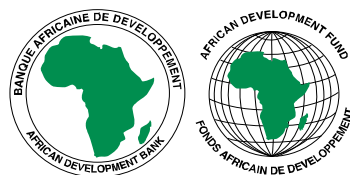


# **AFRICAN DEVELOPEMENT BANK GROUP**



**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

**Evaluation of Policy Based Operations in the African Development  
Bank, 1999–2009  
Country Case-Study: Ethiopia**

**High Level Evaluations Division (OPEV.2)**

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# Executive Summary

## Introduction

In 1991 the Ethiopian People's Revolutionary Democratic Front (EPRDF) emerged victorious after a long civil war against the Marxist military regime known as the *Derg* which had ousted the Emperor in 1975. Since then Ethiopia has been moving gradually towards democracy from a highly centralised and autocratic means of operating. The 1994/5 Constitution established Ethiopia as a Federal State comprised of nine autonomous Regions and two Chartered Cities with extensive powers and responsibilities related to regional development, and with fully-fledged three-branch governments. The evaluation period has seen significant tensions between Ethiopia and its development partners (DPs) over governance issues particularly the conduct of elections and the treatment of opposition groups.

The first Poverty Reduction Strategy Paper (PRSP) (2002/03–2004/05) emerged largely as a donor-mandated requirement for HIPC eligibility and for continued World Bank and IMF support. The second PRSP, called the Program to Accelerate Sustainable Development to Eradicate Poverty (PASDEP), covers the period 2005/06 to 2009/10. It has been replaced by the recently finalised Growth and Transformation Plan (GTP). Ethiopia has experienced double digit annual economic growth since 2004/05. The proportion of poor people has significantly decreased and the depth and severity of poverty has also declined. Ethiopia has also made significant progress towards the Millennium Development Goals, increasing access to, and quality of, services, particularly in the education sector and to a lesser extent in the health and water sectors. However, it is still one of the poorest countries in the world.

## Overall Assessment

The Bank has undertaken four policy based operations (PBOs) over the evaluation period in Ethiopia, amounting to a total of UA 318.5 million and accounting for over 40% of the total amount of resources provided to the country through the ADF. The first was a structural adjustment loan (SAL II) in 2002, following a gap after the 1993–95 SAL I. In 2004 a Poverty Reduction Support Loan (PRSL) was agreed, as one of a set of harmonised General Budget Support (GBS) programmes supporting the Sustainable Development and Poverty Reduction Programme (SDPRP). This was followed by the Protecting Basic Services (PBS) loans/grants I (signed in 2007) and II (2009), contributing to the (ongoing) multi-donor PBS programme. The PBS was developed following a joint decision by Development Partners (DPs) to suspend GBS following the disputed May 2005 election and to replace GBS by a multi-donor instrument focusing on protecting pro-poor basic service delivery. The largest PBS component provides funds that are earmarked to sub-national governments but are non-traceable, i.e. comingled with the federal government's block grant transfers. The AfDB considers this as 'earmarked decentralised' budget support (BS). PBS has other components, including support to public financial management (PFM) reforms to which the AfDB contributes.

The Bank has participated within an increasingly better functioning framework of budget support in Ethiopia reflected in the lesser problems with disbursement that have been encountered. However, the Bank's individual contribution to this process was limited, and there have not been attempts to build synergies with the Bank's sectoral investment projects. The Bank has not played a lead role in support to public finance management reform and was not generally considered to have made a significant contribution to policy dialogue.

## Findings

### **Performance and Impact**

#### **Over the evaluation period AfDB PBOs' objectives and modalities have shifted**

AfDB PBOs, initially focused on macro-economic stabilisation and structural and macro-level budget and PFM reforms, they now support decentralised basic service delivery and PFM/accountability systems. Delivery modalities shifted from conditionality-based BOP operations to joint conditionality-based GBS, to joint budget financing conditional on the Government of Ethiopia's (GOE's) adherence to agreed principles related to the effective and fair functioning of the country's fiscal decentralisation system. These shifts facilitated a marked increase in policy effectiveness since the PBS PBOs provide effective support to government-led implementation of strongly-owned policies based on a GOE-DP consensus, in stark contrast with the earlier PBOs and other similar operations by DPs focusing on economic and political governance issues and failing to shift GOE positions on 'no-go zones'.

Consensus around PBS led to more predictable aid flows although commitment to predictability is uncertain. Because of the more consensual nature of the dialogue; PBS has been more reliable than earlier joint BOP/BS financing, and thus more predictable. AfDB has had an important role in improving the predictability of financing for the government budget. Even within the confines of the PBS there is not full agreement among DPs about the importance of predictability. For those believing that budget support should be used to influence political governance issues the Bank's predictability is seen at times as a hindrance. Although this medium term predictability is not Bank-specific it might have been possible and certainly would have been desirable to start addressing it earlier on.

#### **The Bank has not succeeded in maximising the effectiveness of its support to focal sectors**

AfDB has not participated in SWAPs in sectors where it could have contributed. This is in part due to the ADF rule of origin which prevents participation in sector pooled funding arrangements. As a result AfDB has been unable to maximise the effectiveness of its support to sectors at the decentralised levels in Ethiopia as it has not been able to provide funds through other DPs' more effective project modalities. The 25% cross-country cap prevented AfDB from increasing its PBS (PBO) funding which could have helped develop stronger links with the sector policy dialogue in AfDB's areas of expertise (like water and rural development).

#### **Bank support to PFM reforms has been strengthened in the latter part of the evaluation period but is still not very effective**

Through its support to the relevant component of the PBS the Bank's corporate focus on PFM is now translated into specific programme measures and into increased operational capacity in the Ethiopia Field Office (ETFO). This is still strongly limited by insufficient staff access to capacity development opportunities, weak Bank knowledge management systems, unclear support from HQ, competition over staff time, and a lack of access to resources that would allow ETFO to contribute more to joint support processes. The current configuration of DP support to PFM reforms is not satisfactory. The Bank is actively engaged in efforts to address this, including investigating options to 'hive off' PFM support to make it more holistic and systemic.

#### **There has been progress by AfDB with the harmonisation of PBOs', but the attribution of specific results to AfDB PBOs is not feasible**

Harmonisation has significantly increased for both the design and the management of AfDB's PBOs and transaction costs have diminished (from onerous import-related reporting requirements to specific AfDB triggers in the joint DBS policy matrix to near full harmonisation in PBS2). Due to the nature of the PBS the attribution of specific policy and institutional results to AfDB PBOs is not feasible. Although the intervention logic of the PBS PBOs is clearer than it was for earlier AfDB PBOs attribution issues are more intractable.

This is partly due to better alignment and harmonisation. However, AfDB's inputs under the PBS operations support objectives defined by GOE, and a host of other factors strongly contributed to the same set of results. For example, it is the combination of DPs' weight which incentivises GOE's adherence to the PBS principles. AfDB funding is co-mingled in the joint PBS-GOE block grant transfers to sub-national governments and its other inputs are co-mingled in donors' joint support to jointly agreed work plans hence AfDB's inputs are indistinguishable and at best, proportional to their contribution to the total.

Harmonisation has however, remained very limited in non-PBO operations due to Bank regulations and attitudes which are seen typically to continue to define the mainly bilateral and HQ-driven way in which the Bank manages its overall engagement with GOE.

**The Bank's technical capacity to deliver PBOs and engage in multi-DP processes has increased but is still felt to fall short of what would be desirable**

ETFO was strengthened in 2008, increasing staff numbers with a Country Economist in Addis Ababa. This allowed the Bank to improve the delivery of its PBOs through facilitating increased in-country interactions and fuller participation in the continuous joint DP management and GOE-DP dialogue processes around the PBS. The AfDB became more visible. For instance, the Bank was more fully engaged in fine-tuning the design of PBS2; and through the ETFO AfDB has been a reasonably effective (albeit politically non-engaged) co-chair of the PBS donor group.

However, overall, the Bank is seen to punch below its weight considering the amount of financial resources invested and its capacity to undertake an active leadership role. The Bank is also perceived still to be highly centralised, although GOE and DPs recognised how the strengthening of in country capacity through the opening of the country office had already made a big difference in the way the Bank manages and is perceived to manage its PBOs

***The broader value-added of AfDB participation in PBOs is unclear, and there is no consensus over what – if any – special role the Bank could play***

There is a sense among other DPs that AfDB is not a strong partner at the high level dialogue (DAG/HLF). However, there is no consensus about what a 'special role' for AfDB might look like. In the first place it is not clear whether this special role should or should not encompass political governance issues due to AfDB's lack of influence on and possibly a limited understanding of political developments. The fact that AfDB does not take sides is seen by GOE as one of its comparative advantages, and AfDB argues that there are other channels for discussing governance issues. Among bilateral DPs concerned with political governance issues there is no consensus. For some, AfDB should be able to send strong messages to GOE; for others, on the contrary, its special role should be to find less confrontational ways of addressing issues of common concern.

**Strategic Issues**

**Consensus around PBS facilitated higher levels of external financing. However, for AfDB this was limited by institutional constraints**

The PBS has been highly efficient in delivering the external financing that Ethiopia needs to reach the MDGs. It has channelled large-scale funding more reliably than the earlier AfDB PBOs, and funding has gone directly to the decentralised levels in charge of service delivery which other aid modalities have much greater difficulties in reaching. There has been a doubling of the volume of AfDB resources allocated to PBOs between SAL2 and PBS2 and this will be further increased as additional financing for PBS2 has recently been approved. However, the 25% cap on cross-country PBO resources has acted as an exogenous break on AfDB's capacity to raise more resources for PBS2 as requested by GOE. Arguably, this has limited the effectiveness of AfDB funding in so far as these funds have been used or are earmarked for less effective modalities/uses. The cap is likely to play a similar 'artificial break' role in future.

### **'Politics' trumps aid effectiveness considerations and this has affected AfDB PBOs.**

Issues of aid effectiveness, particularly around the role of budget support, have been continuously trumped by political governance concerns since 2004/05. The focus on political governance issues has undermined efforts by DPs with the relevant comparative advantage (such as AfDB, IDA and IMF) to take up the growth agenda, as it has been difficult to assess the extent of agreement between GOE and DPs on policy frameworks related to economic development.

For the Bank, decisions on PBOs of any type should be primarily non-political, but this has had to be balanced by its commitment to harmonisation i.e. through its involvement in PBS.

#### **Design**

#### ***PBOS have become more focused and selective much of this progress came from the Bank's decisions to join other DPs' programme design***

Since 1999 the Bank has made significant progress with greater focus and selectivity of its PBO objectives and better alignment with GOE priorities. The distinct shift in the nature of the PBO conditionality framework also arose from the Bank's decision to join the PBS. The Bank has been able to adapt its corporate framework for Direct Budget Support Lending (DBSL) to join and therefore support other DPs. The AfDB showed flexibility in adapting its DBSL instrument in response to local circumstances so that it was able to join the PBS, even though the programme focal areas and modalities were outside its comfort zone.

#### **PCRs have been completed too late to provide useful lessons for PBOs**

Earlier PBO designs were not based on a well-thought-out intervention logic and failed adequately to identify risks. Project Completion Reports (PCRs) for the earlier PBOs were prepared too late to be of use. There has been progress on both fronts with the PBS PBOs, and although the weak links with sector processes still limit monitoring, this is expected to improve with the more inclusive PBS2 design and strengthening of monitoring capacity. The M&E framework of the PBOs has been gradually strengthened, but there continue to be misguided concerns about attributing the PBS achievements. These in turn muddle the post-implementation assessments of the effectiveness of the Bank's PBOs as merely contributing to joint processes. The prime logic is still to want to attribute results to AfDB inputs/influence; merely contributing is seen as 'not good enough' by the AfDB Board.

#### **Concluding Comments**

The AfDB has been able to provide increased levels of effective and reliable PBO funding for areas of consensus in GOE's policy agenda. However, the Bank's slow decision making about the focus of its next PBO(s) undermines the medium-term predictability of its support and its ability to correctly resource its field office. It is unlikely that short-term predictability could be maintained if the Bank sought policy influence over less consensual areas. The CSPs have been a weak guide to focusing the Bank's PBO support. Outside of the PBS PBOs, the Bank has not been effective in supporting the social and rural development sectors at decentralised levels. Its PFM support came late and could be more effective if it was better resourced. The PBO feedback loops have been weak and the current 'result drive' sends mixed messages on the type of results sought. With the PBS the Bank has considerably increased the degree of harmonisation of its PBO support with that of other DPs but this does not extend to its non-PBO support. Although its apolitical mandate has allowed it to be a more reliable financing partner for GOE, the Bank has not had the capacity to fulfil its potential and comparative advantage in being an African institution.

A variety of lessons can be drawn from the case study. First, it is important to note the effectiveness of aid instruments which, in contexts like Ethiopia where there is strong government ownership of policy, enable support to areas of government/DP consensus and effectively reach the decentralised government levels mandated to implement the agreed policy priorities. Second, AfDB must pay sufficient attention to the political economy around

reforms in order that it can better ascertain risks and opportunities for its PBOs and country programmes. Its commitment to harmonisation also means that it needs to factor in other DPs' positions. Third, to strengthen its 'added-value' as an African institution the Bank needs to identify what precisely this means, in each country context. It needs to define the scope of its high-level dialogue with the government; the modalities for it (articulating its bilateral engagement with its commitment to joint DP work); and how it can support sectors where it has demonstrated expertise in the country concerned.

Critical constraints on the effectiveness of the Bank's operations in Ethiopia have been regularly identified (insufficient delegation to ETFO, lack of comparative advantage in certain types of operations e.g. decentralised project investment) but are not acted upon. This suggests a lack of institutional attention to such findings and/or other sources of rigidity in the Bank, and this needs to be addressed.

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## Abbreviations

ADF	African Development Fund
ADLI	Agricultural Development Led Industrialisation
AfDB	African Development Bank
APRM	African Peer Review Mechanism
ARD	Agriculture and Rural Development
ART	Anti-Retro Viral
BOP	Balance Of Payment
BS	Budget Support
CAR	Commitment At Risk
CD	Capacity Development
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CGP	Country Governance Profile
CIDA	Canada International Development Agency
CPAR	Country Procurement Assessment and Review
CPI	Corruption Perception Index
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DAG	Development Assistance Group
DBS	Direct Budget Support
DBSL	Direct Budget Support Lending
DFID	Department for International Development
DIP	Democratic Institutions Programme
DP	Development Partner
DSA	Decentralisation Support Activity
EC	European Commission
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Programme
ESAF	Enhanced Structural Adjustment Facility
ESDP	Education Sector Development Programme
ESF	Exogenous Shock Facility
ESW	Economic and Sector Work
ETFO	Ethiopian Field Office (AfDB)
EU	European Union

FM	Financial Management
FMR	Financial Management Report
FTA	Financial Transparency and Accountability
FY	Financial Year
GBS	General Budget Support
GDP	Gross Domestic Product
GEQIP	General Education Quality Improvement Programme
GOE	Government Of Ethiopia
GNP	Gross National Product
GTP	Growth and Transformation Plan
HIPC	Highly Indebted Poor Countries
HLF	High Level Forum
HQ	Head Quarter
HRW	Human Rights Watch
HSDP	Health Sector Development Programme
I-PRSP	Interim Poverty Reduction Strategy Paper
ICR	Implementation Completion Report
IDA	International Development Agency
IFAD	International Fund for Agriculture Development
IFMIS	Integrated Financial Management System
IFR	Interim Financial Report
IMF	International Monetary Fund
ICB	International Competitive Bidding
JBAR	Joint Budget and Aid Review
JRIS	Joint Review and Implementation Support (mission)
LIG	Local Investment Grant
M&E	Monitoring and Evaluation
MCB	Ministry of Capacity Building
MDGs	Millennium Development Goals
MDF	Multi-Donor Trust Fund
MEFF	Macro Economic and Fiscal Framework
MOARD	Ministry of Agriculture and Rural Development
MOE	Ministry of Education
MOFED	Ministry of Finance and Economic Development
MOH	Ministry of Health
MTEF	Medium-Term Expenditure Framework
MSs	Member States

MTR	Mid Term Review
NBE	National Bank of Ethiopia
NEPAD	New Partnership for Africa's Development
NGO	Non-Government Organisation
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Assistance
OPEV	Operations Evaluation Department (of AfDB)
OREB	Regional Department East – Section B (in AfDB)
OSGE	Governance, Economic and Financial Reforms (Department in AfDB)
PAD	Project Appraisal Document
PAF	Performance Assessment Framework
PAR	Project At Risk
PASDEP	Plan for Accelerated and Sustainable Eradication of Poverty
PBL	Policy-Based Lending
PBO	Policy Based Operation
PBS	Protecting Basic Services (programme)
PCR	Project Completion Report
PD	Paris Declaration
PEFA	Public Expenditure and Financial Accountability (programme)
PER	Public Expenditure Review
PFM	Public Financial Management
PFR	Public Finance Review
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSL	Poverty Reduction Support Loan
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity building Programme
PSD	Private Sector Development
PSNP	Productive Safety Net Programme
RED/FS	Rural Economic Development/Food Security Strategy
REST	Relief Society of Tigray
RWSSP	Rural Water Supply and Sanitation Program
RMC	Regional Member Country
RUFIP	Rural Financial Intermediation Programme
SA	Social Accountability
SAL	Structural Adjustment Loan

SAC	Structural Adjustment Credit
SBS	Sector Budget Support
SDPRP	Sustainable Development and Poverty Reduction Programme
SIDA	Sweden International Development Agency
SME	Small and Medium Enterprises
SOE	Statement Of Expenditure (reports)
TA	Technical Assistance
TAF	Technical Assistance Financing
TC	Transaction Cost
TWG	Technical Working Group
UA	Unit of Account
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WASH	Water, Sanitation and Hygiene
watsan	Water and sanitation
WB	World Bank

## Currencies and Measures

### Currency equivalents

As of September 2010

UA 1.00 = ETB 20.7663

UA 1.00 = £ 0.979557

UA 1.00 = US\$ 1.50891

### Financial Year

8 July to 7 July

### Ethiopian Year

Ethiopia has its own calendar (year starting on 11 September of the Gregorian calendar, and seven/eight years difference), to which Ethiopian Fiscal Years relate. The correspondence between Ethiopian and European fiscal years is given in the table below:

<i>Gregorian Calendar</i>	<i>Ethiopian Calendar</i>	<i>Gregorian Calendar</i>	<i>Ethiopian Calendar</i>
1997/98	EFY 1990	2003/04	EFY 1996
1998/99	EFY 1991	2004/05	EFY 1997
1999/00	EFY 1992	2005/06	EFY 1998
2000/01	EFY 1993	2006/07	EFY 1999
2001/02	EFY 1994	2007/08	EFY 2000
2002/03	EFY 1995	2008/09	EFY 2001
		2009/10	EFY 2002

In this report years are Gregorian Calendar unless specified as EC (Ethiopian Calendar years) or EFY (Ethiopian Fiscal Years).

# 1 Introduction and Background

This country case study of Ethiopia is one of a series of case-studies have been undertaken as part of an independent evaluation commissioned by the African Development Bank (AfDB) of the AfDB's Policy Based Operations (PBOs). PBOs are quick disbursing aid instruments which are defined by the AfDB (2009e) as:

*Funds that are channelled directly to the partner government's general treasury account and subject to the country's own systems for public financial management i.e., allocation, procurement, accounting and auditing procedures.*<sup>1</sup>

The general purpose of PBOs is to contribute to AfDB member countries' economic growth and poverty reduction objectives through supporting policy and institutional reforms. For the AfDB PBOs include balance of payments support, sectoral adjustment lending to support reforms in specific sectors, policy based lending for governance, general budget support and sector budget support. This evaluation has been designed to examine the application of PBOs used by the Bank over the period 1999–2009. The objectives and purpose of the evaluation are outlined in Box 1.1.

