsible for implementing their sector programmes (agriculture, health and industry). Thus the institutional development impact of ERRP can be rated as modest.

3.2.2.1.8 *Sustainability:* The sustainability of the ERRP is adjudged likely since the achievements of the programme are only marginally susceptible to risks. In fact subsequent growth performance under similar programmes is evidence of sustainability of the ERRP as it laid the foundation for those outcomes. There is no risk of policy reversal as the government showed strong commitment to the programme and its successors. The only identifiable risk is the unpredictability of rains and unforeseen political developments, both of which are known to negatively affect economic performance.

3.2.2.2 Structural Adjustment Programme-I

3.2.2.2.1 The first structural adjustment programme was approved in June 1993 against the background of continuing extensive state ownership and control of economic activities. As a successor programme to the ERRP (which had focussed largely on rebuilding economic infrastructure and on some limited policy reforms), the first structural adjustment programme comprised a broad spectrum of macroeconomic stabilization and structural reform measures aimed at reducing both internal and external imbalances, removing structural rigidities and distortions and improving the efficiency of resource mobilization and allocation. It has been subject to self-evaluation in the form of a Project Completion Report (PCR) by the relevant Operations Department as well as post-evaluation by OPEV in the form of Project Performance Evaluation Report (PPER)[4]. In a thematic study by OPEV, this programme was cited as one of the few success stories in structural adjustment programmes in Africa.[5] Similarly, the 1996 Country Portfolio Review Report rated the implementation of the programme as satisfactory.

3.2.2.2.2 *Relevance:* Following the successful implementation of the ERRP (which had helped to overhaul and rebuild the country's economic infrastructure), government attention turned to the dismantling of the apparatus of state control which had been in existence since the revolution of

[4] OPEV, Ethiopia: Structural Adjustment Programme—Programme Performance Evaluation Report, 2000
[5] OPEV, Critical Factors in Three Successful Structural Adjustment Programmes: Egypt, Ethiopia, Mozambique, 2001.

1974, as a precondition for the resumption of growth and poverty reduction. Measured against this objective, the programme was highly relevant as it sought to replace existing controlled economy with a market economy.

3.2.2.2.3 *Efficacy:* According to the PCR and the PPER, the programme achieved all its major objectives. This report shares those views. Indeed, in some areas the achievements exceeded the goals set at appraisal. For example, the goals set for GDP growth rate, investment ratio, and current account deficit, among others, were exceeded. Thus the performance of the programme was highly satisfactory. This was also the finding of both the PCR and the PPER.

3.2.2.2.4 *Efficiency:* The programme was supposed to be implemented over a 2 years but implementation actually took 3 years. The PCR blamed this on optimistic implementation schedule at appraisal, but the PPER did not agree with this as an acceptable explanation. This report shares the view of the PPER as the programme was a quick-disbursing one whose implementation was not supposed go on indefinitely. Although was no explicit cost over-run, the programme was inefficiently because of the time over-run which had implicit costs.

3.2.2.2.5 *Institutional Development Impact*: The challenge of implementing the programme paved the way for the establishment of key institutions for the execution of the programme and in some cases, the strengthening of existing ones like the Ministry of Finance. In several cases, new institutions were established. For example, the Ethiopian Privatization Agency (EPA) was created for the purpose of effecting the privatization of state owned enterprises. Similarly the participation of nationals in Public Expenditure Reviews has enhanced the capacity of those nationals in such matters. The reform of the Civil Service, which was part of the programme, has gone some length in making that institution more efficient. But capacity constraints remain within the economy. On this score therefore, it can be said that the programme has made modest (satisfactory) impact in the area of institutional development.

3.2.2.2.6 *Sustainability:* In terms of the sustainability of the reform process, the probability of policy reversals is very remote given the political commitment of the government and major stakeholders to the reform process. In fact the government was fully determined to deepen the reform process. To this end, government issued a new PFP for the 1996/97-1998/99 medium-term programme in August 1996 and the International Monetary Fund (IMF) approved an Enhanced Structural Adjustment Facility (ESAF) in support of the programme in October 1996. Policy actions under the new PFP were aimed at facilitating a stable macroeconomic environment which further enhanced the sustainability of SAL-I. Sustainability of the achievements under this programme is therefore very likely as achievements under the programme are moderately susceptible to risks. These risks relate mostly to the unpredictability of rains.

3.2.2.3 <u>Structural Adjustment Programme-II</u>

3.2.2.3.1 As the immediate successor to SAP-I, the purpose of SAP-II was to assist the government in its continued effort to restore macroeconomic stability and promote equitable growth and poverty reduction in line with international development goals. Specifically, the programme provided balance of payments to the government for the reform measures outlined in the I-PRSP. In addition to the macroeconomic framework common to all donors, ADF support concentrated on three key policy areas namely, agricultural development and food security, public expenditure policy and management, and legal and judicial system reform. ADF contribution was UA 60.0 million over a two-year period 2002-04.

3.2.2.3.2 The programme was a direct balance of payments support to the government to which other donors contributed {IMF (UA 86.9 million), IDA (UA 116.6 million), and European Union (UA 105.1 million)}. The programme was planned to end in January 2004. As of the time of this evaluation, the loan has been fully disbursed and in that sense it is completed. The government has prepared and submitted its own PCR (even though it is sketchy) but the Bank has not prepared its own. The 2003 Country Portfolio Review Report indicated that the implementation was proceeding satisfactorily and that the programme would most likely achieve its objectives. In the absence of Bank's own PCR, this evaluation relies on data/information gathered during the mission.

3.2.2.3.3 *Relevance:* As indicated above, the aim of this programme was to deepen policy reforms, enhance growth and reduce poverty. There was also a need to carry through judicial and legal reforms, (reforms which are essential for the protection of the poor) and bring legal codes in line with world-wide standards. When measured against these objectives and the issues calling for attention, the programme can be said to be highly relevant.

3.2.2.3.4 *Efficacy:* At appraisal, real GDP was forecast to grow at 7% during 2000/01-2002/03, inflation rate of not more than 5%, fiscal deficit of 5.2% of GDP by 2004/05 and current account deficit of 5.6% of GDP. Foreign exchange reserves were to be about 4-5 months of imports. For the period 2001/02-2004/05, the average GDP growth rate was 4.4%, slightly lower than projected growth at appraisal. Per capita GDP increased from US$ 93.7 in 2002/03 to US$ 112.4 the following year. Although inflation was held at single-digit level, it was still higher than at appraisal. The 2002-2004 CSP attributes the slippage to the negative impact of the severe drought in 2001/2002. But the share of poverty-oriented expenditure (as % of total expenditure) was on the increase, averaging 48.4% during the periods. Thus on the macroeconomic front, the programme can be said to have a satisfactory outcome. In the area of institutional reform however, a Ministry of Finance document[6] as well as the government's PCR claim some success in such areas as revenue collection (with the introduction of the Value Added Tax (VAT), legal and judicial reforms, and improvements in service delivery in the public service. For example tax revenue as percentage of GDP increased from 14.8% in 2002/03 to 15.2% during the following year and it is projected to increase to 18.5% in 2004/05. The outcome of the programme can thus be rated as satisfactory on account of progress made on both income and non-income measures of performance.

3.2.2.3.5 *Efficiency:* The programme did not experience any cost over-run, but it did experience time over-run of a few months. Its date of commencement was May 2002 and for a programme of 2 years, the completion date should have been April 2004, but instead the date of final

[6] Ministry of Finance and Economic Development, Sustainable Development and Poverty Reduction Programme: Retrospective and the Way Forward. Addis Ababa, June 2005.

disbursement was December 2004. As this slippage is tolerable, the programme can be rated as as efficient.

3.2.2.3.6 *Institutional Development Impact:* The programme has enhanced the capacity of the Ministry of Finance (the executing agency) to manage this type of programme. An evidence of this is the promptness with which the ministry was able to prepare its own PCR (its PCR was submitted to the Bank in March 2005, just a few months after completion). The experiences gained in implementing this programme has strengthened the capacity of the ministry to the extent that it was able, on its own, to prepare the background document for the phase II of the SDPRSP. A major component of the programme is the reform of national institutions such that they could more responsive to development requirements. Civil service reform has taken place or on-going, and there has been a big push to build capacity in both the public and private sectors. The judicial system has been strengthened with appropriate modifications to the penal code. Similarly there has been an improvement in governance in order to empower the poor and a relatively stable framework established for private sector growth. But in-spite of claims, progress in privatising public enterprises has been slow. Whatever progress might have been, are in the privatization of small and medium scale public enterprises. Monopolistic tendencies continue as giants like the Ethiopia Telecom remain in government hands. On the whole therefore it can be said that the institutional development impact under this programme was modest.

3.2.2.3.7 *Sustainability:* There are no obvious risks to the achievements of this programme. Indeed government support and commitment for policy reform and poverty reduction remains strong. An evidence of this is that the government has begun the process of launching the next phase of the SDPRP. In fact the paper by the Ministry of Finance quoted above was prepared for regional and national consultations for the next phase of the SDPRP. Donors have also been active in consultations on the next phase of the programme. Thus there are no indications of policy reversal and therefore, the sustainability of the achievements beyond the programme period is very likely.

3.2.3 **Overall Performance of completed sector projects**

3.2.3.1 The table 3.2 below represents an attempt to give numerical values to the evaluation of the projects described above. Each of the criteria is rated on the scale of 1-4. The table shows that all the projects were highly relevant to the development problems facing Ethiopia and consistent with the assistance strategy of the Bank and those of the development partners. Their achievement of objectives was also satisfactory, but performance on efficiency was rated low because they all experienced time over-runs. Institutional development was also modest for all the projects while sustainability is likely for all of them.

Table 3.2: Ex-Post Ratings of Projects

Criteria	Projects			Aggregate Indicator
	ERRP	SAP-I	SAP-II	
Relevance	4	4	4	4.0
Efficacy	4	4	3	3.6
Efficiency	2	2	3	2.3
Outcome	**3.3**	**3.3**	**3.3**	**3.3**
Institutional Development	3	3	2	2.6
Sustainability	3	3	3	3.0
Aggregate Indicator	3.2	3.2	3.0	3.1

Source: Derived from discussions in section 3.1

3.2.3.2 All the completed projects had satisfactory outcomes notwithstanding their overall inefficiency. The performance on the efficiency criterion is traceable in part, to poor implementation performance either on the part of the Bank or the government of Ethiopia. More will be said on this later (section 5). The conclusion that can be drawn from the table is that Bank assistance to the multi-sector performed satisfactorily, both across criteria and across projects. It also shows that the ratings are consistent across the two dimensions of measurement. The conclusion that can be drawn from the evaluation of the completed projects is that the completed delivered Bank assistance to the multi-sector was satisfactory. The major objectives were achieved and the programmes contributed modestly to institutional development. There were no major risks to the sustainability of the achievements of the programmes. But they programmes were subject to long implementation delays. Overall the outcome of the assistance was satisfactory.

3.2.4 **Performance of On-going Projects**

3.2.4.1 There are four additional projects in the sector, but they are still on-going. They are the Capacity Building Project for the Ministry of Finance, the Institutional Support programme for Women Affairs, the Poverty Reduction Programme and the Privatization Technical Assistance Project. These are not included in the assessment of the performance of the sector because they are still under implementation and it is difficult, if not near impossible, to guess the direction of their outcome. Thus the earlier they are completed and self evaluation carried out on them, the easier it would be for OPEV to make a judgement on their performance and outcomes.

3.2.4.2 <u>Poverty Reduction Support Project</u>

3.2.4.2.1 In line with 2002-04 CSP and the government's development agenda as contained in the SDPRSP, the project seeks to assist the government to achieve the MDGs for Ethiopia. This project is a direct budget support (DBS), a new lending instrument designed to provide direct support to government budget as opposed to SALs which provide support to the balance of payments. DBS has the advantage of reducing transactions costs of aid delivery because of its potential for the harmonization of donor policies. It is frequently used where donors are satisfied with overall government policy environment as under this condition, there is no further need for conditionality-based disbursements—a condition made possible by prior adjustment programmes in Ethiopia.

3.2.4.2.2 The ADF provided a loan of UA 60 million in support of this project. Other donors are IDA (101.32 million), European Union (UA 24.76 million), Canada (UA 12.89 million), Germany (UA 7.84 million), Ireland (UA8.91 million), Sweden (UA8.93 million) and the United Kingdom (UA 37.17 million). The loan was approved in October 2004. It was a single tranche loan which has been fully disbursed. The project had four main components, all drawn from the SDPRSP. The first involves the monitoring of the overall implementation of the SDPRSP policy matrix from which the Budget Support Matrix has been derived, and to verify government's continued commitment to the reform agenda. The second component is the public sector fiduciary framework which includes improvements in inter-governmental fiscal relations; addressing delays in closing government accounts of both federal and regional governments, which have hampered the preparation of government audits and procurement. The third component seeks to enhance private sector development by addressing issues relating to privatization, access to urban land and financial sector reforms. The fourth component targets issues relating to rural land tenure security, which is essential to the promotion of agriculture and rural development. The loan is entirely disbursed but the Bank is yet to prepare its PCR. The views herein expressed are based on interviews with government officials and government's progress report on the implementation of the SDPRSP.

3.2.4.2.3 The first two years of SDPRP (which was partly financed by the Bank through the Poverty Reduction Programme) witnessed some good performance in economic aggregates and in the reduction in non-income poverty. The GDP was expected to grow at the average rate of 6.7% during the SDPRSP life (2002/03-2004/05). In the first year, growth rate was -3.9%, but this improved in the following year to 11.6%. Gross primary enrolment was 64.4% and 68.4% in 2002/03 and 2003/04 respectively. The target for the life of the SDPRSP was 66%. In health, access to health facilities was 61% in 2002/03 and 64% in 2003/04 as against the target of 65%. Immunization coverage which was targeted to be 55% in 2003/04 was 50.4% in 2002/03 and 60.8% in 2003/04. Access to clean water was 34.1% and 37.9% in 2002/03 and 2003/04 respectively. The SDPRSP target was 39.4%. These outcomes are not surprising given the increasing share of poverty-related expenditures in the national budget (see below).

3.2.4.2.4 A Joint Budget Support Team (by all donors, including the Bank) has been monitoring the implementation of the SDPRSP. In its latest mission (September 20 to 4th October 2004) it reviewed progress on the various indicators and actions contained in the Budget Support Matrix (of the budget support programme). It also conducted the first Joint Budget and Aid Management Review (JBAR) in which it assessed budget performance for FY04 and the FY05 budget, the integration of aid flows in the budget, and progress in intergovernmental fiscal relations and public financial management. The review concluded that both total expenditure and the share of pro-poor spending are on the increase. Indeed, poverty-oriented expenditure as share of total expenditure increased from 42.8% in 2001/02 to 41.9% in 2002/03, to 49.6% in 2003/04 and it is estimated to increase to 59.5% in 2004/05 (Annex 1). Although the progress report on the SDPRSP claimed some achievements in the areas of privatization and financial sector reforms, the observation on the ground is that the progress in these two areas is limited. More will be said on both later in this report. The issue of land tenure remains a contentious one as the government has not yielded any ground in favour of private ownership. But overall the programme is on course to achieve its major objectives.