## Box 1.1 Objectives and Purpose of the Evaluation of AfDB Policy Based Lending

*The overarching objective of the evaluation is to examine the relevance, efficiency and effectiveness of the PBL instrument as used by the Bank in regional member countries over the period 1999 – 2009. Specific attention is being given to the evaluation of:*

- ◇ *The AfDB's institutional and policy framework for the design, appraisal and delivery of PBL:* to evaluate the Bank's formal policy framework, procedures, skills and organisational structure for the delivery of PBL. How well does this reflect emerging international (and Bank) best practice; and is the Bank organisationally equipped to deliver best practice PBL efficiently and effectively?
- ◇ *Policy and practice:* to evaluate the Bank's approach to the design, appraisal and delivery of PBL instruments in practice and how well this fits or deviates from Bank policy guidelines, with international best practice and country context and needs.
- ◇ *Choice of aid instruments:* to evaluate how choices are made about the use of aid instrument in the country programmes and how relevant it is to the partner country's problems, policies and priorities
- ◇ *Effects at country level:* To assess the contribution made by the AfDB to policy dialogue, joint processes, institutional strengthening and other relevant areas where PBL is focused.

Source: AfDB (2009e)

A full explanation of the evaluation, its methodology and the evaluation matrix is provided in the *Inception Report of the Evaluation of Policy Based Operations in the African Development Bank 1999–2009* (OPM and Mokoro, 2010). The country case studies have been designed to complement the work undertaken by the evaluation team at AfDB headquarters and more specifically the Institutional and Policy Review, by providing additional information on the operation of PBOs at country level. The case-studies are designed to address the questions outlined in the evaluation matrix that are relevant to the country level (see Annex A, OPM and Mokoro, 2010), with each study using the same

<sup>1</sup> Or, in the case of balance of payments support, funds are channelled through the central bank and consequently subject to country systems.

evaluation framework in order to ensure consistency between studies. Annex A in this report presents the evaluation questions for the country case-studies, with answers for Ethiopia.

Six country case studies have been undertaken to gather evidence relating to AfDB policy, processes and choices relating to PBOs from 1999–2009 in Morocco, Sierra Leone, Ethiopia, Burkina Faso and Rwanda. Each study involved a country visit and interviews with the AfDB in Tunis, the AfDB office in country, government, civil society organisations and development partners (DPs).

This report assesses the experience of AfDB support to PBOs in Ethiopia, based on evidence gathered both in country and at AfDB headquarters (HQ) (in this case through phone interviews) as well as through a review of the relevant literature. A bibliography is found at the end of the report. The country visit in Ethiopia took place from 14 to 25 September 2010<sup>2</sup>. The team comprised of Catherine Dom and (Team Leader) and Mohammed Mussa. A list of the persons consulted is at Annex E, including the HQ staff members interviewed.

The second section of this report provides some background information on the Ethiopian context in terms of broad political processes, national development planning, aid flows and a description of the aid architecture. The third section describes the AfDB portfolio over the evaluation period, and the fourth section describes the main PBOs that the Bank has implemented. The fifth section outlines the key findings from the evaluation, while the final section gives conclusions, lessons learned and reflections.

This is a draft report intending to elicit comments from stakeholders. Especially, feedback from HQ is sought as it has proven difficult to conduct more phone interviews with HQ staff members in the process of collecting evidence for this draft. The key persons from OSGE as well as the concerned Regional Director were interviewed.

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<sup>2</sup> Whilst the team had agreed about dates for the in-country visit with ETFO ahead of the mission (in August), multiple HQ missions during the same period somewhat constrained ETFO staff members' availability. Under the circumstances the evaluation team was not able to have a debriefing session with ETFO. The team is grateful for the time of the Senior Economist in particular. The team also could not meet the State Minister in MOFED who has been the critical interlocutor of BOP/BS DPs throughout the evaluation period, due to the particularly heavy schedule of government officials with multiple and successive party congresses in the run-up to the new administration, following the May 2010 elections, and intensive preparations for the next legislature and the steps before this including consultation with Development Partners about GOE's emerging Growth and Transformation Plan. It would not have been advisable to delay the mission further since the new administration might then have been busy settling in.



## 2 Ethiopia Context<sup>3</sup>

### 2.1 The Broad National Context

In 1991 the Ethiopian People's Revolutionary Democratic Front (EPRDF) emerged victorious after a long civil war against the Marxist military regime known as the *Derg* which had ousted the Emperor in 1975, and left the country devastated by its authoritarian misrule. Since then Ethiopia has undertaken a "long term shift from a highly centralized, autocratic environment to an evolving democratic state... characterized by a recurring cycle of opening and closing of political space" (World Bank 2008). The complexity of the country's political transition directly affects the relationship between the Government and the country's DPs.

A transitional government was established in 1991. Eritrea seceded peacefully in 1993, but a border war with Ethiopia erupted in 1998. A new Constitution was promulgated in 1994/95, after which multi-party elections were regularly held at federal, regional and local levels.

The federal and regional elections of May 2005 represented a critical point in the country's democratisation process. It is widely recognised that they followed a period of unprecedented political opening. They were fiercely contested and the opposition made striking advances which surprised all stakeholders including the ruling party. Contestations around results prompted demonstrations which were violently handled. Hundreds of civilians were killed in clashes with government forces in the capital, and scores were imprisoned throughout the country, including all major political opposition leaders for more than a year. Although those held were later released, the political space has since then not returned to its high pre-2005 election point.

The 1994/95 Constitution established Ethiopia as a Federal State comprised of nine autonomous Regions and two Chartered Cities with extensive powers and responsibilities related to regional development, and with fully-fledged three-branch governments. Regions/City Administrations vary hugely in size, population number, development/poverty level and potential. Since 2002/03 the Government of Ethiopia (GOE) has rolled out a decentralisation policy giving extended basic service delivery responsibilities to the districts/ weredas situated under the Regional/City level (planning, budgeting and management). Districts/weredas also have fully-fledged three-branch governments. In 2010 there are more than 800 weredas with an average population of 100,000 people (see e.g. Dom, Lister et al 2010).

This extensive decentralisation makes matters complex but there is robust alignment of all government levels behind national policies and plans. This is underpinned by a fiscal decentralisation framework in which formula-based and mainly equity-oriented unearmarked transfers from higher to lower levels of government channel to each level the resources needed for it to fulfil its constitutional mandates. Over time earmarked transfers have proliferated, many of them established to channel aid funding for specific objectives, as donors were not confident that these could be achieved through the block grant. The greater effectiveness of these earmarked transfers, which also fragment resources and cut across mandates, has not been proven (see e.g. Dom, Lister et al 2010).

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<sup>3</sup> Annex A provides a detailed timeline of the key country events since the 1970s.

## **2.2 National Development Strategy and Economic Performance**

### **2.2.1 National Development Strategy**

The first Poverty Reduction Strategy Paper (PRSP) (2002/03–2004/05 Sustainable Development and Poverty Reduction Program/SDPRP, preceded by an I-PRSP in 2001/02) emerged largely as a donor-mandated requirement for HIPC eligibility and for continued World Bank and IMF support. It was nonetheless solidly anchored in key sector policy/strategic frameworks developed by the government in the 1990s (notably, education and health Sector Development Programmes, and the Agricultural Development-Led Industrialisation (ADLI) policy). This took place following the fall of the Derg regime in 1991 and as part of the incoming government's strong commitment to rebuild a strong Ethiopia. The second PRSP, called the Program to Accelerate Sustainable Development to Eradicate Poverty (PASDEP), covers the period 2005/06 to 2009/10. The process has been increasingly domestically owned, albeit within the confines of the broader political context just outlined.<sup>4</sup> The PASDEP involved wide-ranging discussion with Ministries, the Council of Ministers, Parliament, Regional State governments and civil society. With PASDEP the PRSPs have become the same thing as the national development plans under the successive federal and regional legislatures.

The next development plan, called the Growth and Transformation Plan (GTP), is currently being developed and will cover the period of the next legislature (which started after the May 2010 elections). The plan focuses on seven pillars including the rapid growth of the agriculture sector, industry, and improvement of social services, and foresees significant investment in infrastructure development.

### **2.2.2 Economic Performance and Poverty Reduction**

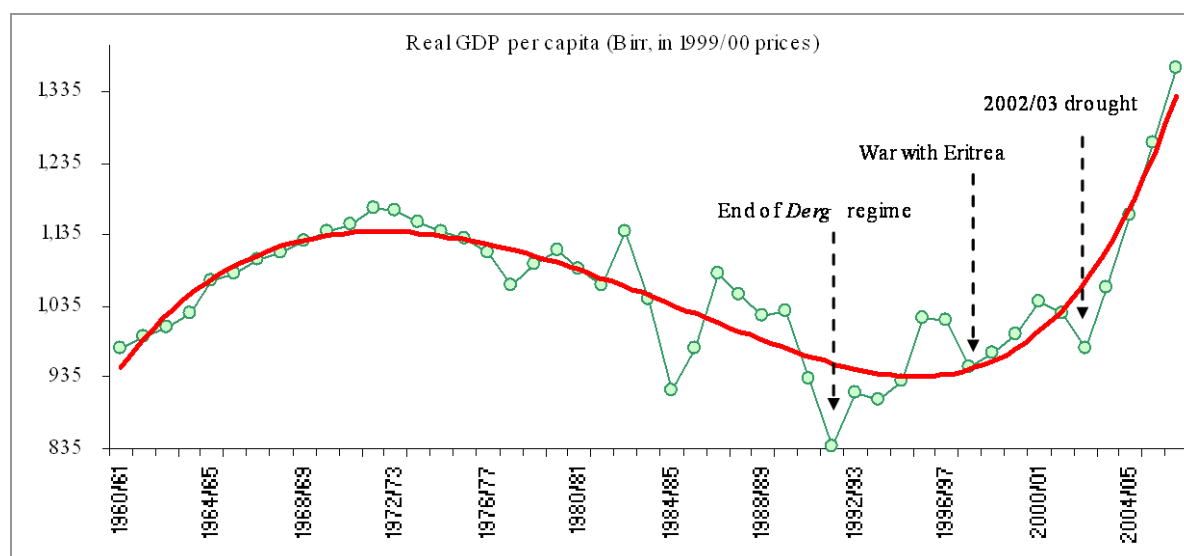
Ethiopia has experienced unprecedented economic growth since 2004/05 with a double digit annual growth rate. It is estimated that the average Ethiopian in 2008 had a level of income that was over 40% higher than the level at the end of the 1990s (see Figure 2.1). However, Ethiopia is still one of the poorest countries in the world. Growth trends have also been erratic, as is shown in Figure 2.1. Today there are at least two factors that present a risk to the sustainability of the recent growth: high levels of inflation and macroeconomic instability, and the weather, as the country benefited from an unusually long spell of good weather for about six years until 2008.

Agriculture, accounts for 46 percent of GDP and nearly 85 percent of employment, has grown at 13 percent per year since 2003/04. The economy has started slowly to transform, with the service sector gradually growing faster as well. The GTP intends to change this mix. It is based on the premise that agriculture will remain critical, but the transformation should focus on the industrial sector.

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<sup>4</sup> For all three plans there were large-scale consultations at regional and local levels (including civil society, business organisations etc). The context may make it difficult for strong divergences to be strongly expressed. But it is noteworthy that the level of awareness of the 'government policies' is high even in remote rural areas, as over the past ten years large numbers of public workers in the education, health and agriculture sectors have been deployed throughout the country.

**Figure 2.1 Ethiopia's Per Capita Income 1960/61 to 2004/05**



Source: World Bank (2008), Country Assistance Strategy

According to successive Household Income Consumption and Expenditure Surveys the proportion of poor people has significantly decreased, from 45.5 percent in 1995/96 to 38.7 percent in 2004/05. The depth and severity of poverty has also declined. Ethiopia has also made significant progress towards the Millennium Development Goals, increasing access to, and quality of, services, particularly in the education sector and to a lesser extent in the health and water sectors. Gross primary enrolment has increased in both primary and secondary education, with significant reductions in the gender and rural/urban gap especially in primary education; infant mortality and under-five child mortality have declined and life expectancy at birth, immunisation coverage, and household access to safe water have improved, although maternal health indicators have shown less progress. Table 2.1 shows progress to date of MDGs and PASDEP targets. It is important to note that there are very large variations in achievements across the Regions and even within the Regions (see Dom and Lister 2010).

**Table 2.1 Millennium Development Goals<sup>5</sup>**

Millennium Development Goal	Baseline 2004/05	Outturn 2005/06	Progress 2005/06	PASDEP target 2009/10
People who are below the poverty line (%)	39	36.6	32.6	29.2
People who are below the food poverty line (%)	38	35.6	31.5	27.6
Stunted children (%)	47	40.7		22.6
Gross primary enrolment (%)	79.8	91.3	96.7	109.7
Infant mortality rate (per 1,000 live births)	140	123		85
Maternal mortality rate (per 100,000 live births)	871	673		600
Births attended by skilled health personnel (%)	9	15.1	20.3	32
People with advanced HIV receiving ART (%)	10			70
Access to safe drinking water (%)	42	47.3	59.5	84.5

Source: Adapted from "Selected MDGs Indicators Synchronised with PASDEP Targets and Progress to Date

<sup>5</sup> The figures are compiled from the Annual Progress Report 2007/08 (March 2009). No other official report has been issued with further achievements. Figure for maternal mortality rate for 2004/05 corresponds to 2003/04.

(2007/08)" - ([http://www.et.undp.org/index.php?option=com\\_content&task=view&id=30&Itemid=113](http://www.et.undp.org/index.php?option=com_content&task=view&id=30&Itemid=113))

There is a consensus that much of the progress just outlined has been possible thanks to the strong pro-poor orientation of the government budget, especially marked since the end of the border war with Eritrea in 2000. Ethiopia's budget has been described as the most pro-poor in Africa (DFID 2007). There was a flattening of the trend for the share of the budget allocated to the 'poverty sectors' toward 2007/8 but it appeared to have been reversed in 2009/10. The GTP may slightly shift the emphasis as it mentions the importance of both pro-growth and pro-poor sectors.

### **2.2.3 PFM reform**

PFM reforms took off in 1997/8 with the government Expenditure Management and Control Programme (EMCP) which has been implemented since then. The EMCP is organised in 'projects' (budget reform, accounting reform etc.). Between 1997/98 and 2007 it was supported by a multi-donor financed project (Decentralisation Support Activity (DSA))<sup>6</sup> which helped the government to develop and roll out reforms throughout the nine Regions and two Chartered Cities down to the wereda level, and to develop and install an IT-supported financial management system. DSA is widely regarded as having been very successful.

The DSA project was phased out in 2007. The EMCP is a component of the Civil Service Reform Programme which is itself one of the components of the government National Capacity Building Programme, of which six main elements are supported by the multi-donor Public Sector Capacity building Programme (PSCAP). The EMCP benefited from support from PSCAP, though recently this has been more uncertain. GOE also contributes funding from its own resources. The Protecting Basic Service (PBS) programme (see below) brought a new source of support for specific activities, and the IMF is providing technical advice on budgeting reforms.

Between 1999 and 2009 there were three major assessments of the PFM systems (CFAA and CPAR in 2002, Integrated Financial Assessment in 2005, PEFA in 2007) and a PEFA 2010 is currently being finalised. These have shown that systems are robust and perform somewhat above the average for Sub-Saharan Africa in spite of the challenge of the country's size, poor connectivity, and of the extensively decentralised structure of government. This is reflected in a quite high and increasing score on the WB CPIA scale for measuring the quality of PFM systems. In 2006 the score was 3.5 (against 3.2 on average for all IDA countries) and it had further increased to 4.0 in 2008 (see Paris Declaration Survey, Ethiopia Chapter 2008). Solid progress is also reflected in the draft 2010 PEFA reports (draft PEFA 2010a and 2010b)<sup>7</sup> which indicate, compared to 2007 that at federal level there has been progress in budget credibility, comprehensiveness and transparency, and in related areas. However, the link between budgets and policies remains weak. At regional level trends are mixed as Regions differ in baseline and reform implementation capacity. Regional budgets tend to be less credible and budget documentation less comprehensive. Weaknesses include incompletely captured aid flows, poor links between budgets and policies and projected costs tending to far exceed realistic estimates of financing available. On the positive side are the tight internal control systems, the culture of

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<sup>6</sup> The main financier was USAID. The project was implemented by a team from Harvard University Kennedy School of Government.

<sup>7</sup> At the time of drafting this report, the Federal and Regional Governments had committed to providing additional data and information which might lead to upward revision of some scores found in the draft PEFA report, although it is unlikely that this would affect significantly the broad (and positive) trend outlined here.

compliance preventing domestic payments arrears, the increasingly important oversight role of internal audit; the strengthening of revenue administration and cash flow forecasting and cash management leading to better budget execution, and strengthened accounting and reporting.

The EMCP and the progress made thus far were critical of the effectiveness of the strongly pro-poor budget allocations. Another key element was the relatively simple but robust system of inter-governmental fiscal transfers making resources available to the various government levels. In practice, owing to the strong policy alignment and the ambition of federal policies the fiscal space at local level is extremely reduced and geared toward implementing the national policy priorities as much as possible (see e.g. Dom, Lister et al 2010).

## **2.3 Brief history of aid to Ethiopia**

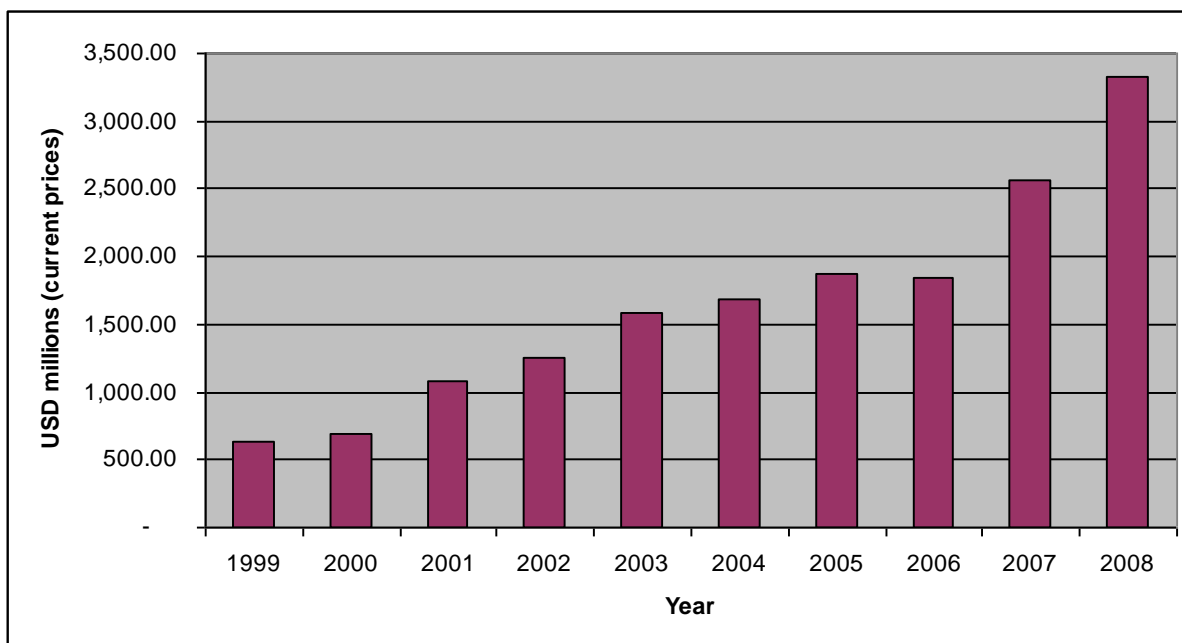
Ethiopia has until recently received low levels of development assistance. For example, in 2004/05 Ethiopia received US\$15 per capita in development assistance compared to US\$49 per capita for sub-Saharan Africa as a whole (Furtado and Smith, 2007). Currently, external resources are financing around a third of the national budget. Aid includes a large proportion of humanitarian and food aid, as a response to varying but consistently quite high levels of food insecurity (linked to the mainly rain-fed agricultural livelihoods of the rural population and marked variations in rainfall patterns).<sup>8</sup> Total Official Development Assistance has recently increased significantly. This upward trend is likely to continue provided that Development Partners (DPs) remain confident that the GOE warrants their support, although even so it is not clear that ODA will be scaled up to the level envisaged by GOE in its next development plan.

During the evaluation period, aid grew from approximately US\$680 million in 1999 to US\$3.3 billion in 2008, i.e. nearly fivefold. A particular impetus for this increase was the end in 2000 of the war between Ethiopia and Eritrea during which bilateral donors had largely withdrawn aid. There was then year-on-year increase except in 2006; thus, a substantial increase until 2005. By this time General Budget Support (GBS) was a significant proportion of the total, so in 2006 there was a slight dip as GBS was suspended and it took a few months for DPs to decide upon and introduce alternative aid flows. Thereafter there has been a continued increase in aid (see Figure 2.2 and Figure 2.3). The sharp increase of aid in 2008 was partly a response to the large-scale peak in food insecurity caused by drought.