3.2.4.3 Capacity Building Project for the Ministry of Finance.

3.2.4.3.1 The Ministry of Finance and Economic Development, through its Multilateral Cooperation Department (MCD) is the organ of the government of Ethiopia responsible for the coordination of Bank Group's operations in the country. It also coordinates other multilateral and bilateral cooperation development programmes. Both the government and the Bank have detected capacity weaknesses in the ministry, weaknesses which have contributed to the department's inability to satisfactorily execute tasks required of it to coordinate Bank Group operations in the country. Consequently the Bank responded with a grant amount of UA 519,171 to assist in the development of human and institutional development of MOFED. The grant was declared effective on January 15, 2002 and was supposed to run until December 31, 2005.

3.2.4.3.2 The programme was designed to provide external and internal training for staff of MOFED as well as those coordinating ministries like Agriculture, Water Resources and education. It was also designed to purchase relevant equipment for MOFED. As of the time of this evaluation, only one disbursement has been made and that was in August 2002. In terms of implementation, very little has been accomplished. A giant photocopier has been purchased for MOFED, while some limited training of staff of MOFED as well as coordinating ministries has taken place. For example, in the area of external training, two technical staff from MOFED, two from Water resources, one from education and one from Economic Cooperation Bureau have undertaken short-term training on Project Planning and Design at the University of Bradford, UK. Another set of staff have also undertaken courses on Project Planning, Management at the University of Wales, Swansea. As for local training, some relevant staff (11) have also benefited from a one-week study tour to the headquarters of the Bank in order to familiarise themselves with relevant units of the institution and their rules of procedures, including the preparation of projects and PCRs. There was also a short-term training in Bahir Dar for Amhara and Bensshangul Regional bureaus. This covered Bank's project cycle management, procurement of good, disbursement procedures and project monitoring processes.

3.2.4.3.3 In principle, the project has laudable objectives, which if realised, could go a long way in redressing the capacity shortcomings of the ministry. But it bedevilled by the same problem which it was designed to address—lack of capacity in implementing projects. Thus if care is not taken, the project could be subject to delays in implementation. This view is contrary to that of the 2003 CPRR which argued that implementation was progressing satisfactorily with an overall rating of 2.5.

3.2.4.4 Institutional Support to Women's Affairs Office

3.2.4.4.1 The overall goal of the project is to enhance government capacity to achieve gender related MDG and SDPRSP targets. Specifically the aim is to establish greater local institutional and human capacity of the Women's Affairs Office at both the Prime Minister's Office and MOFED and selected regional women's affairs offices to design and implement gender sensitive policy and development interventions geared towards the achievement of MDGs and SDPRSP targets. In order to do this, the Bank provided a grant of UA 1.06 million to meet all the foreign exchange requirements (external training, production of studies, guidelines and gender mainstreaming tools as well as procurement of equipment) that would enhance the capacity of the Office.

3.2.4.4.2 The grant would also meet part of the local cost of the project. The cost of the project was UA 1.058 million (equivalent to 90.1% of total project cost). This will be for the investment cost items namely small repairs and maintenance, training, studies and preparation of policy and operational guideline documents, technical assistance and some of the recurrent costs like field allowances for project staff. The government of Ethiopia will support the project to the tune of UA 116,690 (9.9%). This will cover the costs of salaries office running expenses for the participation of MOFED and the Prime Minister's Office in the project. The project was approved in December 2004 and it was supposed to run for 24 months.

3.2.4.4.3 As of the time of this evaluation, only one disbursement has been made by the Bank, partly because some loan conditions were yet to be met. These include the schedule of training to be undertaken, the delay in reaching agreement about the letter of undertaking from the national bank as requested by the Bank and the delay in recruiting technical assistants. In effect very little has been achieved by this project as implementation has been handicapped by capacity constraints. In its first progress report, the Women's Affairs Office (WAO) listed some of its achievements. Advertisements for positions have been put up in newspapers but there were few and credible responses. But a project coordinator and a procurement officer have been appointed and have had offices assigned to them. As a result of capacity constraints, workshop on gender mainstreaming, monitoring and evaluation strategies, and purchase of equipments have not been undertaken. It is hoped that the recruitment of the gender monitoring and evaluation expert and a gender expert will take place in the 3rd quarter of 2005. A few activities are lined up for the 3rd quarter of 2005. These include a workshop on gender mainstreaming and monitoring and evaluation strategies, production and marketing, rehabilitation of the Ethiopian Women Development Fund (EWDF) training centre, among others. Thus the WAO expects activities in the implementation of this project to be in top gear as from the 3rd quarter.

3.2.4.4.4 Although not much has been accomplished to date in the implementation of this project, the WAO appears enthusiastic about its ultimate success in enhancing the role of women in the development process and in mainstreaming gender issues into that process. What is now required at this stage is for the Bank through its representative office (ETCO) in Addis Ababa, to increase its level of assistance, particularly in supervision and dialogue, with WAO.

3.2.4.5 Privatization Technical Assistance Project

3.2.4.5.1 The objective of this project is to promote a dynamic private sector development through three major activities—creating a dynamic entrepreneur group that can enhance the role of the private sector; attracting investment by providing access to private capital; and relieving tied resources by enabling the government to redeploy its resources to higher priority sectors. The project has six major components—Transactions support; Institutional Support; Public Awareness promotion; Post privatization impact analysis; Environmental audit; and EPA operating support. The total cost of the project is UA 10.2 million, out of which the ADF provided UA 3.0 million. Other donors include the German Technical Cooperation (GTZ UA 3.07 million), IDA (0.83 million), government of Ethiopia (UA 0.165 million). The project was approved November 8, 2000 with an original closing date of December 31, 2002. This has since been extended till December 31, 2005. As of today, the Bank has disbursed UA 383,128 (13% of total grant).

3.2.4.5.2 The executing agency is the Privatization and Public Enterprises Supervising Authority (PPESA) since August 2004. The body was established through the merger of the former Ethiopian Privatization Agency (EPA) and the Public Enterprises Supervising Authority (PESA). The Environmental Protection Agency is the executing the environmental audit component in consultation with PPESA.

3.2.4.5.3 A coordinated approach to project preparation and appraisal was adopted to ensure the success of the project and to ensure synergies between the three donors (the Bank, the GTZ and the World Bank), with the GTZ providing an experienced administrative officer for purposes of smooth and efficient project implementation. Although the GTZ withdrew its assistance in June 2004, the British Department of International Development (DFID) has agreed to take over the financing of the administrative officer along with an intermittent privatization adviser and other related costs for the day to day management of the Technical Assistance Office up till December 31, 2005. DFID is willing to continue to fund the administration of the office provided the coordinating office is taken over by the Bank with DFID providing the necessary funds. As of the time of this evaluation, this negotiation is still being worked out.

3.2.4.5.4 Observations on the ground point to limited progress by the agency in its privatization programme as the project is bedevilled by delays in implementation, mostly due to the lukewarm approach to privatization. While a few activities have taken place (e.g. the purchase of some equipment for the executing agency, the privatization of some state-owned enterprises, some seminars and workshops on sensitizing the public on privatization, revisions to legal codes which tend to limit private initiative, reforms to procedures which delay approvals for trade licences) limited progress has been recorded in this area. State-owned giants (monopolies) like the Telecom, Commercial Bank of Ethiopia and the Ethiopian Airlines continue to flourish without competition while party-affiliated companies continue to enjoy favoured status in competing with private sector operators. The views of most donors, with which this report is in agreement, is that the government would have to adopt a more proactive posture (perhaps a slight shift in ideological orientation) towards privatization and rules governing private sector behaviour if a true private sector is to develop in the country. While this report is of the view that the overall impact of the project could be undermined by implementation delays, the 2003 CPRR rated implementation performance as satisfactory. It is now obvious in the light of 2005 observations, that those assessments were rather optimistic.

3.2.4.5.5 All the on-going projects have the potential of achieving their objectives. But the Bank has to address the factors which are causing undue implementation delays. ETCO has a critical role to play here. It should be empowered to take on the spot decisions without having to clear such issues with the headquarters. But this is not to say that the headquarters should be kept out of the picture.

3.3 **Bank Non-Lending Assistance to the Sector**

In addition to direct programme financing the Bank provided some non-lending assistance to the sector. These were in the form of economic and sector work, aid coordination, policy dialogue and advice. The main economic and sector work were the CSPs, which in general improved in good quality over time. They clearly identified the problems of the economy and proposed appropriate lending instruments to address them. There was also the Multi-sector Country Gender Profile document which was produced in 2004. Its aim was to identify the short and long term gender issues to be addressed and mainstreamed in Bank Group interventions and which are pertinent to poverty reduction and sustainable development in Ethiopia. But the timing of the document was too late to be of any relevance to the 2002-2004 CSP. Beyond these there were no specific economic studies on Ethiopia. Policy dialogue and advice took the form of consultations with the government and other stakeholders on the content and direction of Bank policy as specified in the CSPs. Such consultative process improved the quality of the CSPs and ensured a sense of government ownership of the development agenda contained in the documents. The Bank also participated in several forums in which Ethiopia's development problems were discussed. All the programmes in the sector were co-financed with several donors, in particular with the World Bank. The co-financing arrangements necessarily warranted coordination with these donors in the preparation and negotiations of the programmes. A good example of aid coordination was the HIPC consultations in which the Bank participated actively. The outcome of the consultations was a substantial debt relief for Ethiopia. In general, the Bank non-lending assistance was relevant.

4. **DEVELOPMENT IMPACT OF BANK ASSISTANCE**

4.1 **Impact on Economic Growth**

4.1.1 With the successful completion of the ERRP, the government attention turned its to policy reforms which rid the economy of state controls, price and cost distortions, thereby laying the foundations for the development of the private sector. It was hoped that these reforms would generate growth and make poverty reduction possible. This section of the report reviews the response of the economy to the reforms. In doing so, it is recognised that the Bank was just one of several donors which provided assistance for policy reforms in Ethiopia. Thus it would be presumptuous to attribute the outcome (success or failure) entirely to the Bank.

4.1.2 The Ethiopian economy has responded well to policy reforms. Indeed the positive response of the economy to incentives is one of its attributes. These reforms have resulted in an improved economic performance, with annual real GDP growth rate averaging over 3.5% during 1995/96-2003/2004 (Annex 1). This performance was however dampened by the border conflict with Eritrea during 1998-2000. The mobilization for war effort combined with the effect of the El Nino caused GDP growth rate to drop sharply to -1.4% in 1997/98, but growth re-bounced to 6% and 5.4% in 1998/99 and 1999/2000 respectively as good rains resulted in high agricultural output. But the fiscal stance of the government deteriorated as defence expenditures rose sharply and fiscal deficits (excluding grants) increased from 5.2% of GDP in 1996/97 to 14.4% in 1999/2000. Consumer price inflation however remained moderate at one-digit level (4.2%), but current account deficit (including official transfers) deteriorated from 3% of GDP in 1996/97 to 5.3% in 1999/2000, while gross official reserves fell from 4.4 months of import cover in 1996/97 to 2.2 months in 1999/2000, due to deteriorating terms of trade.

4.1.3 Following the cessation of hostilities in June 2000, economic performance improved in 2000/01 as real GDP rose to 7.7%, largely due to improved agricultural performance. There was also improvement on the inflation front with the consumer inflation falling to -5.2%, a consequence of bumper cereal harvest of that year. The fiscal situation also improved with the fiscal deficit (including grants) declining to 5.5% of GDP partly because of the declines in defence spending.

4.1.4 The expectation of continuous improvement in performance was dampened by the drought of 2001/2002 which rendered over 10 million people dependent on food aid. The macroeconomic situation deteriorated because of the drought; as real GDP growth rate fell to 1.2% as against a projected rate of 5.0%, even though defence expenditures declined to 5.1% of GDP. The fiscal deficit also worsened as a result of rising commercial food imports which amounted to US$ 140 million in the first nine months of 2001/02, and accelerated poverty-targeted expenditures, estimated at 14.6% of GDP in 2001/2002. But the consumer price inflation remained negative at -7.2% largely because of food aid and huge commercial food imports, while gross external reserves improved to 3.3 months of imports.

4.1.5 Judging by the indicators in Annex 1, the economy has responded well to policy reforms. This finding is confirmed by Easterly who showed quantitatively that about half of the change in growth during 1992-2001 is explained by policy reforms. According to him, the total growth change explained by policy effect was about 1.42% out of 2.82% growth effect on per capita growth[7].

4.1.6 But in-spite of the relatively good economic performance, the economy continues to face serious structural problems. For example, the economy remains highly dependent on rain-fed agriculture. The economy performs badly in any year when the rains fail. In an econometric study by the IMF[8], it was found that rainfall and a trend explain about 94% of the variance of GDP. Fluctuations in average annual rainfall, in particular, appear to have substantial impact on real GDP, with a change of 1 percent in rainfall leading to a change in real GDP of 0.3 percent in the following year. In addition the dependence of agricultural production on rainfall causes real GDP growth to be very volatile. The standard deviation of growth was 2.8 percent during 1981-2002. Real growth in Ethiopia is much more volatile than in neighbouring countries—for example, during the same period, the standard deviation of growth was 2.2 in Kenya, 2.4 in Tanzania, 3.6 in Uganda and 4.6 in Zambia.

4.1.7 Another and closely related structural problem is the inability to diversify the economy

[7] Easterly, William "Growth in Ethiopia: Retrospect and Prospect" Center for Global Development, Institute of International Economics, 2002

[8] International Monetary Fund, the Federal Democratic Republic of Ethiopia: Ex Post Assessment of Long Term Fund Engagement. Washington, DC, January 2005

over the years. Although the reliance of the economy on coffee export earnings has declined from a high of about to 60% to its current level of 40%, the share of industrial sector in GDP was only an average of 10% during 1995/96-2002/03 (Annex 1). Similarly, estimates from the 2004/05 African Economic Outlook indicate the diversification index of the economy to be an average of 3.4 between 1998 and 2002, indicating little progress in diversifying the economy. There are signs however that horticulture exports are growing in importance. In order to reduce the dependence of the economy on agriculture and *ipso facto*, on nature, it is imperative to diversify the production base of the economy.