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<sup>8</sup> [http://www.dagethiopia.org/index.php?option=com\\_content&view=article&id=21&Itemid=36](http://www.dagethiopia.org/index.php?option=com_content&view=article&id=21&Itemid=36)

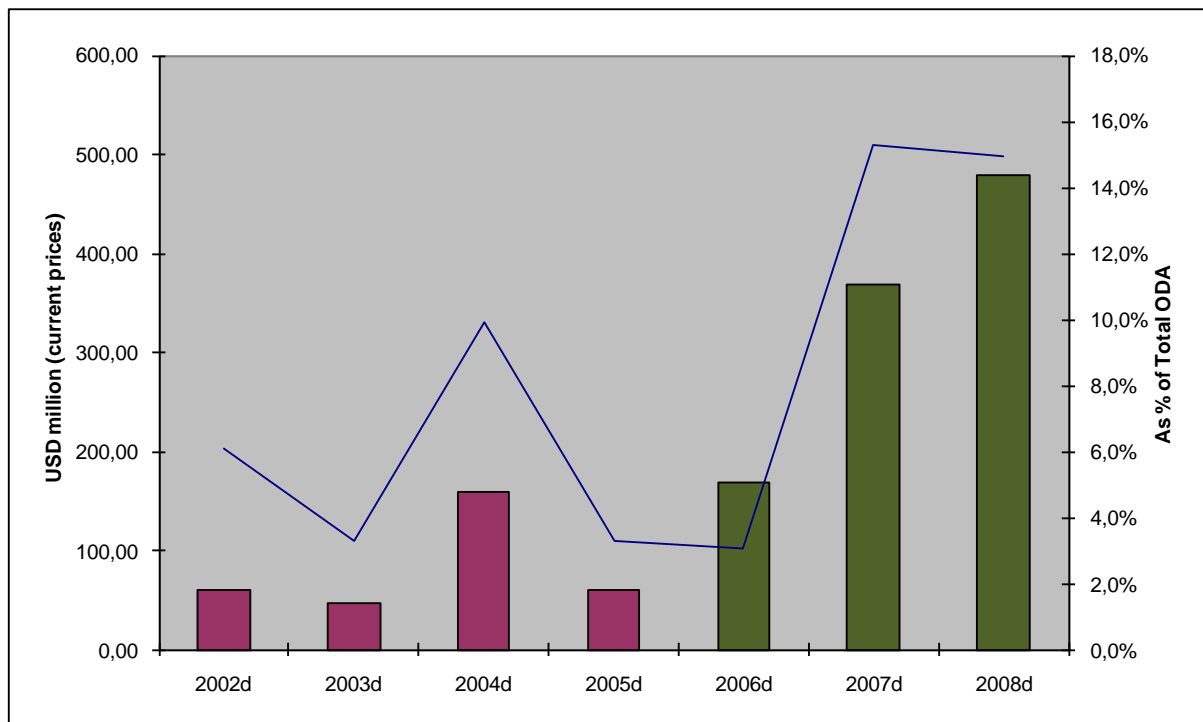
**Figure 2.2 Ethiopia: Total ODA, Net disbursements, excluding debt, 1999–2008**



Source: <http://stats.oecd.org/Index.aspx?DataSetCode=CRSNEW> (accessed 20/09/10)

In November 2005 donors suspended GBS following the violent developments after the elections of May 2005 and the role of government in them (see section 2.1). In March 2006, in an informal meeting of the Development Assistance Group in Paris donors agreed to resume aid as otherwise the vulnerable would be penalised, though not as GBS but a more earmarked form of aid focusing on protecting pro-poor basic service delivery. An alternative instrument was developed, called the Protecting Basic Services (PBS) programme. The largest component is a transfer of funds earmarked to sub-national governments in charge of the delivery of basic services, supplementing GOE unearmarked fiscal transfers (see section 2.1) and commingled with these GOE resources, thus having the characteristics of decentralised budget support. In the rest of this report this PBS component (Component 1) is considered as such. Figure 2.3 therefore shows the proportion of GBS and PBS in total ODA, as a more accurate representation of the importance of 'budget support' funding over time.

**Figure 2.3 Ethiopia: GBS and PBS volumes and as a Proportion of Total ODA 2002–2008 (disbursements)**

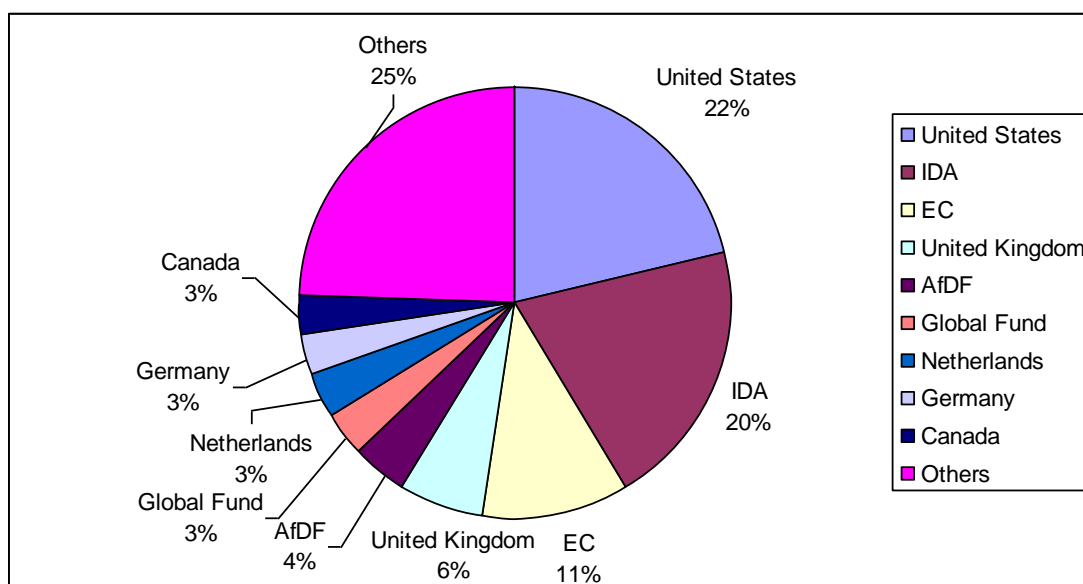


Source: <http://stats.oecd.org/Index.aspx?DataSetCode=CRSNEW> and PBS Secretariat data<sup>9</sup>

As shown in Figure 2.4 (below), since 1999 the largest bilateral donors have been the US, the UK, Netherlands, Germany, Canada, Italy, Japan, in that order. However, multilateral donors have dominated, with the World Bank, the European Commission and the AfDB all in the top ten donors to Ethiopia throughout the evaluation period, accounting for 37% of total aid between them. Between 1999 and 2009 AfDB's contribution to total ODA was 4%; available data does not allow a precise assessment of AfDB's contribution to PBO-type operations during the same period but it has been significant and it has increased over time and in particular with the contribution of AfDB to the PBS (see Table C1 in Annex C). In contrast, USAID as a very large DP does not provide any of its funding to government.

<sup>9</sup> PBS disbursements are for Component 1 (block grant budget support) and Component 3 of which a part is managed more like a project. The Secretariat was not able to provide more disaggregated data.

**Figure 2.4 Share of ODA to Ethiopia by Development Partner : 1999–2009**



Source: <http://stats.oecd.org/Index.aspx?DataSetCode=CRSNEW>

Ethiopia has had a mixed relationship with the IMF. There was an IMF programme supported by the Structural Adjustment Facility in 1992–96. The succeeding ESAF (1996–98) was not completed. There was an Article IV consultation but no IMF programme during the war with Eritrea (1998–2000). An IMF programme was agreed in March 2001 under the Poverty Reduction and Growth Facility (PRGF) and was successfully completed in September 2004. Ethiopia reached HIPC Decision Point in November 2001 and Completion Point in April 2004 and was granted 100% debt relief under the Multilateral Debt Relief Initiative in December 2005. There was no IMF programme from 2005 to early 2009 but annual Article IV consultations. Since January 2009, following the serious deterioration of the macroeconomic situation due to a combination of exogenous and endogenous factors and reflected notably in skyrocketing inflation and very low levels of foreign currency reserves in mid-2008, Ethiopia has requested and obtained access to IMF support through the Exogenous Shock Facility and has a formal IMF programme. Performance thus far has been satisfactory.<sup>10</sup>

In January 2009, Parliament passed a bill banning foreign agencies from work related to human rights or conflict resolution, as well as severely restricting foreign funding for local agencies, in a move seen as an effort to clamp down on unwanted foreign interference.

<sup>10</sup> <http://www.imf.org/external/country/ETH/index.htm>



## 2.4 Aid relationships

The Development Assistance Group (DAG), was established in 2001 and comprises of 26 bilateral and multilateral development agencies providing assistance to Ethiopia. It serves as the main Development Partner coordinating body for the various working groups that comprise the aid management and GOE-DP dialogue framework. DPs are organised around both sectors/themes and a number of large multi-donor supported programmes and associated groups. On the government side, MOFED is responsible for negotiating bilateral and multilateral assistance programmes.

Currently there are 10 DAG Thematic Working Groups with a number of sub-groups. There are also four major programme groups, with relatively unclear links with the Technical Working Groups (TWGs). Overall, joint fora like the High Level Forum have not been regular and the process of annual PRSP reviews has been weak. In contrast, semi-annual or annual joint reviews have been held regularly in an increasing number of sectors and programmes.

The aid architecture is being restructured, prompted by GOE and the DAG itself. GOE has recently announced the establishment of two Sector Working Groups, in education and rural economic development/food security (RED/FS) which, unlike the DAG TWGs, are joint GOE-DP groups and are co-chaired by a senior Government official and a DP representative. The DAG has initiated a process with a view to strengthening its own effectiveness.

As noted above, government-donor relations suffered a setback in 2005 when donors felt the need to withdraw from some of their commitments and substituted the Protection of Basic Services programme for General Budget Support. The PBS coordinating forum is therefore seen as one of the main opportunities for government-DP dialogue, although the dialogue is comparatively 'restricted' and focuses on basic service delivery, local governance and local PFM reform issues.

Ethiopia took part in both the 2006 and the 2008 Paris Declaration (PD) implementation surveys. Progress has been mixed. Ownership is deemed to be strong, although the survey's upbeat assessment of non-government actors' involvement in policy formulation is open to challenge. Progress in using country PFM and procurement systems is slow despite the progress made with PFM reforms. There was significant improvement in aligning technical assistance with the government National Capacity Building Strategy, and in reducing the number of parallel project implementation units (PIUs), and modest progress in harmonisation, with an increase in the proportion of programme-based aid but no progress in joint donor missions (Alemu, 2009; PD Survey Ethiopia Chapter, 2008). Aid predictability is said to have declined significantly from 2006 to 2008, with reliability suggested as the main issue. The abrupt suspension of aid after the 2005 elections still affects GOE's assessment of the reliability of aid flows (from OECD DAC donors). In addition, aid flows are poorly communicated, recorded, and aligned with the country planning and budgeting cycle.

The federal structure of the country is a challenge for donors, compounded by the rollout of the district level decentralisation policy in 2002/03. There is no consensus about the way in which aid can be most effective at the decentralised levels, which have extended developmental responsibilities and commensurately high financing needs. Some see separate fund flows/grants (see section 2.1) as necessary to preventing sub-optimal choices due to 'weak capacity' at local level.

## 3 AfDB Operations in Ethiopia

### 3.1 Overview of Country Strategy Programmes

The AfDB began operations in Ethiopia in 1975. The Ethiopian Field Office (ETFO) was established in 2001. The Bank strategy was articulated in three Country Strategy Papers over the evaluation period, all of which had economic growth and poverty reduction as overarching objectives. All three CSPs were approved late (well within the implementation period) and all three were extended 'ex post'.

The **CSP 1999–2001** (approved in October 2000) focused on agriculture, transport, and rural infrastructure (water and sanitation/watsan, rural energy). It also envisaged exploring options for direct support to private sector development (PSD) and financial sector reform. The latter led to AfDB co-financing the Rural Financial Intermediation Program (RUFIP) with IFAD.

The **CSP 2002–04** (approved in May 2003) supported the country's first PRSP (the SDPRP) which had been endorsed by WB and IMF Boards in 2002 and which AfDB had helped to prepare by providing Dutch grant funding for the consultation process. The CSP highlights the vulnerability of the Ethiopian economy to weather shocks and the effects of the war, resulting in a fluctuating macroeconomic framework. It commends the PRSP for its pro-poor stance, costing, and the design of a robust M&E framework. However, more fundamental reforms were said to be needed in the areas of PSD and financial sector reform, a concern shared by IMF and WB. The focus of the CSP was on three of the SDPRP priority sectors: agriculture and rural development, roads, and watsan. The CSP foresaw intensified support for private sector development (advice and support to SME development and funding of viable private sector projects).

The **CSP 2006–09** (approved in September 2006) was aligned with the GOE Plan to Accelerate Sustainable Development and Eradicate Poverty (PASDEP), outlining 'a bold growth agenda'. It was approved in a still fluid political situation following the 2005 post-election troubles, but in line with the DPs' collective resolve to remain engaged. In the CSP the Bank endorses the analysis of the PASDEP generally held among DPs, that it was appropriate and relevant although some targets were over-ambitious, and concrete and detailed plans were lacking in some areas (e.g. private sector development and agricultural development). The CSP focused on three pillars of the PASDEP: infrastructure development (power, watsan and roads), agricultural transformation, and governance. The governance focus was defined by the focus of the PBS instrument on strengthening accountability and transparency in basic service delivery at local levels. The CSP predicted the continuation of support to the privatisation process and to expanding access to financial services for the rural poor. It identified AfDB's project lending in infrastructure as a potential entry point for policy dialogue on PSD.

The CSP contained a significantly enhanced results framework and a clear justification of the AfDB's greater selectivity (alignment with GOE priorities, complementarity and division of labour with other DPs, relevance to the growth agenda, continuity with earlier Bank support and expertise, and focus on inter-sectoral linkages and synergies). In September 2010 the CSP 2006–09 was being formally extended to end in 2010. The next CSP will therefore be aligned with the forthcoming GOE Growth and Transformation Plan and will reportedly cover the same five-year period, this move toward greater alignment has been appreciated by the GOE.

## 3.2 Overview of portfolio and aid instruments used

### 3.2.1 Volume of AfDB assistance to Ethiopia

From 1975 to 2004 Ethiopia was the single highest recipient of ADF resources (8.4% of the total).<sup>11</sup> This trend has not been maintained. The performance-based country allocation system of the AfDB (fairly complex and including a needs-based element and assessments of performance in relation to policy and institutional development, portfolio, and governance) allocated UA 274.5 million from the ADF X to Ethiopia. This was a 48% increase over the ADF IX allocation but a considerably smaller envelope than that of IDA (to which AfDB is often compared by GOE officials). Over the 1999–2009 period the total of approved ADF-financed operations for Ethiopia represented just 3% of the total across all ADF countries.<sup>12</sup>

### 3.2.2 Sector allocations

AfDB operations have been broadly consistent with the priorities outlined in the successive CSPs. The AfDB cumulative approved portfolio as at May 2006 shows a focus on agriculture (32%), followed by public utilities (including watsan and energy) (23%), multi-sector (21%) and transport (16%), with just 6% for the social sectors. Cumulative disbursements follow a similar pattern except that due to their much higher disbursement rate (99%) multi-sector operations represented 27% of cumulative disbursements. The latest portfolio review (conducted on the basis of data as at August 2008) shows a slight shift in emphasis. Based on ongoing operations as at 31 August 2008, the main focus (in approved lending terms) is on public utilities (33%, with large ongoing projects and projects just starting in rural electrification and watsan), followed by agriculture (24%) and transport (21%). Multi-sector lending (which includes PBOs) is only 12% of the current portfolio (and had been 100% disbursed). As many operations were rather young it does not make much sense to look at disbursement shares. There has not been a portfolio review since then.<sup>13</sup>

### 3.2.3 Aid instruments

In terms of use of aid instruments there has been a series of policy-based operations (PBOs) starting with the Structural Adjustment Loan 1 (1993–96) (before the period under review) followed by the SAL 2 (2001–04), the Poverty Reduction Support Loan (2004–05), the Protecting Basic Services 1-Loan (2006–08) and the ongoing PBS2-L (these are reviewed in section 4). But investment project lending has consistently been the most used modality in the portfolio. As just noted, PBOs represented (in approved lending terms) just under 10% of the portfolio current as at August 2008, down from a share of 21% of the total cumulative portfolio up to mid 2006. An evaluation of the Bank assistance strategy for 1996–2007 found that non-project lending was just one fifth of the total programme (OPEV 2008). However, recent trends are not captured in the data just analysed. The team was not able to obtain annualised disbursement data for ongoing projects to which it could have compared annualised disbursement data for PBOs, but the rising trend in PBO allocations (through AfDB's contribution to the PBS) suggests that as of today the proportion of the portfolio committed and disbursed through PBOs is likely to have increased.

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<sup>11</sup> This covers the 1975-1991 period under the Derg regime, the 1991-1994/5 period under the transitional government and the EPRDF regime since 1994/95.

<sup>12</sup> ADF XI covers 2008-2010 so that by end 2009 not all resources were committed.

<sup>13</sup> A review was ongoing at the same time as the evaluation team in-country visit.

There has been no sector PBO in the period under review, and no attempt to develop any. AfDB has supported sectors through investment lending projects, which Table 3.1 suggests have been slow in disbursing.

**Table 3.1 Overview of AfDB whole portfolio as at 31 August 2008**

UA million	<u>Ongoing operations at 31 Aug 2008</u>			<u>Share in portfolio</u>		No. Proj.	No. TAF	Comments
	Appr. loans	Disb.	Disb. ratio	Appr.	Disb.			
Agriculture	154.959	57.261	37%	24%	22%	5	9	All projects started before 2005
Transport	131.360	40.181	31%	21%	15%	3	2	
Public Utilities	210.370	41.901	20%	33%	16%	5	1	
Social sector	62.020	39.818	64%	10%	15%	2	1	Projects started in 1999
Industry	3.000	1.905	64%	0%	1%	0	1	Privatisation TA started in 2001
Multi-sector <sup>14</sup>	79.010	78.769	100%	12%	30%	1	1	
	640.719	259.835	41%	100%	100%			

Source: Authors, based on various AfDB documents

### 3.2.4 Implementation issues

Successive CSPs emphasise weak implementation capacity as a major issue, compounded by government decentralisation policy. The policy gave sub-national governments a much greater role in the implementation of investment activities in many of the sectors in which the AfDB was engaged (notably social sectors, agriculture and watsan). Unsurprisingly, capacity to handle the requirements of AfDB project instruments was very weak at this level – and strengthening it was taken as a lower priority than improving government systems.

According to GOE the root cause of the problem is the complexity of AfDB procedures which overwhelm capacity at local levels; other agencies have been able to adapt their instruments to make them less cumbersome and for instance, the WB watsan programme parallel to the AfDB one is running more smoothly. AfDB regulations prevent it from pooling project resources and so AfDB is unable to channel its watsan resources through the Multi-Donor Trust Fund (MDTF) managed by the WB for its programme. AfDB has recently proposed to GOE the option of a sector PBO for watsan but apparently GOE's response has been cautious, in spite of the fact that even other donors'/WB project modalities have been found to be weakly effective (World Bank, 2009d). There are combined reasons for this, which are relevant for explaining the profile of the AfDB portfolio.

First, it is a challenge for all donors to articulate sector approaches in the highly decentralised structure of government in Ethiopia. Aid instruments should be adapted to support the different levels of government's mandates, which differ in different sectors and are not clear cut in sectors like agriculture and rural development (ARD). There is no consensus on how best this can be done, and approaches promoting local discretion (like the PBS programme) compete with approaches curtailing it on grounds of weak local

<sup>14</sup> 'Multi-sector' operations include TA and non-sectoral policy-based operations

capacity. Donors focusing primarily on supporting a particular sector rarely trust the 'local discretion approach'. As a result, unearmarked non-traceable sector budget support is not present in Ethiopia (with the exception of an EC road sector, sector budget support (SBS)) programme.