4.1.8 Another structural problem is the dependence of the economy on foreign resources. With an average revenue/GDP ratio of 13.3%, the dependence appears inevitable if development must be financed. But from the standpoint of macroeconomic management, this may not be desirable as it introduces uncertainty into economic management given that aid flows can be unpredictable. For the period 1990-2003 per capita aid to Ethiopia averaged only US$ 17 (in current prices) [9]. The government has taken steps to correct this by instituting the Value-Added Tax (VAT) in 2003. This tax has the potential of widening the tax base and thereby enhancing tax revenue. So far, VAT revenue has shown an upward trend compared to sales tax which it replaced. In the year following its introduction, VAT revenue as percentage of tax revenue was 25.3% or 6.5% of GDP. This might have been the basis of government's projection of domestic revenue growth of about 20% each year for the next three years.

4.2 Impact on Poverty Reduction

4.2.1 Ethiopia's economic performance has been relatively modest and erratic, being highly dependent on rain-fed agriculture. Consequently social conditions have barely improved over the years. Based on the 1995/96 and 1999/2000 Household, Consumption and Expenditure Surveys (HICES) and Welfare Monitoring (WM) surveys, the incidence of poverty in Ethiopia has not improved significantly over the years. The proportion of people in absolute poverty declined only marginally from 45.5% in 1995/96 to 44.2% in 1999/2000. While rural poverty incidence declined by 4%, urban poverty increased by 11% during this period. The estimated Gini coefficient for 1999/2000 was 0.28 (nationally, 0.26 (rural) and 0.38 (urban) compared with 0.29 (nationally), 0.27 (rural) and 0.34 (urban) in 1995/96. The survey revealed the major causes of poverty in Ethiopia. Poverty indices are larger for households with larger family sizes thus indicating the poverty effect of large population. Poverty incidence, depth and severity also increase the lower is the level of education of the head of the household. In urban areas, the female-headed households tended to have higher poverty incidence, depth and severity than the male-headed household, but no significant difference was observed among rural households in terms of gender. The high incidence of HIV/AIDS is also impacting negatively on poverty.

4.2.2 Preliminary data from the recently (2004/05) completed HICES survey point to a slight decline in head count index over the previous survey. The survey shows that annual per capita income has been increasing at about 2% on average over time. There is a similar upward trend in per capita Private Final Consumption (PFCE) since 2000. When these two developments are combined with the recovery of food production, it is thought by the survey that the headcount

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[9] This amount may appear low as it reflects the size of the country's population but as indicated above (1.2.5) Ethiopia relies on development assistance to the tune of about 40% of public sector spending.

poverty index would have declined by about 10% (to 36.2%) over the last survey period.

4.2.3 Progress has also been recorded in the non-income dimension of poverty. According to the 2004/05 Welfare Monitoring Survey by the Central Statistical Authority, primary education enrolment (1-6) has nearly doubled (74.2%) in 2004/05 compared to its 1996 level of 37.4%. Primary gross enrolment has similarly reached 68.4%. In the area of health, under 5 immunizations for measles and BCG increased from 39.1% and 35.1% respectively in 1996 to 56.8% and 52.5% in 2004/05. The nutrition status of children under 5 years (child stunting) declined from 57% in 1999/00 to 47% in 2004/05. The percentage of underweight children has also declined from 45% to 37% during the same period. With regard to access to clean water, overall access to clean water increased from 19% in 1996 to 35.9% in 2004/05. These general improvements in the overall poverty and social conditions must have underlined the recent (2005) verdict of the United Nations Development Programme (UNDP) to the effect that there has been an upward, though marginal, trend in Ethiopia's Human Development Index (HDI). In 1990, the HDI was 0.32; it was 0.323 in 1995, 0.352 in 2000 and 0.367 in 2003.

4.2.4 The poverty situation is one of the many development challenges facing Ethiopia. The government itself has estimated that the economy must grow at an annual real rate of 5.7% in order to reduce poverty by half from its present level by 2015. But the vulnerability of the economy to terms of trade shocks and periodic droughts pose a major challenge to the country in meeting the Millennium Development Goals (MDGs). These factors must have played a role in the verdict of the UNDP that Ethiopia would probably not meet the MDGs by 2015.

4.3 Impact on Private Sector Development

4.3.1 Ethiopia entered the decade of the 1990s with a highly centralized command economy. There was no little or no room for the market forces and private initiative. The reforms that came in the wake of the collapse of the Derg regime were aimed partly, at re-establishing the role of the market system and create an environment for the development and growth of the private sector. In this regard, many of the reforms contained provisions for liberalising the exchange rate, the interest rate and prices in general. As of the time of evaluation, most prices (including the exchange rate, the interest rates) have been deregulated. Thus the major sources of economic distortions have been removed, thereby setting the stage for the development and growth of the private sector.

4.3.2 In furtherance of this objective, the government has carried out some structural reforms to complement the stabilization of the economy and the deregulation of prices. In the area of privatization, the PPESA has been established and it has in turn, finalized and submitted the Privatization Action Plan to the Minister for adoption. The Plan includes the list of public enterprises to be handled under the PPESA, and underlines the key principles of privatization in Ethiopia, including, (i) commitment to a market-oriented, transparent and competitive bidding process; (ii) speeding up privatization transactions by increasing capacity and by providing more discretion for sale at market offered prices; a sale process that allows the successful bidder to restructure the labour force of the enterprise; and (iv) introduction of a voluntary separation package to mitigate the social impact of possible restructuring. The government has also introduced competitive policy which contains articles against collusive behaviour. Finally the business environment has been improved. Long processing time and bottlenecks which have hereto mitigated against doing business in Ethiopia have been reduced. Similarly processes for granting business and trade licenses have been streamlined and waiting times drastically reduced. Access to urban land for business purposes have been made much easier, industrial estates have been developed, with serviced lots made available to business investors for immediate start-up and easy access to land has been provided for horticultural enterprises.

4.3.3 The above are proactive measures for the growth of the private sector. When supplemented with the limited privatization of public enterprises that have taken place, they could usher in a period of private sector growth. But there are obstacles, mostly related to the political will of the government to privatize the existing monopolies and extend its reforms to the financial system. Most observers think the government is not too ideologically committed to the process. From all these it can be concluded that the limited progress on private sector development remains the Achilles heel of the more than two decades of reform in Ethiopia.

4.4 **Impact on Other Cross-Cutting Issues**

4.4.1 *Environment:* The protection of the environmental is very critical to Ethiopia's development prospects. Thus it has established the Environmental Protection Agency (EPA) to develop guidelines for protecting the environment. The EPA has guidelines on environmental impact assessment (EIA) for agriculture, industry, mining, and roads; social impact assessment and resettlement guidelines; and pesticide, fertilizer, and industrial audit guidelines. The EPA has also assisted regions to establish environmental protection units.

4.4.2 *Gender:* Women make up nearly 50% of Ethiopian population. Despite this number, their contribution to the overall development of the country has not been fully realized. The government has however issued the National Policy on Ethiopian Women and it has established the Women Affairs Office in the Prime Minister's office. Branches of WAO have been established across the country. The SDPRSP places a strong emphasis on the importance of gender equality for development and poverty reduction. To this end the government has established a new Penal Code which contains strong measures in support of women's rights. The WAO has also formulated the National Action Plan for Gender Equality (NAP-GE) that will be used as a tool for the promotion of gender equitable development. The Bank has provided support for enhancing the capacity of women that would permit their integration into national development through its grant programme for capacity building in the WAO.

4.4.3 *HIV/AIDS:* With about 7% of the population living with HIV/AIDS in 2001/2002, this health problem is a major constraint on the development efforts of the country. Significant progress has been made in combating the disease. The HIV/AIDS Prevention and Control Office (HAPCO) has prepared and published and disseminated a comprehensive monitoring framework for the disease. In 2004, HAPCO issued the communication guideline framework for communicating with different target groups about the disease. The fourth "Aids in Ethiopia" report was issued in 2004. It showed that the national adult prevalence rate was 4.4% (urban 12.6% and rural 2.6%), indicating a significant reduction over the previous report. One major factor accounting for the variation includes the significant increase in the number of rural surveillance sites. It is apparent that the government is aware of the potential negative impact of the pandemic on its development efforts. As such it is taking appropriate steps to stem the rise in new infections while taking steps to treat those who are already infected.

4.4.4 In all these cross-cutting areas as in the core project lending, the Bank has tried to influence government action through the participatory manner in which its recent CSPs are being prepared and through policy dialogue. The Bank has also tried to influence developments in these areas through its lending programmes.

5. CONTRIBUTORS'PERFORMANCE

5.1 The Government of Ethiopia

In OPEV's thematic study on Critical Factors in Successful Adjustment Programmes in which Ethiopia's SAP-I was cited as an example of success, one of the factors mentioned in that report was government commitment to the reform process and the political leadership it provided in the formulation and implementation of that programme. The commitment was reflected at all levels of government, in particular in the implementing agencies. There has been no evidence of any change of attitude on the part of the government since that report. Although there were delays in implementing certain projects, this is a shared responsibility between the Bank and the government. The government continues to own the development process and it collaborates well with donors and other stakeholders. The government through the Multilateral Cooperation Department (MCD) of MOFED cooperates well with all donors, including the Bank. Recently (in September 2005), MOFED conveyed a meeting of donors, federal and regional government official, and other stakeholders to discuss the background document on the next phase of SDPRSP. But the government did not perform well in the area of structural reforms, perhaps because of ideological mindset. When viewed against the pre-1992 era however, it can be argued that the government has come a long way in reorienting the economy towards a market-based system. Overall therefore, the performance of the government can be rated as satisfactory.

5.2 The Bank

The Bank ensured that the projects were adequately aligned between programming periods. Project preparation and design were adequate but stakeholder participation, though increased in the most recent operations, was weak. Also, the issue of the weak capacity of the project implementing agencies was not adequately addressed especially in the project design of the non-policy-based support. Since its first intervention in the multi-sector, the Bank has collaborated with other donors by co-financing the major projects with them (in particular the World Bank) as required by the Boards of Directors. With the opening of the Bank office in Addis Ababa, the Bank participated in virtually all donor coordinating meetings and joint missions, and policy dialogue with the government and frequency of project supervision also improved. However, overall Bank participation in aid coordination and policy dialogue was inadequate mainly because of limited technical contribution. The Bank was most often represented by the country office in Addis Ababa in aid coordination and policy dialogue. But the country office relied on Headquarter (HQ) for technical support and for decision-making. HQ technical support when provided was most often late and insufficient, and therefore not useful. As the country office was not empowered to commit the Bank during donor meetings, it had to refer to HQ. And responses from HQ were not automatic and guaranteed, thus weakening Bank's participation. Although project supervision improved, it was not timely; and the delays in project implementation remained substantial. The Bank was slow in providing responses to questions and clarifications during project implementation. This slow response (and sometimes no response at all) was mentioned by stakeholders in the executing government agencies interviewed during the mission. The Bank was also not effective in providing in training the executing agencies of the non-policy based projects on its relatively difficult and inflexible procurement rules and procedures. In addition, the Bank did not ensure effective project monitoring and evaluation. Project logframes were provided, but the indicators were not appropriate for tracking the contribution of the Bank to the co-financed projects. The Bank has also been slow in preparing its PCRs. For example, although SAP-II was completed sometime ago, the PCR has not been completed. Similarly the PCR for the Poverty Reduction Project was yet to be completed. It should be noted here that the World Bank, a co-financier of the project, has prepared its own PCR and consequently was preparing the phase II of the project. On the basis of the above, the Bank performance was unsatisfactory.

5.3 Other Donors

Partly as a result of the level of poverty in Ethiopia, there are many donors in the country. They have tried to reduce the transaction costs of their activities by holding frequent donor meetings at which they exchange views on those activities. The World Bank invariably takes the lead in these activities, with the ADB actively participating along with other donors. The DBS has in fact given the donors a good platform for regular consultations as they have to periodically review government budget in the light of previously agreed budget targets. Indeed, they recently undertook a joint assessment of the DBS as part of their continuing collaboration. They have carried this forward by issuing a joint statement on the political issues arising from the recent elections. Their performance can therefore be rated as satisfactory.

5.4 Exogenous Factors

The performance of the Ethiopian economy is influenced by several exogenous factors, notably the unpredictability of rains, the continued tension with Eritrea and internal political uncertainty. Reference was made earlier to an IMF study that found evidence of a high positive correlation between rainfall and economic performance in Ethiopia. Thus to the extent that rains cannot be predicted with certainty, the fortunes of the economy remains uncertain. Although the border war with Eritrea has formally ended, tension remains high at the border. Care should be taken to ensure that this does not lead to war again as it could have adverse consequences on the economy. Ethiopia recently held an election, the results of which were disputed by the Opposition. International mediators have tried to engage the government and the Opposition parties in a dialogue with the hope of averting another civil war. This process should be seen to its logical conclusion as the country cannot afford sliding back into political unrest. In conclusion, it can be said that exogenous factors are capable of exerting strong influence on economic outcomes in Ethiopia.

6. <u>CONLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS</u>

6.1 Key Findings

6.1.1 Bank intervention in the multi-sector in Ethiopia started with the cessation of hostilities in 1991. All the three completed projects that are herein evaluated were well designed with strong emphasis on economic rehabilitation, stabilization, structural reforms, growth and poverty reduction. The implementation of the projects was also good with the government showing strong ownership and commitment. The economy's response was a critical factor in the outcome of the projects. Some progress has also been recorded in the area of poverty reduction with the HDI showing progressive, albeit, marginal improvements. Compared to pre-programme era, the economy has been substantially liberalized with market forces playing a key role in the allocation of resources.

6.1.2 There are however a few areas of concern. All the completed projects were implemented with delays and on-going projects in the sector have started to experience similarly long implementation problems. The implementation delays were mainly due to the relatively inflexible Bank procurement rules and procedures, and limited implementation of project executing agency combined with their limited knowledge of the procurement procedures. Although the economy is liberalized, the private sector has not grown much partly because of the slow progress in privatization and partly because of the existence of some party-controlled enterprises which are competing unfavourably with private operators. Financial intermediation remains low as the Commercial Bank of Ethiopia (a government-owned enterprise) retains monopoly power (in terms of size of deposits) and an indirect influence over interest rates and exchange rate in the financial system. In-spite of measures contained in the projects aimed at diversification of the economy, the economy remains rooted in its dependence on rural agriculture, with minimal increase in the value added of the industrial sector. Finally the economy continues to rely on foreign resources for a large part of its development finance. But the recent introduction of the VAT a major source of revenue promises to enhance domestic resource mobilization and thereby reduce, to some extent, Ethiopia's dependence on foreign resources.

6.2 Lessons Learnt

6.2.1 One major factor in the success of the three completed projects –ERRP, SAP-I and SAP-II is government ownership of the programmes and the political will to reform. Even though it sought technical assistance in the preparation of the programmes, the government demonstrated ownership of the programmes. In addition, it was able to line other stakeholders in the economy behind the programmes.