There are various sector/thematic 'vertical' instruments with some of the characteristics of sector budget support (e.g. dialogue focusing on the sector policies and the use of GOE fund transfer channels through finance bodies at all levels). However, typically funds are earmarked and traceable. Usually donor funds are pooled, this is problematic for AfDB and the only way it could join such programmes would be if it could present its support as a sector PBO. This would avoid the 'rule of origin' clause affecting all AfDB investment projects. This may not be an easy case to make in sectors like watsan and ARD where much of the vertical funding goes on capital investment. Moreover, sector policy and strategic frameworks are not as robust as in the social sectors and there is high donor fragmentation.

Finally, the cross-country cap of 25% on resources available for PBOs acts an additional disincentive. Indeed sector PBOs would use up the PBO allocation, for uncertain benefits as the modality is not known. Resources can instead be made available for better known multi-sector PBOs, which have been quite effective since the introduction of the PBS in 2006/07 (see section 4).<sup>15</sup>

### 3.3 Portfolio performance

The November 2008 OPEV evaluation of AfDB country assistance 1996–2007 (AfDB 2008b) found the Bank assistance strategy to be relevant, but the "delivery of the assistance programme was weak and highly inefficient". The evaluation indicated that the Bank improved its performance over the review period but overall it was unsatisfactory. Selectivity was weak, with an active portfolio in seven sectors. None of the Bank's commitments made within a programming period led to any disbursements within the same period. The only area in which performance was rated above unsatisfactory was for its support to macroeconomic stability and improved public sector management. As a consequence of weak performance substantial results were not achieved in several areas. In terms of portfolio performance OPEV notes an improvement over the period under review, evident in the declining project-at-risk and commitment-at-risk rates. But disbursement was low.

OPEV recognises that the case of Ethiopia illustrates problems faced more widely by the Bank's operations teams<sup>16</sup>, with implementation hampered by "relatively inflexible business processes and procedures", "slowness in empowering the field office" (limited portfolio management authority and lack of appropriate HQ support), "ignoring the lessons of earlier interventions" and weak supervision, procurement, disbursement and monitoring services. The evaluation also highlights the necessity for the Bank to invest significantly more in broader analytical work and evaluation to deepen the analytical basis for its CSP design,

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<sup>15</sup> The cap has been mentioned by all GOE finance officials as a factor constraining in several ways the effectiveness of AfDB assistance. GOE officials seem to be aware of the fact that the limit of 25% applies on the total ADF envelope and not individual countries' envelopes. However, this then implies that countries 'bidding' for PBO resources earlier stand a better chance of getting higher PBO allocations. So there remains a dimension of competing use of scarce resources, which was very clearly illustrated when Ethiopia requested funding to be reallocated from non-performing projects and projects that had been abandoned, to the multi-sectoral PBS PBO. It was not the multi-sectoral nature of the PBO which was the obstacle, but the cap.

<sup>16</sup> In 2004 Ethiopia's PAR and CAR rates were below the Bank-wide average (hence better). In contrast, the annual disbursement rate for 1997-2007 (20.6%) was on average lower than the 25% Bank-wide average (and extremely volatile).

partnership development and dialogue with GOE. The evaluation does not analyse the relative performance of policy-based operations vs. other types of operations.

The 2006–09 CSP mid-term review by OREB and ETFO (also finalised in November 2008) found the CSP implementation on track although success would depend on a “strong portfolio management effort and enhanced M&E capacity”. Project ageing remained a concern (average project age increased from 2002 to 2008). The lack of flexibility in the application of Bank procedures and inability to adapt to the decentralised institutional set up was said to compound implementation challenges. The Mid-Term Review (MTR) shows a slight increase in the average size of Bank operations. It was expected that “both portfolio management and dialogue should improve significantly” as ETFO was by then “fully staffed”. Since then the local watsan expert has left for Tunis. More worryingly, the main bottlenecks identified by both OPEV evaluation and the 2006–09 CSP MTR have not been addressed: (i) the Bank’s project procedures have not changed, and (ii) there has not been further delegation of authority to ETFO level.

### **3.4 Engagement in joint donor initiatives**

Throughout the period under review CSPs have highlighted that a good number of the Bank’s operations were complementing activities also supported by other agencies. However, some of this was under weakly organised coordination frameworks. In 2008 OPEV identified that just 11% (in volume of funds) of the 1996–2004 operations of the Bank were co-financed. The 2006–09 CSP MTR shows that 16.7% (in number) of the Bank’s operations are co-financed, including the PBS (see section 4), the RUFIP (co-financed with IFAD and managed under Bank’s procedures) and the Rural Water Supply and Sanitation Programme (RWSSP). The statement about the RWSSP needs to be nuanced as although the WB (also managing DFID funding), UNICEF and AfDB as well as a number of smaller donors are aligned behind a common framework, each donor uses its own project modality.

The AfDB is a member of the DAG. It co-chaired the DAG in 2005/06, i.e. at the time of the political crisis and suspension of GBS. The AfDB participates in a number of thematic working groups and donor programme groups (notably, RED/FS, Water, Transport, PSD and Trade, and PBS), and has at times chaired some of them. The AfDB is currently co-chairing the PBS donor group. The Bank is notably absent from the DAG governance TWG; it also does not contribute to and therefore is not in the PSCAP and the Democratic Institution Programme groups.

The AfDB performs weakly on a number of Paris Declaration indicators compared to the average donor in Ethiopia. In 2007 very little of its (fairly small) technical cooperation was coordinated (7% compared to 67% of the total for all DPs, and 100% for the much larger technical cooperation programme of the WB). Use of country PFM and procurement systems is just 26%, significantly below the 47% and 41%, respectively, for the all-DP total (and compared to the WB using country PFM systems for 67% of its funds). Bank aid is also poorly predictable – just 40% of aid scheduled to be disbursed by AfDB in 2007 was actually recorded as such by government, much below the average donor ratio of 60% (itself having decreased since 2005). The AfDB used programme-based approaches for just 27% of its aid in 2007 against 66% for all-DP total, and 58% for the WB.<sup>17</sup> Just 12% of its donor missions were coordinated with other donors against 22% in total, and there was no coordinated

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<sup>17</sup> Detailed data were not readily available but apparently only the AfDB PBS PBO has been counted as a programme-based approach.

analytical work. Therefore despite AfDB's apparent desire to be increasingly harmonised and aligned the results these indicate that progress is occurring slowly.

## 4 Features of AfDB PBOs in Ethiopia<sup>18</sup>

### 4.1 Overview

There were four PBOs in the evaluation period, following two earlier BOP operations. All were multi-sector operations. The uneven GOE-DP relationship in Ethiopia and AfDB's difficulties in some ADF replenishment cycles affected the 'pipeline' process of the preparation of PBOs. This resulted in long gaps between some PBOs, and a lack of a steady flow of AfDB BOP/budget support financing over the 1999–2009 period. This is shown in Table 4.1 and suggests that the medium-term predictability of AfDB PBOs has been weak throughout the period under review. Some of this reflects the more general pattern of weak reliability prompted by the post-2005 election events. However, the 2004 gap reflects AfDB-specific factors and in particular, the Bank's comparatively slow shift from BOP to Direct Budget Support Lending (DBSL).

**Table 4.1 AfDB Policy-Based Operations 1999–2010 – Disbursement record**

UA million	2002	2003	2004	2005	2006	2007	2008	2009	2010
SAL2									
Approved	60.00								
Disbursed <sup>19</sup>	40.00	20.00							
PRSL									
Approved				60.00					
Disbursed				60.00					
PBS1									
Approved						42.39	36.02		
Disbursed						42.39	36.02		
PBS2									
Approved								80.00	30.00
Disbursed								80.00	30.00
<i>Total PBOs</i>									
<i>Approved</i>	60.00	0.00	0.00	60.00	0.00	42.39	36.02	80.00	30.00
<i>Disbursed</i>	40.00	20.00	0.00	60.00	0.00	42.39	36.02	80.00	30.00

Source: Authors' compilation of AfDB appraisal documentation and PCRs and data from PBS Secretariat

### 4.2 Structural Adjustment Loan 2 (SAL2)

In many respects SAL2 was similar to the earlier SAL1 which had been implemented from 1993 to 1996 (2 tranche design, UA 63.5m).<sup>20</sup> SAL1 co-financed the macroeconomic and structural reform programme of the then transitional government alongside similar macroeconomic/BOP support from IDA and a few bilateral donors, with an IMF Structural Adjustment Facility (1992–96). Overall performance was rated unsatisfactory due to slow implementation. But Bank performance and programme outcomes were rated satisfactory,

<sup>18</sup>This section is supported by additional information in Annex A: Country Timeline, Annex B: Evaluation Matrix, and Annex C: Key Data on AfDB PBOs.

<sup>19</sup> SAL2 was planned to be disbursed entirely in the year 2002. In reality only the first tranche was disbursed that year and the second tranche was disbursed in 2003.

<sup>20</sup> SAL1 followed an earlier BOP support operation contributing imports to the then transitional government reconstruction programme after the fall of the Derg in 1991.



with substantial reforms of the economy. Later on SAL1 even came to be considered as one of the few successful structural adjustment loans among AfDB operations (AfDB 2001) because of its focus on a package of elementary macroeconomic stabilisation measures and structural reforms over which there was consensus between GOE and DPs. Between 1996 and 2001 there was no PBO and no GOE request for one, in a period marked by initial disagreements on macro/structural reforms and the war with Eritrea from mid-1998. SAL2 followed resumption of the country's developmental path, with a ceasefire signed in June 2000 and the I-PRSP approved by IDA and IMF Boards in 2001. It was designed to support the government reform programme outlined in the I-PRSP, alongside similar BOP support from other DPs. Table 4.2 shows that AfDB contributed 16% to the programme.

**Table 4.2 Financing sources of I-PRSP structural reforms**

Financing sources	UA	% of total
ADF	60,000,000	16%
IMF	86,900,000	24%
World Bank	116,600,000	32%
European Union	105,000,000	28%
<b>Total</b>	<b>368,500,000</b>	100%

Source: AfDB 2001 (AfDB 2001 - SAL2 Appraisal Document)

According to the country team, the AfDB Country Economist in Tunis, who had been engaged with the Ethiopia programme since the fall of the Derg and “had a very clear idea of what the country needed”, was influential in designing some areas of the reform programme through working closely with IMF and IDA teams. Thus, SAL2 focused on agricultural development and food security, public expenditure policy and management, legal and judicial system reform, and further liberalisation of the economy through privatisation. Conditions focused on reforms of the fertiliser market, professionalization of agricultural extension and approval of new land use policies and laws/codes, in support of other AfDB investments in the ARD sector; budget reorientation from defence to ‘poverty targeted sectors’, based on analytical work in WB-led PERs to which AfDB had contributed specific studies; basic PFM reforms; and privatisation, whose support was planned through stand-alone AfDB TA.

The first tranche of SAL2 was disbursed reasonably on time (three months slippage). The second tranche was disbursed 18 months later than initially planned, of which three months was due to unexplained delay on AfDB side and 15 months due to government delay in meeting conditions. Bank and Borrower's performance was rated unsatisfactory. Notable weaknesses included: unrealistic appraisal leading to identifying premature reforms; fulfilment of conditions completely out of schedule; and infrequent supervision in spite of the delay.

### 4.3 Poverty Reduction Support Loan (PRSL)

Active preparations for a PRSL (one tranche, UA 60m) started in 2003/04, as part of a general move among DPs towards the provision of Direct Budget Support (DBS) to support the SDPRP. The AfDB participated in the preparation and appraisal of the WB's first PRSC in 2003. It initiated the appraisal of the PRSL in early 2004, simultaneously with the preparation of the WB PRSC 2 and of other DPs' DBS operations. The PRSL was negotiated at the same time as a Joint BS Mission and the first Joint Budget and Aid Review (JBAR) (Sep–Oct 2004). The single tranche of the PRSL was supposed to be upfront financing for GOE EFY2004/05 budget but was finally released in May 2005, two months before the end of the budget year and with five months of slippage compared to plan, due to delay in implementing structural reforms linked to the disbursement conditions.

The PRSL embraced a wide range of reform areas, with components focusing on: (i) monitoring the overall implementation of the SDPRP policy matrix; (ii) improvements in the public sector fiduciary framework; (iii) support to PSD; and (iv) rural land tenure issues. Conditions were in the form of requesting the usual annual PRSP reports and specific actions to be completed before disbursement (e.g. approval of a revised inter-governmental fiscal transfer formula, completion of GOE annual accounts audit for one year, approval of an action plan to accelerate privatisation and of an external audit of the Bank of Ethiopia).

The PRSL co-financed a joint programme as well, as shown in Table 4.3. By design it was also more fully harmonised with other DBS programmes which were all using one joint dialogue and review process and one common DBS policy matrix. The matrix was derived from the SDPRP performance matrix but it also reflected specific conditions responding to each contributing DP's specific interests. The problematic conditions related to privatisation. The WB PRSCs faced problems as well and as a result IDA funding was reduced for both PRSC1 and PRSC2. More generally the joint DBS 'dialogue' was regularly quite difficult and over the two years in which DBS was provided (2003/04–2004/05) a number of 'no-go zones' emerged. On the 'growth agenda' side this included privatisation and aspects of private sector development, agriculture reforms, and the financial sector reforms (e.g. GOE has consistently refused to open the financial sector to foreign banking). The dialogue was also quite difficult in relation to political governance, which bilateral DPs had pushed to include in the DBS policy matrix in the face of fairly strong reservations on GOE's side.

**Table 4.3 Joint Direct Budget Support to the SDPRP**

Financing sources	UA	% of total
ADF	60,000,000	23%
World Bank (IDA)	101,320,000	39%
European Union	24,760,000	9%
Canada	12,890,000	5%
Germany	7,840,000	3%
Ireland	8,910,000	3%
Sweden	8,930,000	3%
United Kingdom	37,170,000	14%
<b>Total</b>	<b>261,820,000</b>	<b>100%</b>

Source: AfDB 2004 (Appraisal document of PRSL)

## 4.4 The Protecting Basic Services programme and AfDB PBS1 and PBS2 loans

### 4.4.1 The Protecting Basic Services programme

The AfDB has had two loans providing 'earmarked budget support' through the Protecting Basic Services programme. The PBS, active since 2005/06, was developed collectively by the DBS DPs who suspended their budget support programmes in November 2005, as a response to the violent events following the May 2005 election and to the government's role in them (see section 2.1). From GOE's viewpoint, by this abrupt suspension, DBS donors used 'implicit political conditionality'.<sup>21</sup> Yet for some groups in Ethiopia, donors were not consistent, as the PBS which was developed as an alternative to DBS, is not very different in some respects. The PBS is a multi-component programme. Two components have the

<sup>21</sup> See e.g. the Ethiopian chapter of the 2008 Paris Declaration survey (OECD DAC 2008).

characteristics of earmarked but non-traceable budget support. Of these the (by far) larger component (the ‘block grant’ component) channels donor funds through the GOE consolidated account and inter-governmental fiscal transfer system (see section 2.1), complementing GOE own resources transferred as unearmarked subsidies to Regional State governments and from there the block grant to districts. Other components are more of a project nature and are not supported by AfDB except for the component related to Financial Transparency and Accountability (FTA)/PFM.

There have been two phases thus far, PBS1 and PBS2 (the latter is ongoing), with similar designs. The design was fine-tuned to reflect a number of lessons learnt during PBS1, including the need to clearly embed the PBS FTA component within the GOE PFM reform process and strengthen the link between PBS-supported spending and basic service sector results (hence a new M&E component). PBS2 also aims to start addressing the imbalance between recurrent and capital spending at district level.

One cornerstone of the PBS design is a set of principles that have to be adhered to, that are regularly reviewed as part of the Joint Review and Implementation Support (JRIS) mission. These focus on: (i) additionality (of DP funds to GOE’s own effort to continually raise the volume of fiscal transfers from its own resources); (ii) fairness (proof that block grant allocations are based on existing federal and regional formulae and disbursements are effected at the same pace for all jurisdictions); (iii) fiduciary responsibility; and (iv) accountability for local services. In PBS2 an ‘effectiveness’ principle was added reflecting the objective of linking spending and sector results and the new M&E component.

**Table 4.4 The Protecting Basic Services programme and AfDB PBOs**

<b>PBS1 (2005/06–2007/08)</b>	<b>PBS2 (2008/09 on-going)</b>	<b>Supporting DPs (2010)</b>
<b>A. Sub-National Basic Services (Only one sub-component)</b>	A. Support to Delivery of Basic Services <b>A1. Basic Services Grant [1]</b>	IDA, DFID, EC, <b>AfDB</b> , Irish Aid, Spain, KfW, Austria
	A2. Pilot Local Investment Grant	IDA, KfW, DFID [2]
B. Health MDGs Performance Facility	B. Health MDG Support Facility	IDA, Netherlands, Canada, Italy
<b>C. Financial Transparency and Accountability</b>	<b>C1. Accountability in Decentralised Finances and Services [3]</b>	IDA, DFID, <b>AfDB</b>
	D. Monitoring and Evaluation	IDA, EC, DFID
Social Accountability	C2. Social Accountability	EC, DFID, Irish Aid, Canada

Source: World Bank 2006 and World Bank 2009a

Notes: [1] The Basic Service Grant has the characteristics of decentralised budget support.

[2] It is not clear whether KfW has actually contributed to the LIG. Thus far DFID has not.

[3] For this component, AfDB provides its funding as budget support notionally earmarked on the GOE EMCP programme.

Table 4.4 above outlines some of the characteristics of the PBS and of the two AfDB PBOs. It shows that under one ‘umbrella’ framework including a common design and joint dialogue and review process, different DPs support different mixes of components. This enables those who do not want to provide budget support-type resources not to do so and still be a ‘PBS donor’. Other DPs (like DFID) can technically categorise PBS as budget support but stress the difference from GBS, with additional safeguards, especially for ‘home constituencies’. Yet others (notably IDA and EC) have had to categorise the PBS as a ‘project’. For the EC this is technically possible because it channels its PBS ‘block grant’ funding through a WB-managed MDTF. The MDTF is described by some DPs as a way of ‘keeping transactional distances’ and is also used by DFID and Irish Aid.

#### 4.4.2 AfDB PBS1 Loan

The AfDB Protecting Basic Services first loan (PBS1) replaced the PRSL2 whose preparation started in 2005.<sup>22</sup> Although AfDB was co-chairing the DAG at the time it did not participate in the PBS design and joined it after DFID and IDA had tested the ground and already disbursed some funding at the very end of the EFY2005/06. Other DPs note that the AfDB decision to participate was in itself a highly valuable contribution to the collective DP response. In AfDB there was some uncertainty as to whether this operation should be considered as an AfDB project or as policy-based lending. It was finally considered as a multi-sector 'earmarked PBO' (a newly-defined category according to ETFO staff) on the basis that whilst the programme did not focus on macroeconomic and structural reforms, (i) funds would be commingled with GOE funds as in other BS operations; (ii) the joint review process would offer opportunities for dialogue on the macroeconomic framework; and (iii) there was a strong focus on (local level) governance.

The AfDB started its preparation and appraisal mission in July 2006 at the same time as the first joint PBS review mission. The Bank's PBS1 (US\$ 115m, UA 79m) was approved in January 2007. It was planned to be disbursed in three tranches over two fiscal years (2006/07 and 2007/08) in line with the agreed joint review process and related triggers for tranche disbursement. All three tranches were disbursed on time. The AfDB contribution was the fourth highest among DPs (14%), after DFID, IDA and EC. Conditions for tranche disbursement were linked to the satisfactory conclusion of the JRIS missions and JBARs, a set of two continuous undertakings (roving audits of selected sub-national government spending and regular posting of budget information at local level), and a small number of specific actions extracted from the agreed FTA component action plan. One of these actions was not implemented on time. As it was just one in quite a large number and the JRIS/JBAR had been deemed satisfactory the Bank favoured predictability and obtained a waiver to be able to disburse the tranche according to schedule.

The Bank's and the borrower's performance were highly rated in the PCR. M&E and reporting was unsatisfactory, reflecting a general concern among PBS co-financiers about weak reporting especially on sub-national level spending, although with progress over the PBS1 implementation period. The Bank's PBS1 PCR (AfDB 2008e) highlights other concerns shared by DPs including the lack of link between spending and sector results and the imbalance between local level recurrent and capital spending. The PCR questions the sustainability of the 'block grant' support, and hence the need for capital investment to support local economic development – a logic which, as noted earlier (sections 2.4 and 3.2.4), is debatable if it implies that this necessarily requires specifically earmarked (and traceable) funding for local capital investment.

The PCR team was also of the view that the PBS was not well suited to the kind of systemic approach required to strengthen PFM systems holistically, though the arguments are not entirely clear. There is no mention of the systemic capacity building effect of PBS fund flows. In some instances the PCR also reads as if the team did not consider the focus of PBS on systems at the decentralised level (where progress due to PBS is acknowledged) as 'proper' PFM strengthening support. It was recommended that future PBS support should concentrate on strengthening PFM reporting not in terms of quantity of reports but capacity of analysis of the information contained in them. This is relevant, although not quite a response to the critiques made in the same PCR.

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<sup>22</sup> Similarly the WB had to put a PRSC-3 on hold and a number of other DPs did the same.

#### 4.4.3 AfDB PBS2 Loan

The PBS2-L (three tranches, 2009–2011, UA 110m) built on the PBS1-L in terms of the country's eligibility for budget support (ownership and government commitment; existence of an effective PRSP; economic and political stability, sound analytical work; harmonisation and effective implementation mechanisms). The appraisal document highlights a number of additional assurances: a Country Governance Profile (CGP) was under finalisation; the PBS1 Programme Completion Report (PCR) had been prepared; and a Public Expenditure and Financial Accountability review had been conducted by the broader PBS donor group (2007), including sub-federal PEFAs in selected Regions.

The AfDB PBS2 loan has the same focus and basic design as the PBS1 loan. The Bank kept out of the new M&E component and Local Investment Grant (LIG) sub-component, in spite of the concerns related to these areas and stated in the PBS1 PCR. The rationale for this was that the M&E component is projectised and would not fit well with the AfDB budget support instrument.<sup>23</sup> However, to respond to the PCR concern ETFO has decided to recruit a local social development/poverty monitoring expert who will be expected both to make sure that ETFO is able to provide stronger result reporting to HQ and to contribute to the joint PBS M&E work. As for the LIG, it is a pilot and quite projectised involvement with it would have been a hard case to make as it somewhat overlaps with other AfDB operations (e.g. the watsan programme, see section 3), and the LIG also does not seem to be wholeheartedly supported by GOE.

The AfDB is again the fourth largest financier of PBS2 (10%), after IDA, DFID and EC. The AfDB conditions (harmonised with those of other DPs) are based on satisfactory conclusion of JRIS/JBAR and the same two continuous undertakings as in PBS1. There is no longer any other specific action. The loan was frontloaded (first tranche of UA 50m; following two tranches of UA 30m); the first two tranches were disbursed in FY2008/09, the third in FY2009/10.

In contrast with PBS1, for PBS2 the Bank was ahead of other DPs (including IDA) in submitting its proposal to the Board, getting approval and disbursing the first tranche. The transition between PBS1 and PBS2 took place in the midst of a very tight macroeconomic situation (in 2008 and early 2009). AfDB promptness in moving ahead and providing foreign currency at a time when reserves were very low was highly appreciated by GOE. Other DPs were delayed by concerns over political governance developments (the passing of a restrictive CSO law by GOE). It is noteworthy that in spite of their concerns related to this, a number of bilateral PBS DPs officially endorsed the Bank's early move, because of the macroeconomic situation.<sup>24</sup>

Additional financing for PBS2 was requested by the AfDB country team, alongside similar requests by a number of other PBS financiers (including IDA), and was recently approved. The need for additional financing was known from the outset and its relevance was recently confirmed by the satisfactory performance of GOE under the IMF ESF programme. To this effect the GOE had requested the Bank to reallocate funds from a number of underperforming projects and projects that would not proceed. The country team had to cap

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<sup>23</sup> The AfDB support to the 'PFM component' is, like its block grant support, not traceable but justified against the GOE budget lines for the EMCP. There are no easily identifiable headings in government budget against which support for activities under the other components could be justified, hence support would have to be projectised.

<sup>24</sup> Bilateral PBS DPs signed a joint memorandum to this effect, with the exception of the Netherlands.

the requested reallocation below the desirable level because of the overall 25% cap on cross-country PBO resources.

## 4.5 Lessons from PBLs

Lessons identified for the SAL and PRSL are best looked at separately from those for PBS, considering the quite different focus of the instruments. Box 4.1 below summarises the lessons identified in the respective PCRs. Note that the PCRs for SAL2 and PRSL were completed very late (end 2008/early 2009) and therefore could not be of use in preparing the succeeding operations. PBS2 is ongoing and so there is not yet a PCR.

### Box 4.1 Lessons from PBOs in Ethiopia as identified in AfDB documentation

#### Lessons from SAL and PRSL:

- Assess more carefully reforms feasible within the loan implementation period (SAL) and for one-tranche operations like the PRSL, before Board approval; conditions to be fewer and more harmonised with overall policy matrix supported by all DPs (SAL).
- Strengthen supervision so as to be able to react more quickly to change in the environment.

#### Lessons from PBS1:

- Tighten political risk assessment to monitor and reduce risks like the crisis that led to PBS1.
- Integrate novelty of earmarked BS as PBS1-L in AfDB framework for lending instruments.
- Strengthen Bank leadership in policy dialogue (ETFO capacity; greater contribution of programme evaluative inputs and background studies).
- Strengthen the developmental impact of the AfDB support through ensuring more balanced resource allocations at district level and notably more resources for investment; within the donor coordination framework, the Bank should insert 'PBS-I-type capital investments'.
- Strengthen PFM systems and reporting in particular.

*Source: PBOs PCRs (AfDB, various)*

The argument that there needs to be a separate (traceable funding) channel to support local level investments is questionable on the same grounds as in the discussion above on vertical sectoral funding (see sections 2.4 and 3.2.4, and Dom, Lister et al 2010).

The ETFO identified a number of other lessons from the PBS operations, including: (i) the value of predictability of foreign currency and budget financing funding; (ii) the relevance of the PBS instrument to 'reach the decentralised levels'; and (iii) the effectiveness of the PBS as a 'principle-based instrument' focusing on areas in which there is convergence of objectives between DPs and GOE. ETFO also links the AfDB's comparatively better performance in terms of timeliness and rapidity of disbursement to the nature of the AfDB instrument and in particular, the fact that the PBS is overtly considered as budget support by AfDB, in contrast with IDA and other DPs. So the Bank's fiduciary requirements are the same as for any BS operation, unlike those of the IDA and the MDTF DPs.

## 5 Key findings

This section looks at key findings from the evaluation, based on the evaluation matrix found in Annex A. Key findings are organised under three main themes: performance and impact, strategic issues and design of PBOs.

### ***Performance and Impact***

#### **Over the evaluation period AfDB PBOs' objectives and modalities have shifted**

AfDB's PBOs have shifted in their objectives (from macroeconomic stabilisation, structural reforms and macro budget and PFM reforms in SALs and PRSL to support to decentralised basic service delivery including a focus on local level PFM and transparency and accountability systems in PBS loans) and twice in terms of delivery modalities (from BOP operations to joint GBS to earmarked budget support under a joint umbrella framework for eleven DPs). This is further unpacked in Table 5.1, and reflects a similar trend for other budget support DPs, a trend in which the Bank was a follower rather than a trail blazer.

**Table 5.1 AfDB Policy-Based Operations 1999–2009: Two Shifts**

	<b>From BOP to GBS (1999–2004/5)</b>	<b>From GBS to earmarked BS (2005/6–current)</b>
Shift	From Balance-Of-Payment (BOP) support to contribution to joint General Budget Support (GBS), called Direct BS in Ethiopia (DBS).	From joint GBS to contribution to joint Protecting Basic Services (PBS) programme – for some DPs shift to PBS 'block grant' component (which is de facto earmarked budget support).
What led to the shift	In Ethiopia: Shift to PRSP (SDPRP approved in 2002/3). In AfDB: BS guidelines (2004), BS as support to PRSPs.	In Ethiopia: Political troubles, suspension of GBS, development of PBS as DPs' political response to political situation (no policy change). In AfDB: No corporate shift, PBS a unique case, classified as 'earmarked decentralised BS'.
AfDB PBOs	SAL1, SAL2 to PRSL (shift to GBS through PRSL in 2004/5 for AfDB).	PRSL to PBS1 and PBS2 (shift to PBS in 2006/07 for AfDB).
Nature of instrument (not specific to AfDB)	<b>Both BOP and DBS</b> Conditionality-based instruments focused on macro/structural and budgeting/PFM reforms. Wide-ranging 'dialogue' trying to encompass areas [macro/structural reforms or 'growth agenda', political governance] raising divergence of views between GOE and DPs.	<b>Distinct nature of PBS</b> Principle-based instrument focused on sub-set of GOE policies [decentralised basic service delivery and local accountability and transparency: 'MDG agenda'] on which near full convergence of views between GOE and DPs. Dialogue intense on focal areas but 'restricted': light on macroeconomic context, not reaching 'growth agenda' (structural reforms).
AfDB specific	Specific AfDB conditions and associated operations.	AfDB adopted joint 'principle-based' framework; less detailed conditionality than some other DPs.

Source: Authors

The evaluation team found that over the same period there had been a shift toward greater policy effectiveness (in the sense that the PBS PBOs provided effective support to the government-led implementation of existing, strongly-owned policies), and that this was linked to the shift in objectives and modalities in various ways.

#### **Consensus around PBS led to more predictable aid flows although commitment to predictability is uncertain**

Because of the more consensual nature of the dialogue, PBS has been more reliable than earlier joint BOP/BS financing, and thus more predictable. AfDB has had an important role in improving the predictability of financing for the government budget.

The gap in external financing between DBS and PBS (in EFY2005/06) clearly demonstrated the negative effects of lack of steadiness and predictability in external financing. In contrast, the Bank's rapid transition from PBS1 to PBS2 (in EFY2008/09) was an important positive contribution from the macroeconomic viewpoint. The year-on-year and within-year predictability of AfDB PBOs has improved over time, and the Bank is currently rated as among the best DPs in this respect by GOE and a number of other DPs.

Yet even within the confines of the PBS there is not full agreement among DPs about the importance of predictability. For those believing that budget support should be used to influence political governance issues the Bank's predictability is seen at times as a hindrance. Possibly for this reason, predictability comes about by chance rather than commitment as indicated by a lack of clear data against which to measure it, for example showing in which month DPs have disbursed compared to commitment. In this context AfDB stands out as not using implicit conditionality which has at times affected other DPs' predictability, even though its documentation does not reflect the 'no within-year cut' clause.

### **Consensus over objectives led to greater policy effectiveness**

SAL1 (implemented in the mid-1990s) was effective because it focused on a very basic agreed package of macro/structural reforms for rebuilding the country's economy after the fall of the Derg. Later reforms promoted by AfDB under SAL2 and the PRSL were also effective in areas of consensus, including pro-poor budgeting and the strongly owned PFM reform programme, but implementation was difficult in 'no-go zone' areas. DBS provided a forum for DPs to have a dialogue of sorts with government on difficult issues, but this failed to shift underlying positions. PBS, in contrast, with its block grant funding topping up inter-governmental transfers, has been effective because it supports the implementation of strongly owned GOE policies aimed at 'access to basic services for all'.

Focusing on 'consensus zones,' has allowed DPs to design their aid instruments around 'agreed principles' rather than 'conditions'. This fits better with the manner in which the Ethiopian government handles the aid partnership and therefore, leads to a more conducive dialogue context and more productive dialogue (it is also in principle better suited to the partnership paradigm underpinning the Paris Declaration that the AfDB has signed up to). In the case of PBS, policy and institutional effectiveness has also been strengthened by the greater predictability of the PBO funding, as GOE could rely with greater certainty on budget financing flows to implement its policies. So the Ethiopian experience suggests that there is a close relationship between PBO policy and institutional effectiveness, dialogue effectiveness and PBO predictability, and between all these and policy consensus.

### **At the same time, attribution of specific policy and institutional results to AfDB PBOs is not feasible**

The intervention logic of the earlier PBOs was weak. In the programme log frames the links between actions resulting from the AfDB conditions (i.e. easily attributable lower-order results) and the broader, outcome level, objectives of the programmes were not specified (e.g. how an action plan for accelerating privatisation leads to GDP growth). This weak specification means that the Bank failed to identify critical 'non programme factors' that could (and did) run against its objectives. In particular, the limited attention given to political economy factors led the Bank to fail to identify 'sensitive links' (e.g. lack of assessment of political costs of some of the promoted economic reforms, see section **Error! Reference source not found.**). Ex-post assessments then failed to identify when sensitive links were 'broken', like the lack of change in GOE policy positions in the 'no-go zone' areas. Contributing factors were also overlooked, yet there were certainly elements which there were positive and some lasting results (e.g. the budget reorientation away from defence



would not have been possible if the hostilities with Eritrea had surged again; this reorientation was also strongly supported by the HIPC-PRSP process as a whole).

The intervention logic of the PBS PBOs is clearer but attribution issues are more intractable. This is partly due to better alignment and harmonisation: the Bank's specific contribution to programme outputs is less easily identifiable today than in the SALs and PRSL with Bank-specific conditions and resulting GOE actions. AfDB inputs under its PBS operations supported objectives defined by GOE, and a host of other factors strongly contributed to the same set of results. For example, it is the combination of DPs' weight which incentivises GOE's adherence to the PBS principles. AfDB funding is co-mingled in the joint PBS-GOE block grant transfers to sub-national governments and its other inputs are co-mingled in donors' joint support to jointly agreed work plans (for e.g. FTA activities). As a result the effects in terms of increased funding, increased provision of services and increased local accountability (see PBS1 PCR and WB 2010 PBS1 ICR) are indistinguishable and at best, proportional to AfDB's inputs in the total. The link between outputs and broader outcomes is also a matter of contribution as PBS has supported and helped to strengthen existing GOE policies (decentralisation, decentralised service delivery, decentralised accountability) rather than changed them.

**AfDB has increased its level of activity in support to PFM reforms but this came late, and has not been very effective**

The Bank had no in-house PFM expertise deployed in relation to its PBOs until 2008, despite the focus of the PBOs on PFM reforms, the existence of a credible PFM reform programme, and the existence of multi-donor support instruments which were tested and which it could have joined. The AfDB did not invest in supporting the EMCP even though PFM conditionality in SAL2 and PRSL was based on it, and some areas, e.g. internal and external audit reforms, were underfunded for some years. Bank rules preventing joining pooled modalities meant that AfDB was unable to co-finance DSA or the PSCAP in their support to PFM reforms. The Bank could and did start to support PFM reforms with the start of PBS, with mixed effectiveness, in particular because the FTA component was unrelated to EMCP. Because of this and because the FTA and SA components were less strongly owned by GOE, progress in PBS1 was very slow. In PBS2, FTA was put under EMCP and support to PFM was expanded.

The current configuration of DP support to PFM reforms is not satisfactory. The Bank is actively engaged in efforts to address this, which include investigating options to 'hive off' PFM support to make it more holistic and systemic. However, the Bank's rules would prevent it from joining a non-PBO multi-donor TA operation if this was envisaged; supporting PFM through scarce PBO resources may not appeal to GOE; and 'hiving off' may disconnect the PFM reforms from their major application point.

**The Bank's technical capacity for delivering PBOs and engaging in multi-DP processes has increased over time but is still felt to fall short of what would be desirable**

Most stakeholders linked this evolution to the strengthening of ETFO, most particularly since 2008 including a larger staff complement with a Country Economist in Addis Ababa. ETFO staff highlighted that as ETFO capacity was increasing, PBO designs were increasingly anchored in the country context. SAL1 and SAL2 were designed at HQ level in close collaboration with IMF and IDA. Thanks to a first round of strengthening of the ETFO, the PRSL preparation was more of an in-country exercise: ETFO engaged in the development of the joint DBS policy matrix and provided the PRSL appraisal document first draft. AfDB was then noticeably absent from the PBS1 design process, even though it was co-chairing the

DAG at the time. The reasons for this were multiple: the political crisis took the AfDB by surprise; the tightly-scheduled in-country DP discussions which underpinned the PBS design made it impractical for HQ to engage whilst ETFO was under-staffed and staff were engulfed in the management of highly problematic project lending operations; and PBS focal areas were not felt to be ones in which AfDB could bring significant inputs. Thereafter, although not leading in any way, the Bank was more fully engaged in the design fine-tuning of PBS2.

For the Bank internally, ETFO now plays an important role through participating in the joint PBS review mechanisms, whereas supervision by HQ was infrequent and poor under SALs. In country, ETFO is now co-chairing the PBS donor group and contributes to the daily PBS-related processes through inputs prepared in-house and organisational capacity. In 2009/10 the Bank also financed regional PERs as inputs to the Public Finance Review that the WB team prepares annually. Whilst this is still much below the level of engagement of the WB and of a few smaller financiers, ETFO presence has noticeably increased AfDB's ability to be involved.

On the DP side there were a range of opinions in relation to the Bank's technical capacity.<sup>25</sup> On the GOE side, except for those dealing with AfDB bilaterally, officials were not able to point to specific contributions but stated that AfDB was definitely part of the 'few big PBS DPs'. On the whole the prevailing perception is that the Bank is 'punching under its weight' considering the amount of financial resources invested. Whilst it is the third largest financier of PBS it has just three in-country staff members strongly engaged with the PBS, who also have other responsibilities. This compares to the 25+ IDA team in which 8–10 people spend most of their time on the PBS. In terms of quality of inputs too, the Bank is outperformed by IDA, and a couple of other agencies. However, the Bank was said to do better than some of the bigger DPs thanks to the personal capacity and dedication of the staff in charge.

De facto, the WB assumes overall leadership in all areas and some DPs are of the view that it would be better balanced if AfDB could take more of a lead role in some areas. ETFO does see progress, as noted above, but local experts are dissatisfied and point to a number of issues related to AfDB systems and processes which in their view strongly limit their ability to do a better job.

### **The Bank lacks clout and this limits its value added, although there is no consensus on what kind of 'special role' it might have as an African institution**

There is a sense among other DPs that AfDB is not a strong partner at the high level dialogue (DAG/HLF). However, there is no consensus about what a 'special role' for AfDB might look like. In the first place it is not clear whether this special role should or should not encompass political governance issues. AfDB's lack of engagement may mean a lack of influence on and possibly a limited understanding of political developments. However, the fact that it does not take sides is seen by GOE as one of its comparative advantages, and AfDB argues that there are other channels for discussing governance issues, notably through its lead role in the NEPAD/ARPM process, although the process is seen to lack credibility in Ethiopia. Among bilateral DPs concerned with political governance issues there is no consensus. For some, AfDB should be able to send strong messages to GOE; for others, on the contrary, its special role should be to find less confrontational ways of addressing issues of common concern. Others note that AfDB should not be a political actor

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<sup>25</sup> Some are of the view that capacity is weak and the Bank attends meetings but does not contribute much; or, it should do more and for instance, be involved across all PBS components. Others, taking a more historical view, highlight that there has been a big change. For these DPs, the strategy of ETFO of participating selectively in areas in which they can really contribute is sensible to avoid spreading themselves thin on the ground, and it is sensible to start by 'testing systems' before coming up with improvement suggestions.

in the same way as bilateral donor countries; yet it is important for AfDB to assess the context and other DPs' concerns fully and find ways of being responsive to both DPs and GOE. Finally, among DPs more interested in finding ways to take forward the 'growth agenda' there is some concern that the Bank lacks the clout necessary for the kind of high level, smart and quiet advocacy that seems to be the most suitable approach to make progress.

So whilst there is a prevailing but vague perception that AfDB does not play a special role or that its special 'cosiness with GOE' is not necessarily useful. There is a loose consensus that the Bank 'does not do its homework properly', but there is no agreement on what this homework should be and therefore no consensus on what the AfDB should do and how it should change to be more useful as an African institution. The type of capacity required would presumably not be the same if AfDB were primarily to engage more directly with political governance issues or if it were to focus mainly on smart and quiet top level economic advice. The common point is the need for AfDB to ensure better continuity and more clout in its representation at high level.