6.2.2 Another lesson is that availability of funding tends to lessen the pains of adjustment and therefore make policy reversal unlikely. This is the so-called complementarity between financing and adjustment, which postulates that when financing is inadequate or irregular, adjustment tends to be painful. Under this condition, policy reversal is likely as a result of social outcry against a painful adjustment process. In the case of Ethiopia the donors were always ready to provide the funding as the government did not falter on its commitment to the programmes.

6.2.3 Effective donor coordination is crucial to the success of adjustment programmes. By coordinating their policies, they reduce the transaction costs of the delivery of their interventions. Coordination also ensures joint surveillance over agreed targets. The DBS in particular has this twin advantage over conventional adjustment programmes.

6.2.4 The performance of the Ethiopian economy has always been determined by the availability of rains. The high dependence on rain-fed agriculture leaves the economy to the vagaries of weather. In order to be able to manage the economy in a more predictable fashion there is need to reduce the economy's dependence on availability of rains.

6.3 **Recommendations and Follow-up Actions**

6.3.1 The government has performed well since it took over in 1991. But it can do better particularly in opening up the economy to competition. It ought to commit itself to the privatization of existing government enterprises without which its efforts to stabilize the economy might not generate the expected output in the area of private sector development. In other words, it must deepen its structural reforms.

6.3.2 As it is well known, political stability is a precondition for economic growth. The government should ensure that peace is guaranteed as its absence could derail any reform programme as has been observed with the border war with Eritrea.

6.3.3 The Bank must improve on its performance through timely implementation of projects/programmes and it must commit itself to timely preparation of PCRs once a project is completed. The field offices must be strong enough to be able to take decisions without having to refer all issues to the headquarters. The Bank must also assist in developing the capacity of the MCD and the PIUs of other ministries to carry out monitoring and evaluation of projects and in particular, in the preparation of PCRs.

6.3.4 The Bank has worked well with other donors in Ethiopia. It should continue and indeed strengthen this partnership particularly now that is has become part of the DBS Joint Team.

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<u>Annex 1</u>

MACROECONOMIC & SOCIAL INDICATORS

		1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/05 (proj.)
1	Population (millions)	56.4	58.1	59.9	61.7	63.5	65.3	67.2	69.1	71.1	
2	GDP (at market price, million Birr	37,937.6	44,465.1	44,465.1	44,840.3	53,189.8	54,210.7	51,493.2	55,702.1	68,997.0	73,704
3	Nominal Growth rate	-	9.3	8.1	8.8	9.0	1.9	-5.0	8.2	21.2	
4	GDP per capita (US $)		109.8	108.8	105.3	102.9	99.7	89.7	93.7	112.4	
5	Real GDP growth rate (%) 5a-Agriculture & allied activities (as % of GDP) 5b-Industrial Sector (as % of GDP) 5c-Service Sector (as % of GDP)	 51.5 10.6 37.8	5.1 50.9 10.5 38.6	-1.4 45.9 10.9 43.3	6.0 44.9 11.1 43.2	5.4 43.6 10.7 45.7	7.7 45.1 10.5 44.4	1.2 43.5 10.6 45.9	-3.9 39.6 11.5 48.9	11.6 42.3 11.1 46.7	6.5
6	GDP deflator (%)	6.3	3.1	9.6	1.9	0.9	-6.4	-7.0	12.6	9.6	
7	Narrow Money Supply (M1) (in million Birr)	9,917.4	10,024.0	11,005.7	11,378.9	13,050.2	13,748.8	15,187.4	16,446.7	19,065.9	
8	Broad Money Supply (M2) (in million Birr)	15,654.8	16,548.8	18,554.9	19,399.3	22,177.8	24,516.2	27,322.0	30,090.1	34,655.9	
9	Interest rate (%) Minimum deposit rate Lending rate	 10 15	 7 10-5	 6 10.5-12	 6 10.5-13	 6 10.5-13.5	 6 10.5-15.0	 3.01 8-10.5	 3.01 8-10.5	 3.01 8-10.5	
10	Inflation (CPI) %	NA	0.3	3.9	4.8	6.2	-5.2	-7.2	15.1	8.6	
11	Current account balance , including transfers	69.0	(146.6)	(73.5)	(509.9)	(334.8)	(242.4)	(361.0)	(160.0)	(495.8)	
12	Tax Revenue as % of GDP	12.5	12.9	11.7	11.5	12.8	13.7	15.4	14.8	15.2	18.5
13	Overall budget deficit, excluding grants as % of GDP	-8.9	-5.2	-6.5	-10.5	-14.4	-10.3	-14.1	-16.8	-10.4	
14	Exchange rate (Birr/US $) Auction average marginal rate Parallel market rate	 6.32 7.64	 6.50 7.16	 6.88 7.08	 7.51 7.69	 8.14 8.31	 8.33 8.79	 8.68	 8.70	 8.71	
15	Fiscal deficit (including grants as % of GDP)	-6.0	-1.5	-3.7	-6.8	-11.2	-5.5	-9.4	-8.6	-4.6	
16	Share of Poverty-targeted spending in total budget (%)*							42.8	41.9	49.6	59.5

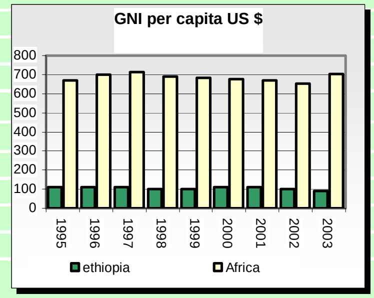
Source: National Bank of Ethiopia, 2003/2004 Annual Report.

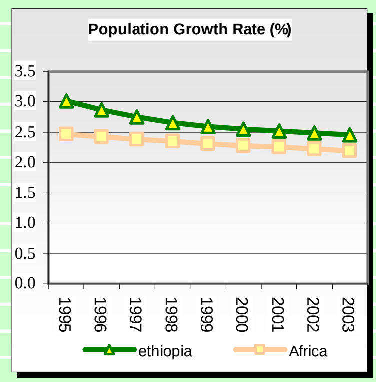
*** Ethiopia: Sustainable Development and Poverty Reduction Programme (Annual Progress Report, March 2005)**