### **Strategic Issues**

#### **Consensus facilitated higher levels of external financing although on the Bank's side this was limited by institutional constraints**

We found that there seemed to have been a virtuous circle type of link between consensus and policy effectiveness on the one hand, and DPs' commitment to raising external financing levels and (to a lesser extent) to ensuring greater funding predictability on the other. Budget support funding has sharply increased since 2003/04, as a share of ODA and as a contribution to government budget financing (see e.g. Figure 2.3). The fact that PBS is deeply embedded in the budget by the nature of the expenditures which it is supposed to fund makes the budget more aid-dependent. But PBS has been highly efficient in delivering the external financing necessary for the achievement of the MDGs, channelling large-scale funding more reliably than the earlier AfDB PBOs, and at the decentralised level where funds for basic services are needed and which other aid modalities have much greater difficulty in reaching.

There has been a doubling of the volume of AfDB resources allocated to PBOs between SAL2 and PBS2 and this will be further increased as additional financing for PBS2 has recently been approved. However, the 25% cap on cross-country PBO resources has acted as an exogenous break on AfDB's capacity to raise more resources for PBS2 as requested by GOE. Arguably, this has limited the effectiveness of AfDB funding in so far as these funds have been used or are earmarked for less effective modalities/uses. The cap is likely to play a similar 'artificial break' role in future.

#### **The prevailing incentive systems and lack of flexibility prevent the Bank from building fully on its comparative advantages**

Both GOE and other DPs agree that the Bank has a number of comparative advantages. The Bank has demonstrated its ability to provide large-scale and reasonably predictable forex and budget financing flows; some DPs appreciate the fact that AfDB funding is more 'politically insulated'. The GOE appreciates the fact that the Bank does not use 'implicit conditionality' and as noted in section **Error! Reference source not found.** rates AfDB highly in terms of predictability of PBO funding. The Bank is able to provide significant

amounts of resources for large-scale infrastructure development. Both GOE and DPs also highlight that the Bank has been able to show greater flexibility in some of its work.<sup>26</sup>

### **'Politics' trumps aid effectiveness considerations and this has affected AfDB PBOs.**

The team found that issues of aid effectiveness, in particular around the role of budget support, have been continuously trumped by political governance concerns since 2004/05. There is no consensus among DPs as to whether this is legitimate or not, and DPs who have (in principle) other instruments to address political governance issues (like the 'Cotonou dialogue' for the EU and its Member States) have not been able to use them effectively. The focus on political governance issues has undermined efforts by DPs with the relevant comparative advantage (such as AfDB, IDA and IMF) to take up the growth agenda, as it has been difficult to assess the extent of agreement between GOE and DPs on policy frameworks related to economic development. Yet this would be critical in order to assess the chances that a structural reforms/growth-focused GBS instrument would have and how it might be made to work better.

For the Bank, decisions on PBOs of any type should be primarily non-political, but this has had to be balanced by its commitment to harmonisation, as seen in its involvement in PBS even though it perceived its comparative advantage to be linked to the macro/structural agenda more than the 'welfare' agenda of the PBS. As discussed above, AfDB's comparative advantage is in practice more complex, and it has been a more reliable PBS partner (and appreciated by GOE) because its support is not subject to political conditions. **There has been no consideration given thus far to sector PBOs, largely by default rather than by design although the case for sector PBOs is not clear cut**

There are a mix of Ethiopia-specific and Bank-wide reasons for this. Bank-wide reasons include the Bank's 'project mindset' (as some stakeholders perceive it), a lack of aid management expertise, and the disincentive of the 25% cap on cross-country PBO resources. Among the Ethiopia-specific reasons are that sector PBOs as the Bank would understand them are not widely in use and the government's attitude is generally cautious. Sector approaches are complicated by the decentralised government structure, requiring the tailoring of aid instruments which is difficult given the constraints of the Bank's rules. There is great difficulty in the Bank's financing investments to be managed at sub-national levels, as seen with past and ongoing projects, and the Bank hasn't been able to adapt its project procedures to make them commensurate with capacity at decentralised levels.

### **Bank processes and systems have failed to support the strengthening of AfDB in-country technical capacity and clout beyond initial steps**

This failure arises from several causes, although there is consensus on several sides (ETFO staff, GOE officials and other DPs) that the lack of effective decentralisation is the single most critical systemic weakness.

ETFO staff have been frustrated by the time taken up by operational/administrative project-related matters, detracting from time for PBS dialogue and joint work; by the lack of technical support from HQ; and by the lack of systematic capacity development opportunities which would allow learning other than 'on the job', and of systems that would record institutional memory and knowledge, notably in relation to PFM issues even though this is supposed to

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<sup>26</sup> GOE mentions the Bank's agreement to align its CSP cycle with the GOE planning cycle (as we were told, the next CSP will span the same five years as the GTP); and its ability to respond rapidly to the food and forex crises in the past two years. Other DPs mention the Bank's comparative advantage in handling regional initiatives.

be an area in which AfDB should be able to make an institutional difference.<sup>27</sup> Other DPs have indeed commented that whilst ETFO currently does well in relation to e.g. PFM issues or its understanding of Ethiopia's decentralised context, this rests on a few key individuals rather than institutional capacity and knowledge. ETFO staff also mentioned a culture of lack of attention to results as concerns revolve around disbursement performance.

But the most problematic aspects raised by several stakeholders related to the lack of effective decentralisation. ETFO staff highlighted lack of access to sufficient resources to be able to better contribute to in-country processes; HQ-driven processes disrupting schedules and paying insufficient attention to in-country processes in which ETFO staff try to engage more visibly; and lack of decision-making power making them a 'lame duck' when it comes to engaging beyond attending meetings. Other DPs agree with this analysis and as noted above, perceive the Bank as an institution which is still 'HQ-driven', without a culture of sharing (analyses, views etc.) with other DPs in country, because ETFO's prime accountability is to HQ level. They also made the point that decentralisation cannot be effective if staff continue to perceive that HQ posts offer better career opportunities; in particular, it was felt that the post of Resident Representative should be a senior post so as to be able to attract the high calibre people required, and as a pre-requisite to devolving greater authority to the field office. On their side GOE officials compare AfDB unfavourably with the WB in relation to in-country decision-making power.

However, there are again diverging views about what greater country level decentralisation should be for. For GOE this seems to be primarily an operational matter. They want ETFO to have more decision-making authority in operational management with for instance the authority to adapt instruments and programmes to local needs (including in terms of reallocation of resources across programmes, sectors and instruments<sup>28</sup>), or at the very least to be listened to when they propose solutions; they want ETFO to be more effective in expediting administrative procedures of no objection, disbursements, etc.; and they want better coordination between AfDB Departments to expedite operations. In contrast, for other DPs decentralisation should primarily be about greater capacity to engage at technical and senior crosscutting levels in policy dialogue and 'knowledge generation', and this may well mean less administration.

### **Design**

#### **AfDB PBOs have been broadly relevant in terms of support to GOE plans but there has been insufficient attention to the political context**

The AfDB BOP/BS instruments were broadly relevant to GOE's main objectives and responsive to the government evolution in balancing the 'MDG' and the 'growth' agendas.<sup>29</sup>

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<sup>27</sup> On PFM matters, the ETFO local expert is primarily a financial management expert in charge of handling AfDB FM issues in its project lending operations. Her role was extended to cover the PFM component in PBS2 as AfDB supports this component. Apart from 'on-the-job' learning she has had no other capacity development opportunity. There also seems to be an institutional gap, with no support given by the HQ departments from which she might have expected it: the Procurement and Fiduciary Services Department has been weakly involved in the ongoing PBO, and OSGE which leads on the PBO has been weakly engaged with the PFM aspects.

<sup>28</sup> GOE officials explain that reallocating resources from an under-performing programme in one sector to another programme in another sector is something the WB Country Director has the power to do. In AfDB this is an extremely cumbersome process requiring different sector Departments and the relevant Regional Department to come to an agreement, which may not always reflect what ETFO think would be best or has proposed. Again, examples given were for project lending operations.

<sup>29</sup> GOE's main objectives were successively: post-1991, reconstruction, late 1990s-early 2000s, poverty reduction and focus on pro-poor basic social service sectors, and gradually a greater emphasis on growth with PASDEP – further deepened with the forthcoming GTP.

The latest shift to PBS was relevant in that it was deemed not feasible by DPs collectively to support PASDEP as a whole, and the focus turned on the sub-set of policies and objectives over which there was no/little controversy.

However, in their details the Bank's instruments have not always been as relevant as they might have been due to lack of realism in the conditionality framework. There has also been little attention paid to the political context, in particular until 2005/06 when the political crisis took the Bank completely by surprise. The lack of attention to political economy issues also explains the lack of realism in the SAL2 and PRSL frameworks in relation to economic conditionality (e.g. there was no analysis of how privatisation objectives might be affected by party ownership of large sectors of economic activities in addition to ideological positions). These trends were not specific to AfDB.

The Bank is trying to address this but there are serious limitations to its recent efforts. Some of these limitations are Ethiopia-specific, including the difficulty of using political analysis in relations with government. In addition, there has been a lack of original political analysis by the Bank, and it does not participate in DAG groups dealing specifically with governance. Whilst this non-involvement in joint DP work on more broadly-defined governance issues may be dictated by the Bank's supposedly 'apolitical mandate' and lack of 'in-house' expertise it limits the Bank's ability to make decisions about political risks to its programmes, even though political aspects have influenced the scope of AfDB PBOs and are likely to do so in future. And the Bank's lack of engagement is seen as a lack of solidarity by some DPs.

### **CSPs have not provided strong guidance on the choice of instruments and the specific design of PBOs**

Whilst CSP and PBO objectives have always been broadly consistent, during the evaluation period the cycles of preparation of CSPs and PBOs were interwoven and similarly disrupted and resumed following key events in the country and the aid dialogue. Discussions about the CSPs and mixes of instruments have been iterative rather than the former leading the latter.

The evaluation period was characterised by two major 'stop/go' situations (around the war with Eritrea in 1998/2000 and the 2005/06 political crisis) which disrupted both CSP and PBO preparation. In addition, at the same time the Bank moved from less to more collaborative design of BS programmes so the factors defining both the existence and the nature of BS programmes were no longer Bank-specific. CSPs in the early period did not dwell on issues of choice of modalities in sectors, or on the specific objectives that PBOs would support. The last CSP (2006–08) was finalised simultaneously with AfDB's decision to suspend GBS and join the PBS. There is therefore close, but 'ex post', alignment between the CSP and PBS objective of strengthening governance. The decision to continue with PBS2 was not taken within the framework of the CSP, which has been obsolete for almost two years. Finally, whether AfDB continues with a PBS3 or mixes this with other BS instruments or leaves PBS altogether to focus on other BS instruments is a decision which will be taken concurrently with the preparation of the next CSP rather than following it.

### **The rationale underpinning the detailed design of the PBOs in relation to other AfDB investments could have been clearer**

A number of institutional factors constrain the Bank's options in terms of choice, mix, focus of and links between aid instruments. AfDB rationale for developing and implementing PBOs was fairly clear, though the links between the PBO focal areas and the rest of the Bank's portfolio and/or its comparative advantages could have been stronger. The focus of the Bank's instruments evolved from being more specific to AfDB to being specific within a joint framework in which different DPs selected areas of special interest to them (PRSL in DBS) to

selecting an AfDB-specific menu of components in the PBS (each DP has its specific menu). In SAL2 and PRSL there were PBO focal areas in which AfDB had in-house capacity and/or was planning to or had deployed other support operations (e.g. the privatisation TA) but there were also areas in which the Bank relied entirely on other DPs' work. In some areas the PBO conditionality was seen as a support to project lending activities (e.g. land-related conditions in support to ARD project loans). However, both the complementary privatisation TA and the Bank's project lending activity in ARD failed to ensure that Bank conditionality in related areas in its PBOs would be realistic.

In PBS the Bank's focus on PFM has been accompanied by insufficient strengthening of its in-house capacity (see section **Error! Reference source not found.**). Some of the Bank's decisions in relation to which components it supports or does not support are not well understood by other DPs. Notably its non-participation in the new (pilot) Local Investment Grant (LIG) and in the new M&E component which fits oddly with the concerns stated in the PCR for PBS1 over both the imbalance between capital and recurrent spending at sub-national levels and the lack of focus on sector results. Its lack of engagement in the social accountability component fits somewhat oddly with AfDB's guidance about stakeholders' participation, issued in 2001. More generally, in terms of links between Bank PBOs and other activities in the country portfolio, there are supposed to be stronger links between PBS and the sectors financed by the block grant to districts (education, health, ARD, watsan and roads) in PBS2. However (as our interviews clearly show) line ministries continue to see PBS as largely irrelevant to sector policy dialogue as it is linked to parallel vertical funding. The way AfDB's portfolio is managed fails to address this. There has been very limited involvement of the Bank's sector staff in watsan and ARD in the PBS design and management, and although there are statements that this is going to be addressed in future it is not clear how this might happen.

### **The Bank's PCRs have been completed too late to provide useful lessons. This has affected both the choice of instruments and the specific design of PBOs**

The intervention logic of the Bank's PBOs was initially rather weak and not explicitly highlighted by feedback systems and so subsequent programmes continued to be designed in the same way. In addition, for SAL2 and PRSL Bank supervision was infrequent and with the unrealistic design of the conditionality contributing to delays in implementation. The M&E framework of the PBOs was gradually strengthened, but there continue to be, in our view, misguided concerns about attributing the PBS achievements, these in turn tend to muddle post-implementation assessments of the effectiveness of the Bank's PBOs as merely contributing to joint processes and inputs is seen as 'not good enough'. Other weaknesses include lessons failing to be passed on from one operation to the next because of the delayed timing of reviews, as with the PCRs for SAL2 and PRSL; or their failure to cover certain periods, as with the OPEV evaluation of multi-sector PBOs finalised in mid-2008 which does not cover the PBS1 period. Moreover, OPEV does not explicitly recognise the lesson identified as most important by ETFO, i.e. the effectiveness of consensus-based instruments.

Other 'lessons learned' that have been important in better designing and implementing PBOs arose from broad corporate reform processes in AfDB. In particular, the establishment of the ETFO and its gradual (although still insufficient) strengthening, in line with the Bank's decentralisation strategy. This has made a big difference in the way the Bank manages and is perceived to manage its PBOs. The participation of ETFO in the day-to-day joint management of the PBS in country and in the joint reviews should, in principle, facilitate better Bank M&E of its PBOs in Ethiopia, and could facilitate Bank-wide lesson learning. However, the evaluation team could not ascertain that there are established processes and procedures for this to happen.

The change in the nature of AfDB PBOs was not so much the result of lessons learned as of collective pragmatism and commitment to the Ethiopian people when DPs found themselves confronted with the unanticipated political developments of 2005/06. Ex-post, DPs and AfDB among them identified the lesson that BS-type instruments may work better when they support consensus, although as noted above there continues to be unease with the implications of this lesson, including within AfDB.

**AfDB has moved toward greater harmonisation with its PBOs (in terms of both design and management) although this falls short of full harmonisation**

Over the review period the AfDB has moved in Ethiopia from stand-alone preparation, appraisal, implementation and review of its PBOs, nominally co-financing a common reform programme, to joined-up preparation, coordinated appraisal processes and near fully harmonised design with PBS2. The Bank has increasingly demonstrated greater willingness and ability to work with other DPs, first in joining the Direct Budget Support inclusive and institutionalised joined-up conditionality framework and policy dialogue, following the Bank's more 'stand-alone' SALs. In Ethiopia where GBS instruments were considered later than in a number of other countries, the Bank's broader corporate shift from BOP to DBSL modalities provided a timely support to this move toward in-country harmonisation. Later in the review period the Bank showed flexibility in adapting the AfDB DBSL instrument in response to local circumstances to be able to join the PBS, even though the programme focal areas and modalities were outside its comfort zone.

However, the Bank PBS loan modalities are not as fully harmonised as some other DPs' contributions to the joint programme. In the first place, the Bank's overtly apolitical position is perceived by some other DPs as a hindrance to more fully harmonised positions. This means that the Bank has at times moved ahead whilst other PBS DPs were held up by political governance considerations – even though some DPs gave their blessing to this as noted earlier. Another example given by DPs was the Bank's non-engagement with the issue of political distortion of (PBS and other programme) aid, which has been a recent 'hot topic' in the overall aid dialogue and the PBS dialogue.

At a more operational level the Bank uses disbursement triggers that differ from those of IDA and (some) other PBS DPs. ETFO argues that the Bank's requirements, which are less onerous, are more in line with the budget support nature of the PBS instrument. We noted in section 4 that the Bank's less than fully harmonised modalities have acted in favour of predictability in some instances. On a less positive note, the Bank has thus far failed to take advantage of the change in its own rules and regulations which makes it possible to use pooled fund flows in PBOs. So the Bank is still using a separate special account to feed its PBS budget support funds into the GOE consolidated account, parallel to the pooled account used by IDA and a number of other DPs. ETFO explained that the rule had changed but not the 'mindset', and they felt that (i) the added transaction costs were minimal anyway and (ii) proposing a design without an AfDB-specific special account would create problems at HQ level.

There remains some tension between the Bank's commitment to harmonisation and the way the Bank manages its contributions to the joint processes. First as noted above, contribution to joint work is still seen as insufficient. The team also came across some ineffectiveness in the way the Bank identifies, manages and/or shares analytical work potentially useful for joint PBOs. For example, the Bank's financial sector diagnostic was dismissed by GOE and came to the knowledge of other DPs (like the IMF) by chance. One can also wonder about the usefulness of the Bank's country governance profile, not shared with other DPs and bringing nothing fundamentally new. However, we found that some other inputs by the Bank have



been both harmonised and relevant.<sup>30</sup> Moreover, the Bank's practices reflect and contribute to a more general weakness, as DPs in Ethiopia have thus far failed to strongly harmonise in the management of analytical work, whether in the context of PBOs or more broadly.

**Transaction costs (TCs) linked to AfDB PBOs have decreased over time as the Bank joined harmonised programmes and in a context in which TCs linked to multi-donor budget support have changed in nature**

For SAL2 there were onerous import-related reporting requirements: an earlier request for these to be simplified in view of the weak capacity of GOE was not heeded. Since the PRSL most AfDB requirements have been aligned with those of other BS DPs. In PRSL these revolved around progress with the DBS policy matrix. AfDB had specific conditions that required specific details for those but this was at the time common practice among DPs. In contrast, with PBS2 the Bank does not have any additional reporting requirements compared with other DPs. By design, PBS reporting and accountability requirements went beyond what GOE systems were initially able to provide (e.g. continuous roving audits and FTA measures) but these are largely perceived to be useful to strengthen the country's PFM and accountability systems, including by GOE officials.

It is noteworthy that because it considers PBS as budget support, AfDB in fact contributes less to the PBS-related TCs than do IDA and other MDTF DPs, as it does not require IFRs and is not involved in the more TC-heavy components. But this is seen, in turn, as a missed 'harmonisation' opportunity by some DPs.

**Is the current 'PBO menu' sufficient?**

PBS focuses on the 'MDG agenda' over which there is consensus. It leaves aside the 'growth agenda', so an important area is not supported and there is also no framework for DPs to raise political governance issues. This reflects a tension between different possible objectives for BS, i.e. supporting consensus vs. influencing/incentivising reforms, and there is a feeling among some stakeholders that there has been a cost associated with the recent greater policy effectiveness. Experience indicates that the same instrument cannot be expected to provide large-scale predictable funding and simultaneously influence policy in areas where consensus is difficult. Experience also suggests that the best way forward might be smart and quiet advocacy by agencies/actors with clout and legitimacy, rather than use of conditionality to try to buy reforms, with realism in expectations related to sensitive reforms. But this is easier said than done.

The AfDB actively participates in the debate about these issues, focusing on whether and how to reintroduce a macro/structural/growth agenda-focused instrument. ETFO has a strong understanding of the complexity of Ethiopia's decentralised government structure and why instruments like PBS are uniquely well adapted to supporting the strengthening of this structure and basic service delivery in this way, and also the need for a different approach in areas in which reforms are sensitive. HQ may not fully share this understanding and/or its potential implications, and may lean more strongly toward a return to a more usual instrument. Indeed, there is a feeling that although PBS is said to be an effective financial governance instrument it does not fit squarely in AfDB areas of 'comparative advantage', i.e., supporting progress in the macro/structural reform/growth agenda.