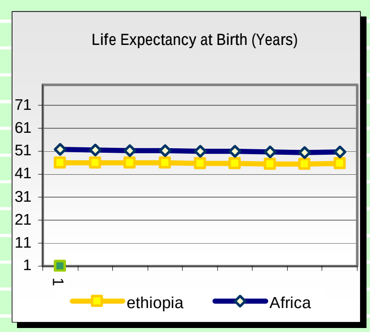
Ethiopia

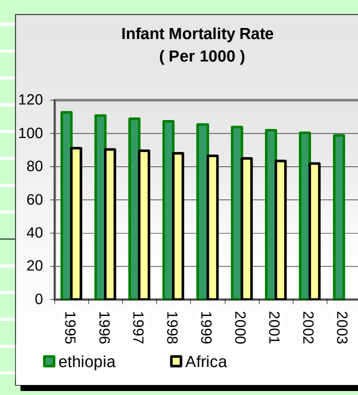
COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Ethiopia	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		1 104	30 061	80 976	54 658
Total Population (millions)	2003	70.7	849.5	5,024.6	1,200.3
Urban Population (% of Total)	2003	18.3	39.2	43.1	78.0
Population Density (per Km²)	2003	64.0	28.3	60.6	22.9
GNI per Capita (US $)	2003	90	704	1 154	26 214
Labor Force Participation - Total (%)	2003	43.7	43.3	45.6	54.6
Labor Force Participation - Female (%)	2003	42.0	41.0	39.7	44.9
Gender -Related Development Index Value	2002	0.346	0.476	0.655	0.905
Human Develop. Index (Rank among 174 countries)	2002	170	n.a.	n.a.	n.a.
Popul. Living Below $ 1 a Day (% of Population)	2000	23.0	46.7	32.0	20.0
Demographic Indicators					
Population Growth Rate - Total (%)	2003	2.5	2.2	1.7	0.6
Population Growth Rate - Urban (%)	2003	5.1	3.8	2.9	0.5
Population < 15 years (%)	2003	46.6	42.0	32.4	18.0
Population >= 65 years (%)	2003	3.0	3.3	5.1	14.3
Dependency Ratio (%)	2003	93.8	86.1	61.1	48.3
Sex Ratio (per 100 female)	2003	98.6	99.0	103.3	94.7
Female Population 15-49 years (% of total population)	2003	22.7	24.0	26.9	25.4
Life Expectancy at Birth - Total (years)	2003	45.7	50.7	62.0	78.0
Life Expectancy at Birth - Female (years)	2003	46.4	51.7	66.3	79.3
Crude Birth Rate (per 1,000)	2003	42.1	37.0	24.0	12.0
Crude Death Rate (per 1,000)	2003	17.5	15.2	8.4	10.3
Infant Mortality Rate (per 1,000)	2003	98.7	80.6	60.9	7.5
Child Mortality Rate (per 1,000)	2003	169.8	133.3	79.8	10.2
Maternal Mortality Rate (per 100,000)	2000	850	661	440	13
Total Fertility Rate (per woman)	2003	6.1	4.9	2.8	1.7
Women Using Contraception (%)	2000	8.1	40.0	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	1994	4.1	57.6	78.0	287.0
Nurses (per 100,000 people)	1988	7.7	105.8	98.0	782.0
Births attended by Trained Health Personnel (%)	2000	5.6	44.0	56.0	99.0
Access to Safe Water (% of Population)	2002	22.0	64.4	78.0	100.0
Access to Health Services (% of Population)	1991	55.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2002	6.0	42.6	52.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2003	4.7	6.4	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2000	144.8	109.7	144.0	11.0
Child Immunization Against Tuberculosis (%)	2003	57.0	81.0	82.0	93.0
Child Immunization Against Measles (%)	2003	44.0	71.7	73.0	90.0
Underweight Children (% of children under 5 years)	2000	47.2	25.9	31.0	…
Daily Calorie Supply per Capita	2002	1 857	2 444	2 675	3 285
Public Expenditure on Health (as % of GDP)	2001	1.4	3.3	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2001	64.0	88.7	91.0	102.3
Primary School - Female	2001	53.0	80.3	105.0	102.0
Secondary School - Total	2001	19.0	42.9	88.0	99.5
Secondary School - Female	2001	15.0	41.3	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2000	30.3	46.3	51.0	82.0
Adult Illiteracy Rate - Total (%)	2003	57.3	36.9	26.6	1.2
Adult Illiteracy Rate - Male (%)	2002	50.8	28.4	19.0	0.8
Adult Illiteracy Rate - Female (%)	2003	64.8	45.2	34.2	1.6
Percentage of GDP Spent on Education	1998	4.8	5.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2003	10.0	6.2	9.9	11.6
Annual Rate of Deforestation (%)	1995	0.5	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1990	10.0	10.9	…	…
Per Capita CO2 Emissions (metric tons)	1998	0.0	1.2	1.9	12.3









Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.

Notes: n.a. Not Applicable ; … Data Not Available.

BANK-ASSISTED PROJECTS: KEY OBJECTIVES AND SELECTED OUTPUTS

Project	Key Objectives	Selected Outputs
1. Emergency Recovery and Reconstruction Project (ERRP)	Assist in rebuilding economic infrastructure and policy reforms	Appropriate agricultural inputs, machinery and equipment provided; Medical drugs, supplies, equipment and infrastructure; Supply of additional kilometres of roadnetwork
2. Structural Adjustment Programme-I (SAP-I)	Assist in reducing internal and external imbalances, removing structural rigidities and distortions and improving resource mobilization and allocation efficiency	All outputs were delivered
3. Structural Adjustment Programme-II (SAP-II)	Provide balance of payments for restoring macroeconomic stability and promoting pro-poor growth	Increased pro-poor public spending; Some reforms including tax, legal and judicial
4. Poverty Reduction Support Project	Support Government's pursuit of the MDGs	Increased pro-poor public spending
5. Capacity Building Project for the Ministry of Finance	Enhance institutional and human capacity of the Ministry of Finance and Economic Development, and other selected sectors	A limited part of the external and local training was delivered.
6. Institutional Support to Women's Affairs Office	Enhance local institutional and human capacity for better mainstreaming of gender in development policy design, implementation and monitoring	No substantial output has been delivered by the time of the evaluation
7. Privatization Technical Assistance Project	Enhance private sector development through creating a dynamic entrepreneur group, attracting investment and relieving tied public resources	Public sensitized on privatization; some constraining legal codes revised; some procedures delaying licence approvals were reformed

PEOPLE WITH WHOM DISCUSSIONS WERE HELD

1. Tunisia

AFDB Tunis

Peter Mwanakatwe, Country Economist

2. Ethiopia

AFDB Country Office

- Thizier Pierre Seya, Country Representative
- George Namakando, Principal Economist

Other International Donors/Development Partners

CIDA

- Mr. Marc Andre Fredette, Director for Ethiopia and Head of Development Cooperation for the Horn of Africa

Germany: GTZ Country Office

- Mr. Ernst-Axel Momber, Country Director
- Dr. Eckart Bode, Deputy Director

Sweden: Swedish International Development Cooperation Agency (SIDA)

- Ms. Gisla, Economist

United Kingdom: Department for International Cooperation (DFID)

- Anthony Way, Deputy Head of Office (Programme)
- Malcolm Smart, Economic Advisor
- Paulos Shemeles, Infrastructure Advisor

European Union: Delegation of the European Union

- Mr. Rene van Nes, Economic Advisor

International Montary Fund (IMF)

- Mr. Muche Netsere, Economist

United Nations Economic Commission for Africa (UNECA)

- Sustainable Development Division (SDD)
- Josue Dione, Director,
- Dr. Stephen Maxell Donkor, Senior Regional Adviser, Water Resources Dev. & Mgt.
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- Abdoulaye Niang, Agriculture and Food Security
- Ousmane Laye, Senior Human Settlement Officer
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World Bank

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- Dr. Fisseha Aberra, Head, MCD
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- Mammo Gittoo Foli, Head, Treasury Department

Ministry of Trade and Industry

Policy & Planning Department (PPD)
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- Frekade Lakew, Project Coordinator
- Ian Frazer, Adviser, PPESA

Office of the Prime Minister
- Gifti Abasiya, State Minister, Women's Affairs (WAD)
- Zahra Ali, Project Coordinator

Ministry of Revenues
- Demirew Getachew, Head, Policy & Planning Department

Non-governmental Organizations

Chamber of Commerce
- Mr. Andu Alem Tegegn, Secretary General

Ethiopian Economic Policy Research Institute (EEPRI)
- Dr. Assefa Admassie, Director

Consultant
- Dr. Haile Kebret Taye, Consultant for the evaluation of the AfDB Assistance to Ethiopia