This is not a feeling shared by GOE. First, it is not clear that PBOs are the best instrument that AfDB could use to support growth, as opposed to large-scale federally-managed

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<sup>30</sup> The Bank financed regional PERs as inputs for the forthcoming WB-led Public Finance Review for 2010. Much earlier it similarly financed one of several Regional PERs undertaken in 2001, with WB and EC financing others.

investment loans. It is also not clear that AfDB in Ethiopia has a real comparative advantage in these 'macro' areas, as opposed to wanting to have one. Whether or not it has or might have the capacity required to adopt a smarter approach is further discussed below. The 25% cross-country cap on PBO also constrains the ability that AfDB might have both to continue with PBS and to develop a complementary growth-focused instrument.

## 6 Issues

There are various lessons that can be drawn from the evaluation that are important for guiding the design and implementation of future PBOs. The first and overarching one (as highlighted by ETFO) is the effectiveness of aid instruments which (i) in the Ethiopian federal decentralised context, 'reach the decentralised levels' effectively with large-scale financing supporting them to implement their mandates in relation to agreed and clear policy priorities (the MDG goals), and (ii) in the context of strong government ownership of the policy agenda, support reforms in areas in which there is consensus over objectives and main directions.

A second lesson is the importance of finding ways that are more subtle than conditionality to (re-)engage the dialogue in areas where there is less consensus, and to pay sufficient attention to the political context and political economy around reforms. Although the Bank may wish to present itself as a non-political actor (or maybe political with a difference), it needs means of grasping the political context and reaching out to the whole range of actors in it. This will enable the Bank to better ascertain risks (and opportunities) for its PBOs and country programmes as a whole. Its commitment to harmonisation also means that it has to be sensitive to and factor in other DPs' positions as part of the political context.

Thirdly, in order to strengthen its 'added-value' as an African institution the Bank may need to identify what this added-value should be (i.e. what are its TORs, which may vary in different countries). This means defining the focus of and modalities to be used for the Bank's high level dialogue underpinning its PBOs and overall engagement with the government (e.g. economic and financial governance vs. this plus NEPAD-backed broader dialogue; bilateral vs. joint DP dialogue). It will then need to identify how best to use its comparative advantage (in terms of sectors and instruments).

Fourthly identifying the desired 'value-added' more clearly would also allow a better definition of what the Bank needs to prioritise to strengthen its capacity to engage in the particular country context (e.g. stronger analytical work in specific growth areas vs. stronger PFM and/or broader governance capacity, or both). In any instance, further decentralisation, including greater authority/seniority at Res Rep level, and greater engagement of sector staff in PBOs would considerably strengthen PBO design and delivery.

Fifthly critical constraints on the effectiveness of the Bank's operations in Ethiopia have been regularly identified (25% cross-country cap on PBO resources, insufficient delegation to ETFO, lack of Bank comparative advantage in certain types of operations e.g. decentralised project investment) but have hardly been acted upon. This suggests a lack of institutional attention to such findings and/or other sources of rigidity in the Bank, which need to be addressed.

The following reflections with potential implications for the Bank emerge from the Ethiopia case study. These reflections will feed into the country case study synthesis, and into the overall evaluation report, which will include recommendations derived from the whole body of evidence collected for the evaluation:

1. Greater clarity is needed with regard to the 25% cross-country cap on PBO resources and its implications for the allocation of PBO resources to the Ethiopia country programme. This would help improve medium-term predictability of Bank's PBOs.

2. AfDB should assess how the cap constrains its aid effectiveness and/or limits the scope of its country programmes, and consider ways of addressing this. In countries like Ethiopia the Bank's project lending instruments are inadequate for a range of important activities, whilst one clear value-added is the provision of large-scale budget financing more reliably than by bilateral DPs because the Bank's funding does not come with political conditionality. The cap limits the Bank's potential to fully exploit this value-added.
3. CSPs should discuss issues of aid effectiveness in the country context and make clear the rationale for the specific mix of instruments envisaged.
4. Greater clarity on the Bank's comparative advantages/disadvantages is needed as a basis for a better focused medium-term strategy, taking account of the quite clear views of DPs and GOE about this<sup>31</sup>. The Bank should discuss more candidly these issues and its strategy (including the envisaged PBO role and focus) with other DPs, in addition to its dialogue with GOE. Formal consultation processes in the course of the CSP preparation may not be sufficient. It is also important that ETFO institutional memory and robust understanding of the context be fully tapped.
5. In complex political contexts like that of Ethiopia the Bank needs to have stronger in-country all-round governance capacity to avoid being hostage to circumstances it imperfectly grasps. This would also enable it to engage with other DPs on an equal footing even if the Bank wishes to remain different from bilateral DPs. This would strengthen CSP preparation, and PBO planning and delivery.
6. PCRs for the PBOs should be prepared in a more timely manner, and a process should be developed/strengthened to ensure that they feed into subsequent operations. In the context of joint operations as is the case in Ethiopia, this process should include a discussion of PCR main findings and lessons identified with other DPs and GOE. Similarly, the Bank's relevant evaluations should be discussed for the same reason and in a similar way.
7. In view of the huge importance of the predictability of PBO-type flows of external resources for both government budget and the broader economy, the Bank should work with other DPs to strengthen this, particularly year-on-year and within-year predictability. The Bank and DPs should clarify their position in relation to the 'no within-year cut' clause found in the WB PAD of the current PBO but not applied and not adopted by the Bank. The Bank could further improve its within-year predictability for PBO disbursements and try to influence DPs to do the same through linking the schedule of joint PBO review and disbursement to the GOE annual budget cycle and quarterly external financing programming more clearly. The Bank and DPs should consider the development of transparent and clear graduated response mechanisms – whatever the focus of future PBOs will be.
8. AfDB needs to decide quite soon about the focus of the next PBO(s) in Ethiopia, this decision should be consultative, as outlined above. Only then will it be possible to engage meaningfully in analytical work with some certainty that it will be useful. Similarly, a medium-term strategy for PBOs is needed in order to provide the main directions in which to strengthen ETFO. For instance, it is not entirely clear, if AfDB decides to focus again on macroeconomic and structural reforms, whether it can and

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<sup>31</sup> Views were that the Bank has been effective in the PBS, can be effective in large-scale infrastructure projects, and should have a comparative advantage in relation to regional projects.

should at the same time stay engaged with PFM reforms – which in Ethiopia should inevitably focus much on decentralised level systems.

9. More support of various kinds is needed for ETFO staff to be able to engage fully with the PBOs and in high level dialogue with other DPs. Support should be tailored to enable greater sector involvement in PBOs and more time for ETFO staff to engage in technical analyses (or commission them), and dialogue – focusing on priority areas clearly identified for the medium term. Examples of this include the timely recruitment of local expertise in priority sectors e.g. in watsan, access to more consultancy resources to be locally prioritised, capacity development opportunities in e.g. PFM, less time on administration.
10. Ensuring continuity and seniority together with greater delegation of authority at Resident Representative level would go a long way in strengthening the Bank's position vis-à-vis other DPs. It would also ensure that they see the Bank as having 'clout' and better punching to its weight.

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## Annex A Evaluation Matrix

<p><b>Main evaluation questions</b></p>
<p><b>C. Has AfDB developed the organisational capacity and capability to deliver PBOs efficiently and effectively?</b></p>
<p>C1. Has AfDB adopted an explicit in-house capacity building programme to support delivery of PBOs? If so describe it.</p> <p>C2. Has AfDB been appropriately structured and staffed to deliver PBOs? What was done?</p> <p>C3. How have successive efforts to reorganise the AfDB and decentralise affected the planning and delivery of PBOs?</p> <p>C4. In what ways have internal business processes helped or hindered the processing, approval and disbursement of PBOs? Specify examples.</p> <p>C5. Have the AfDB's corporate systems for knowledge sharing, results monitoring and financial management support effectively contributed to PBOs delivery? Has anything been weak or missing?</p>
<p style="text-align: center;"><b>Answers</b></p> <p>C1. There was no specific <b>capacity building</b> programme to support delivery of PBOs. Capacity was somewhat enhanced over time, (and seen as such by some other DPs) through decentralisation (establishment of ETFO in 2001) and strengthening of ETFO – especially since 2008.</p> <p>C2. <b>Structure and staffing</b> ETFO was established in 2001. Since then there have been six different Res Reps and a gap of almost one year in 2008 during which the international Senior Economist was acting. Until 2008 much of the PBO delivery was HQ-led. This was not always effective especially since the move toward greater in-country-led harmonisation in the early 2000s (see below). This changed with the ongoing operation (PBS2), for which more of the delivery processes relies on ETFO. This has allowed the AfDB to become more visible, although it is still seen as punching below its weight by most other PBO actors.</p> <p>Since 2008 the in-country permanent PBO team has comprised three persons: one (international) Senior Economist, one local macroeconomist and one local F/PFM expert. ETFO is currently planning to recruit a local M&amp;E/social development expert. The appointment of a full-time Res Rep in 2009 (after the gap in 2008) enabled the Senior Economist to focus more on the PBO. Structurally there are local experts in agriculture and watsan, which are both focal areas under the ongoing PBO and supported by AFD investment lending operations. However, structurally the 'PFM expert' is in fact an AfDB FM expert and her main initial responsibility was project FM. The extension of her job to cover the following up of the PBO support to PFM reforms has come 'de facto' and has not been accompanied by any training or capacity strengthening. Her reporting line is to the newly created Procurement and Fiduciary Services Department, which is not primarily responsible for PBOs. This is OSGE responsibility but OSGE is not involved in the day-to-day PFM issues of the PBOs. So the local PFM expert is learning on-the-job and has limited support from HQ. The watsan expert has left for Tunis and has not yet been replaced, which other DPs engaged in the sector deplore. A number of DPs engaged in ARD suggested that AfDB engagement in current dialogue and harmonisation processes has been good but has declined most recently, and the evaluation team links this to a sense of frustration expressed by the local agriculture expert. Sector experts are anyway marginally involved in PBOs and this has not (yet) changed with the ongoing one.</p> <p>This compares with a team of 27 persons involved in the WB PBO, including 8–10 people spending most of their time on it. So AfDB, which is the third largest contributor to the multi-donor PBS2, has fewer people than its investment would justify, according to a number of other DPs. For GOE officials it is 'not special' in the PBO management. AfDB made strategic choices to participate in the PBO technical WGs of most interest to them (which some DPs see as regrettable whilst others see it as a sensible strategy not to spread themselves too thin on the ground). ETFO has started contributing some inputs in the analytical, organisational</p>

and evaluative work of these WGs (e.g. taking the lead in proposing reorganisation of the PFM dialogue, in-house analytical work on sector spending, financing of regional PERs as an input to the WB-led annual Public Finance Review of 2010) and its good understanding of the local context is valued. So AfDB is now visible (which was hardly the case before 2008), although limited access to flexible resources constrains ETFO's ability to contribute more significantly. Some DPs still perceive AfDB as merely 'consuming' inputs from others. This could be seen as a good thing in terms of Division of Labour, but appears not to be compatible with the sense that with money should come some recognisable influence. Their lack of engagement capacity is therefore something which the local team also recognises and deplores – although it is not unique to AfDB and not even unique to the 'big PBS donors'.

**C3. Reorganisation and decentralisation** – In terms of **design** there has been a continuous evolution since SALs which were designed primarily by HQ staff. ETFO's inputs in the design of AfDB PBOs increased with the PRSL and PBS – although at the same time designs of BS/quasi-BS operations became much more joined-up with other DPs. AfDB representatives claim to have had some influence in getting some of the measures of interest to AfDB in the joint DBS policy matrix which was the basis for the AfDB PRSL conditions (e.g. privatisation, reform of agricultural input marketing), thanks to ETFO's ability to draw on other ongoing AfDB-financed activities and make links. In contrast, other DPs and GOE report that AfDB was not part of the design team for PBS1. This is understandable to an extent as the decision had been taken collectively by DPs to focus the new instrument on basic service delivery, outside of AfDB comparative advantage areas. However, it also reflects constraints that could have been addressed: the discussions which led to the PBS design required intensive in-country presence, which at the time was not possible through ETFO (small and overwhelmed with administration of a number of highly problematic lending investment projects), and which was also not prioritised by AfDB HQ (in contrast with the WB, whose TTL based in Washington 'seemed to be based in-country' for a while). In PBS2 AfDB was actively involved thanks to the ETFO strengthening just described, but not bringing much by way of distinctive ideas on issues identified in the PBS1 implementation evaluations – such as the lack of links with sectors.

The decentralisation and staffing measures just outlined have made it possible to **deliver** PBOs like PBS, which requires in-country continuous presence in the dialogue among DPs and between DPs and GOE: PBS donor group monthly meeting, rotating co-chairmanship, DPs' field visits (to which AfDB participates through the ETFO), joint DPs' analytical/evaluative work, six-monthly JRIS/JBAR, quarterly high level GOE/DP meetings. This is seen as a lot more efficient than earlier on (under PBS1) with people from Tunis shuttling in every two to three months and yet missing many of the key 'side meetings'.

ETFO staff mentioned the value of **OSGE** as a repository of knowledge on PBOs. It is likely that the presence of OSGE made the delivery of PBOs in Ethiopia more efficient when there were questions over the nature of the PBS and it was decided to categorise it as an 'earmarked' BS PBO. However, apart from this instance, the evaluation team cannot highlight specifically how the establishment of OSGE and its role in PBOs has helped PBO design and delivery processes in Ethiopia and in particular what guidance it gives to ETFO in assessing potential benefits and drawbacks of PBOs in e.g. sectors like watsan (see below).

**C4. Internal business processes** – In terms of **engagement**, SAL2 was a stand-alone PBO though nominally co-financing the same reform programme as WB, IMF and some other DPs. The PRSL preparation and appraisal was done whilst WB was preparing its PRSC2 so with some lag between WB and AfDB, reportedly due to issues with AFD replenishment and the lack of fully developed BS guidelines in AfDB at the time (2003/04). A similar lag time occurred with the preparation of the PBS1: AfDB joined IDA and DFID with eight months of delay, preparing the AfDB PBS1-L at the same time as the first PBS review mission, although this was also the case for all other PBS DPs (so only IDA and DFID had been able to disburse PBS funding in the 2005/06 FY) so AfDB business processes were fairly efficient in this instance, particularly considering the initial uncertainty around the collective DP response and about the nature of the instrument in AfDB categorisations.

GOE officials in particular highlight that AfDB has performed well in **administering** PBOs: as long as agreed triggers were met disbursements have generally been prompt (see below on predictability), in contrast with some other BS partners and in stark contrast with AfDB performance with investment lending projects. Notably, projects entailing intensive decentralised activities have been highly problematic in the social sectors, and it appears that the same difficulties are faced with the ongoing watsan project lending which is a major component of the current AfDB portfolio. GOE point at inflexible procurement and financial management rules that are not responsive to local conditions, not commensurate with local capacities, not geared to maximising cost-effectiveness of activities at decentralised levels, and not allowing AfDB to join more effective pooled modalities. The lack of decision-making power of ETFO (and in particular of the Res Rep) is another critical factor which, in contrast with these other business processes which only negatively affect projects, also affects AfDB's ability to respond to GOE requests in relation to

PBOs and is in stark contrast with the powers of the WB Country Director who can reallocate funds across sectors/ activities much more easily.

One major limitation arising from AfDB systems is the **25% cap on the total PBO envelope**. This plays a multiple negative role. It affects how AfDB looks at modalities to support sectors – and so for instance, there is little incentive for the country team and GOE to think of a sector PBO in watsan (even though AfDB project modalities are not well adapted to this type of investment in Ethiopia), as this would decrease the resources available for PBS and/or any ‘multi sector’ BS PBO which would succeed PBS2. It also limits the extent to which AfDB can reallocate unused funds (when a joint decision is made to do this due to long delays in ongoing projects or desirable change in the portfolio) to be used for ongoing PBOs, as was the case recently for PBS2 even though there was a joint GOE-DP agreement that additional financing for PBS2 was much needed. More generally there are DPs strongly advocating that as one of AfDB’s comparative advantages is the provision of large-scale PBO financing with less political conditionality than other DPs, the 25% cap is not appropriate. GOE is of a similar opinion. Not all DPs concur with this view, though this is mainly due to divergences of opinion on the legitimacy of BS as an apolitical instrument.

C5. **Knowledge sharing** does not seem optimal between ETFO and HQ. In particular, locally recruited experts found that there was no repository of knowledge in critical areas such as PFM, which they could call upon, other than on-the-job learning through drawing on the long-standing knowledge of the Senior Economist. **Result monitoring systems** have not played a strong role in the design and delivery of PBOs. For instance, recommendations for greater realism in identifying structural reform conditionality in SALs and PRSL were not heeded, but they also came very late as PCRs and CSP evaluations were done late (for instance PCRs for the 2003/04 SAL2 and 2004/05 PRSL were completed end 2008). It seems that it is only with the PBS that the AfDB has come to realise the importance of a genuine GOE/DPs consensus on the policies supported by PBOs, and this did not arise from lessons learnt as PBS was adopted because of the ‘de facto’ lack of an alternative. This trend may be changing. Among the points strongly raised in the PBS1 PCR (whose completion was reasonably timely) some appear to have been taken into account in the way PBS2 is delivered. E.g. ETFO is leading DPs in trying to streamline the dialogue around PFM reforms, presumably as a response to the PBS1 PCR criticism that PBS support to PFM systems lacked a systemic view; ETFO plan to recruit an M&E expert is a response to the PBS1 PCR emphasis on the need to strengthen the PBS sectoral M&E focus – although at the same time AfDB decided not to engage in the PBS M&E component. Other points appear to have remained unaddressed; notably, the decision not to contribute to the Local Investment Grant sub-component of PBS is not explained. On the one hand, the PBS1 PCR highlights the importance of a better balance between recurrent and capital spending at local level and advocates the use of separate traceable investment funding channels to address this, which is what LIG represents. On the other hand, this logic is questionable, and has indeed been questioned (see e.g. Dom, Lister et al 2010). Yet the Bank’s PBS2 documentation remains oddly silent on the issue.

#### **E. How well has AfDB matched the PBO to the needs and situation of individual RMCs?**

E1. What steps did AfDB take in the PBO operation to analyse the problems and understand the political context and level of stakeholder support? Who was consulted in the appraisal and design phase?

E2. What actions did the AfDB take to effectively appraise PBO operations to identify the key policy options and constraints on growth and poverty reduction?

E3. Was fiduciary risk systematically assessed and compared to potential benefits of PBO? What did this involve?

E4. Was AfDB appraisal work typically based on sufficient knowledge of recipient countries and take into account past reform experience?

E5. How flexible has AfDB been in appraising and selecting the PBO instrument and conditions to match the local context?

E6. Have PBL log frames provided a coherent and robust basis for tracing results and measuring outputs achieved?

E7. To what extent did the design of PBO impose additional reporting and accountability requirements on the partner Government? Was the design informed by prior discussions with the RMC and with development partners already contributing to the PBO?

#### **Answers**

E1. Analyses of the **local political context** became more important with the 2005 elections. Before this, such analyses were very light in AfDB appraisal documents (no mention of 'politics' in SAL 2, focus on economic governance and justice sector for its role in economic growth primarily; similar in PRSL, with an additional 'light touch' emphasis on decentralisation presented by GOE as a means to democratisation and the need for capacity at decentralised levels). The risk assessments focused on the regional political context rather than the in-country context; no political risk is foreseen in the PRSL1 appraisal. The 2005/06 political crisis took everyone by surprise – so in the second half of 2005, the WB put their PRSC3 on hold, AfDB stopped preparing a PRSL2 and other BS donors were in a similar situation. The analysis of the local political context in the AfDB PBS documents is more substantial though not original. This is not unique to AfDB and may be seen as a corollary of the move toward increasingly harmonised DP operations, in which analyses are undertaken by those with most capacity and shared with others. The analysis in AfDB documentation is also 'lighter' than similar analyses found in other DPs' documents (including WB). In 2006 for PBS1 the local political context is said to represent the most important risk to the programme. This shifts somewhat in 2008 and political risks are said to be less important than macro-economic shocks in the PBS2 documentation, though not absent. This reflects a similar shift of emphasis in the WB and EC documentation.

It is not clear how the AfDB 'makes its own mind' about the local political context, other than relying on others' analyses. The relationship between government and non-government actors has been a critical issue for DPs since the 2005 election, which prompted the inclusion of a component specifically focusing on the 'demand side' of local governance/accountability for service delivery in the ongoing PBO. However, owing to what the AfDB describes as its apolitical mandate it is not close to and is seen as marginally interested in non-government stakeholders (with some exceptions for the private sector), in contrast with other donors making a concerted effort to get the perspectives of and to support non-government actors, notably through participating more actively in the PBS social accountability component (including WB) and in supporting civil society through other means/parallel operations (multi-donor Democratic Institutions Programme, Civil Society Support Programme, monitoring of the CSO law passed in 2009 – seen by most DPs as fairly restrictive).

The AfDB does not participate in the DAG governance TWG. It has a lead role in the NEPAD APRM process and an Ethiopia APRM report was completed in January 2009, which was criticised for the lack of involvement of civil society in its preparation. The report highlights a number of points of contention between GOE and political opposition movements and it reports the post-2005 election developments and the various interpretations of the role of the ruling party and GOE in handling those – although it does not take any side. There is disconnect between the NEPAD APRM process and the GOE-DPs dialogue (or lack thereof) around governance – a disconnect which is acknowledged by AfDB representatives in Ethiopia although it is not unique to this country.

The AfDB prepared its own country governance profile (in 2009), which includes a relatively frank assessment of the situation as of 2008. It replaces a profile that had been prepared in April 2005 and was withheld with the occurrence of the 2005 post-election troubles (not foreseen as noted above). It has not been updated since August 2009 in spite of continuous fluidity in the local political context (e.g., the strength of the ruling party and extreme disarray of the opposition in the 2010 election again took everyone by surprise), and serious concerns raised by some DPs in relation to human rights (based on a HRW report dismissed as baseless by GOE). Other DPs are not necessarily more active/ continuous in their governance assessment – but probably more in synch through their involvement in the CS-focused operations just mentioned. The AfDB governance profile (2009) came out later than a number of other governance assessments conducted by other DPs following the 2005/06 situation, and does not include any original material. It is not known by other DPs active in the governance area. Given the prevailing tense political context and uneasy relationship between GOE and DPs concerning political governance, the use of DPs' governance assessments is not institutionalised. More critical assessments are not widely circulated and not shared with GOE. Studies with political governance implications that are shared have to be turned in such a way that they are found acceptable by GOE. For instance, the 2010 'distortion study' (as it came to be known), undertaken by DPs collectively and at DAG level as a response to allegations of politically-motivated distortion of aid, was shared with GOE but in the views of some DPs, was in the process curtailed in its assessment of the situation. The AfDB did not play any particular role in the processes around this study and the dialogue with GOE.

E2. Analyses of **growth and poverty reduction options and constraints**: SAL2 (like SAL1) co-financed the same reform programme as the WB, IMF and some other DPs. AfDB representatives explain that the then AfDB Country Economist (based in Tunis), who had been involved with Ethiopia since the fall of the Derg and so had a robust understanding of the country context and reform priorities, was working closely with WB and IMF teams at the time and so, already in SAL2, he was able to influence the content of the reform programme in some areas. The evaluation team has not been able to triangulate this. After this the ETFO took a greater role. From 2001, AfDB and other DPs' analyses of growth/ poverty reduction options and constraints also reflect and respond to the GOE's analysis of these issues

(I-PRSP, SDPRP, PASDEP). Throughout this latter period, whilst it may be the case that the AfDB influenced the details of conditionality in some areas linked to AfDB CSP priorities and drawing on some AfDB non-PBO activities, the AfDB analyses appear to have mainly relied on other locally available analyses (including WB and IMF documentation). Later still, as noted above the AfDB is seen to have been very little involved in the preparation of PBS1 and hence in the analysis underpinning the PBS focus on the protection of basic services as a major option for DPs to continue to support poverty reduction. For the PBS2 there is much similarity in the deepening of the analysis found in the documentation of AfDB and other DPs, and it reflects analyses made available in the meantime by GOE, e.g. on the extent of regional inequalities etc.

In contrast with e.g. the WB ESW on Rural Investment Climate (2009) and its earlier Country Economic Memorandum (2007), so far the AfDB has not produced original analytical work on growth options and constraints. GOE has indicated that the financial sector diagnostic carried out in the recent past was not particularly original, and the IMF reportedly discovered this piece of work 'by chance'. The AfDB is engaging now in ESW in areas that could be picked up in a macro/structural reform instrument if it was decided to return/reintroduce one (energy sector, competitiveness). This is said to be coordinated with the WB's ESW pipeline.

More generally there does not seem to be a strong in-country system in place for GOE and DPs to jointly manage analytical/ESW work in relation to growth and poverty reduction, whether in the context of (joint) PBOs or more broadly. There seems to be a lack of joint identification mechanisms, or insufficient links between existing mechanisms that may exist under the DAG sector/ thematic groups and/or under the large-scale multi-donor programme groups; these groups are anyway relatively weakly interlinked and to some extent overlapping. On the other hand, there is unclear and 'de facto' restricted circulation of pieces of work that could be relevant (e.g. an education PER 2010, financed by the GEQIP donor group; or an analysis of decentralisation 2010, financed by WB in the context of the PBS1 PCR, are not widely known among PBS DPs). The DAG is restructuring itself, which hopefully should address some of these more general coordination issues which negatively affect the overall capacity of DPs in Ethiopia to generate knowledge on growth and poverty reduction options.

E3. The issue of **fiduciary risks** only emerged with the shift from BOP (SAL2) to BS (PRSL), in 2004. Throughout the BS period AfDB has relied on joint analytical work as the only basis for **its fiduciary risk assessments** (2002 CFAA and CPAR, 2005 IFA, 2007 PEFA and 2010 PEFA), checking that recommendations were integrated in GOE action plans for PFM reforms (known as Expenditure Mgt and Control Programme/EMCP, active since 1997/98) and relying on joint fiduciary risk monitoring mechanisms in the course of BS programme implementation (notably, the Joint Budget and Aid Management reviews in place since the start of the PRSL in 2004/05). The AfDB participated in all these joint assessments though it did not finance any of them. In its earlier PBOs (SAL2 and PRSL) the AfDB had conditions directly addressing some of the fiduciary risks, such as the elimination of years of backlog in the production and audit of federal and regional annual accounts. The AfDB contributed to some of the annual PERs that were undertaken prior to the JBAR (e.g. in 1999) and was instrumental in promoting the re-orientation of government spending toward pro-poor programmes in the early 2000s through conditions to this effect in its SAL2 and PRSL.

In the PBS the AfDB is seen by other DPs as comparatively 'close to government coffers' as it disburses its PBS 'earmarked budget support' funding directly to a special account managed by GOE and not through the MDTF managed by the WB like other PBS DPs. Moreover, in contrast to the WB (having had to classify the PBS as a SIL) and MDTF DPs (using the same PAD as the WB), which explicitly condition PBS disbursements to quarterly submission by GOE of agreed IFRs and FMRs (i.e. more like a project modality), the AfDB's conditions in PBS1 and PBS2 do not focus directly on this financial reporting. Presumably, serious lack of progress would be reflected in a statement of unsatisfactory conclusion of the PBS joint review, which would then in principle block AfDB's disbursement. This has not been tested thus far. Indeed these differences in AfDB modalities have allowed the AfDB to disburse whilst other DPs had to delay, and have therefore contributed to greater predictability of the AfDB PBS funding. This [reliability] could be a key element of AfDB comparative advantage, and is indeed appreciated by GOE. In contrast, some DPs criticise AfDB's prompt disbursements – although not all do so, and criticisms were not always linked to the seemingly more relaxed attitude of AfDB with regard to potential fiduciary risks (see below). On its side the AfDB argues that considering the budget support nature of its instrument, its modalities are logical and candid and that their main interest is whether overall progress is made with the PFM reform, including with the PBS-supported PFM reform and FTA activities. The PEFA 2010 demonstrates progress since 2007 and an ensuing reduction of fiduciary risks. The PBS is designed to further decrease these through its components focusing on aspects of the PFM reform which the AfDB is funding. Moreover the AfDB is a fairly active participant in the dialogue/review architecture around PFM reforms and therefore has direct opportunities to monitor progress or lack thereof. In contrast, it is not engaged in the social accountability component of PBS – which is criticised by some DPs. As noted above the AfDB did not play any particular role in relation to the study on

(politically-motivated) distortion of aid. In relation to **sector support**, fiduciary issues are unlikely to have been the main reason why the use of sector PBOs seems not to have been considered thus far (see below).

**E4. Understanding of context and past experience** – Notwithstanding the above which suggests that AfDB relied significantly on work by other DPs, the AfDB appears to have had a reasonable understanding of the context, including when comparing it to other DPs (e.g. the 2005/06 political crisis was unforeseen by all DPs). However, this seems to be relying on key individuals (in particular the Country Economists based first in Tunis and now in country) more than on institutional experience. The evaluation team could not assess whether and how local staff understanding of the context is used but notes that a number of them expressed quite bitter feelings of frustration. As noted above institutionalised lesson learning was limited by the fact that PCRs tended to be carried out very late (e.g. the PCRs for SAL2 and PRSL were completed at the same time as the PCR for PBS1). The AfDB also seemed to face difficulties in operationalising its understanding of the context and past experience – which may be related to the current dominance of HQ in decision-making. Clear examples of this were given by GOE in relation to project operations. In relation to PBOs, the AfDB insistence on conditions similar to ones that had been problematic in earlier operations suggests an inability/ unwillingness to recognise that conditionality was not working in “buying reforms” in areas of controversy with GOE. There is greater recognition of this now (i.e. GOE does not bow to pressure), but at the same time it is not entirely clear that the AfDB – and other DPs – now contemplating a possible return to/reintroduction of GBS, have fully recognised the implications of this newly gained understanding.

On the other hand, AfDB’s later move toward more fully harmonised instruments suggests an ability to recognise that DPs as a group might have more traction. In particular, the move to PBS, which in many ways was unnatural for AfDB, was based on a sound understanding of the then current country context. Other DPs note that, had it decided to continue to provide GBS on the grounds of its apolitical mandate, AfDB would have ‘spoiled’ DPs’ collective response, with potentially harmful implications in terms of weakening the ‘stick and carrot’ message that PBS was trying to deliver to GOE whilst continuing to support poverty reduction.

**E5.** The AfDB has demonstrated an increasingly **high level of flexibility** in appraisal and design of its ‘general’ PBOs, moving from stand-alone preparation, appraisal, implementation and review of PBOs nominally co-financing the same reform programme, to joined-up preparation, coordinated appraisal processes and near fully harmonised design with PBS2. Earlier operations were nonetheless rather inflexible in including unrealistic conditions – leading to long delays in disbursements in SAL2 and PRSL, for instance, with undesirable macroeconomic and budget financing effects. As noted above this relative flexibility is put in stark contrast with the lack of flexibility of AfDB rules and procedures with regard to its project lending operations.

Whilst pointing at AfDB lack of flexibility in the management of project operations GOE appreciates that in other instances it can be understanding and flexible and mentions as examples: (i) AfDB alignment of its CSP cycle with the country planning cycle (AfDB’s next CSP will cover the same 2010/11–2015/16 period as the new GOE Growth and Transformation Plan), unprecedented among DPs; (ii) its rapidity in responding to the food crisis and other macroeconomic shocks in the past two years. GOE officials appreciate AfDB PBO funding’s relative flexibility and the fact that it does not use ‘implicit political conditionality’.

**E6.** In the **log frames** of earlier operations (SALs) which included specific conditions linked to the PBO focal areas the link between AfDB ‘inputs’ (conditions attached to financing) and immediate results (actions taken to meet the conditions – e.g. privatisation action plan prepared) was easier to identify. The link between immediate results and broader policies (e.g. PSD) was more tenuous, and it was not systematically unpacked and measured. So for some focal areas the log frames jumped from outputs to broad objectives/outcome indicators (e.g. GDP growth rate and poverty reduction indicators) which could be influenced by myriad other factors than AfDB PBO inputs and outputs. PCRs usually glossed over this attribution issue. This also meant that one critical element in the links was overlooked that is, the extent and genuineness of GOE commitment to the underlying policies (e.g. PSD, change in land tenure regime, financial sector reform).

With the ‘principle-based’ PBS the (input-output) link is more difficult to establish because (i) GOE adherence to the principles (outputs) arises from the joint DP support/pressure, not AfDB alone so AfDB contributes but attribution is not possible; and (ii) AfDB funding is ‘diluted’ in the joint PBS-GOE block grant transfers to sub-national governments, and its other inputs are also ‘diluted’ in DPs’ joint support to jointly agreed work plans (e.g. joint work plan for rolling out financial transparency and accountability measures), hence the effects in terms of increased funding, increased provision of services and increased local accountability (which have been demonstrated, see PBS1 PCR and the WB 2010 PBS1 ICR) are ‘diluted’ too, i.e. AfDB inputs contribute but attribution is not possible. Moreover, the link between outputs and the broader outcomes is again a matter of contribution and not direct attribution as PBS has supported and helped strengthen existing



GOE policies (decentralisation, decentralised service delivery, decentralised accountability) rather than changing them. PBS may have influenced how these policies have been implemented through strengthening some systems (see below) and AfDB has contributed to this. Generally these issues of attribution/contribution have continued to be weakly addressed in AfDB documentation – although again this is also the case in other DPs' documentation.

**E7. Additional reporting and accountability requirements** For SAL2 there were onerous import-related reporting requirements: an earlier request for these to be simplified considering the weak capacity of GOE was not heeded. Since the PRSL most AfDB requirements have been aligned with those of other BS DPs. In PRSL these revolved around progress with the 'DBS policy matrix'. AfDB had specific conditions that required specific details for those (e.g. a condition of completion of an external audit of the Development Bank of Ethiopia required AfDB to be provided with a copy of the audit report) but this was at the time common practice among DPs so not unique to the AfDB.

For PBS there is no major additional reporting compared to other DPs and as noted above, AfDB requirements are rather less 'detailed' than those of the WB and MDTF DPs. By (joint) design, PBS has 'reporting and accountability' requirements that went beyond what GOE systems were initially able to provide (consolidated quarterly financial reports on sub-national spending, continuous audits, FTA measures) but these are basically requirements that the federal government is constitutionally mandated to exercise. In this sense PBS requirements contributed to strengthening the country's PFM and accountability systems by using them, as well as through specific activities and funding to this effect in the PBS component 3/C. However, transaction costs are significant. The PBS operation together with an increasing number of other operations using GOE funding channels (the so-called Channel 1 programmes) have required the establishment of a dedicated 'coordination unit' in MOFED to ensure that all undertakings agreed to and reviewed in the context of these programmes are effectively completed. Whilst the main funds flow of PBS is fully 'on-budget' there are constraints in using GOE automated reporting systems for the type of in-year reports required by the programme, and the entailed workload is compounded by a similar workload for the other 'Channel 1' programmes. PBS social accountability component was 'additional' and its degree of ownership by GOE has been more of an issue. AfDB is not involved in this component – which is seen as a missed opportunity by some DPs.

For the PBS 'earmarked budget support' funding component AfDB continues to use a separate special account feeding into the GOE consolidated account instead of the joint pooled sub-account used by a number of other PBS DPs contributing to PBS Component 1 and so to require separate auditing of this account.

#### **F. How efficiently and effectively has AfDB planned and designed PBOs?**

F1. How are allocations for PBL made within the AfDB and country programmes?

F2. What are the key design features of the PBOs used?

F3. How does the approach to PBO design compare with other major providers such as the World Bank?

F4. What have been the trends in the use of multiple or single tranches?

F5. How has the approach to conditionality evolved over time and how did AfDB seek to exert policy leverage? Have current conditionalities been informed and shaped by discussions with the RMC?

F6. How effectively has AfDB dealt with non-compliance with PBL conditions by partner countries?

F7. What steps were taken to ensure that the monitoring and reporting requirements of PBOs were appropriate?

F.8 Has there been an adequate M&E framework in place? Is it aligned with other development partners and designed in consultation with government? Have lessons learned been fed back into PBO design?

#### **Answers**

F1. The main **influence on allocations for PBOs** is the 25% cap on PBO lending within the ADF as a whole (PBO lending cannot go over 25% of the total). Within

this framework there is not a lot of clarity as to how the PBO envelope is allocated to different countries. CSPs have a role to play but it is unclear how – as CSPs are not prepared at the same time for all countries. In GOE there seems to be an understanding that the 25% cap is applied to individual country envelopes – and so as AfDB country envelope is much smaller than that of IDA for instance, this strongly limits AfDB's ability to provide PBO funding, which GOE would want to be at a higher level. In the case of Ethiopia the CSPs have mentioned amounts that were planned to be committed through PBOs – but considering the relatively staggered process of CSP preparation (with gaps between CSPs covered by ex post extensions of CSP periods) it is not clear whether it is the CSPs that provided the basis for the amount fixed for PBOs, or the other way round, i.e. CSPs reflecting decisions already made about the eligibility of Ethiopia for a certain amount of PBO resources (how this amount was fixed is not explained in the CSPs).

The cap is one of the factors leading AfDB and GOE to not seriously consider the use of sector PBO as this would decrease the resources available for 'multi-sector' PBOs. Even reallocation of funds within the country envelope is subject to the overall cap and this negatively affects AfDB's ability to be responsive to GOE requests and to maximise the effectiveness of its funding. E.g. in 2010 the GOE requested AfDB to reallocate funds (unused under under-performing ongoing projects and earmarked for an infrastructure project which GOE asked AfDB not to pursue) 50% to PBS and 50% to other activities. Because of the cap AfDB had to decrease the proportion of funds reallocated to PBS below what had been requested by GOE, even though progress with PBS implementation has been consistently rated as satisfactory by AfDB and the group of DPs, and PBS2 was known to require additional financing from the outset and this had been endorsed by the IMF. MOFED officials perceive that if they had gone to the Board earlier they might have been better served ('first come first served').

F2. There were **two major shifts in key features** of the AfDB PBOs in Ethiopia – which followed (usually with a time lag) similar shifts by other DPs (notably WB, EC and a number of 'BS/PBS bilateral donors'). The first was (in 2004/05) a shift from stand-alone BOP instruments focusing on macroeconomic and structural reforms (SAL1 and SAL2) as well as some governance and budgeting reforms (SAL2), nominally supporting the same overall reform programme as IMF and WB, to joint BS operations (WB PRSCs, EC DBS, DFID PRBS etc. simultaneous with the AfDB PRSL) supporting a policy matrix extracted from the country's PRSP matrix. There was greater harmonisation as the AfDB joined a number of joint BS mechanisms (DBS policy matrix, joint reviews etc.). The AfDB PRSL had its specific focal areas and conditions, as was the case for other DPs too and was then deemed acceptable as long as conditions were extracted from the PRSP policy matrix.

The second shift (which occurred in 2005/06 following serious deterioration of the political context after the June 2005 elections and the collective suspension of BS) saw the AfDB join the group of donors that agreed to use an alternative instrument, the 'PBS'. The PBS focuses on a 'self-contained' sub-set of priorities in the GOE policy and strategic national development framework: the protection/ expansion of transparent and accountable decentralised delivery of basic services by sub-national governments. The PBS has several components, of which the largest is the provision of funds co-financing the inter-government fiscal transfers from Federal to regional and sub-regional levels but otherwise unearmarked, and provided against compliance with agreed tests (PBS1)/adherence to agreed principles (PBS2) pertaining to the functioning of the fiscal transfer system, and transparency and accountability for and effectiveness of service delivery.

This is best described as a shift from a conditionality-based instrument focusing on macro/structural/growth-oriented reforms, with some emphasis too on 'macro' governance issues, to a principle-based instrument focusing on a welfarist agenda, with some attention to the macroeconomic context, and emphasis on 'micro' transparency and accountability issues.

F3. The shifts just described were **similar** to those undertaken by the **WB and other DPs** involved in either BOP or BS. The AfDB was usually not at the forefront of the shifts (e.g. SAL2, which took longer than planned, overlapped with the WB budget support PRSC1; the AfDB PBS1 loan was appraised simultaneously with the first review of the joint PBS for which WB and DFID had already disbursed in the previous FY and earlier in the FY 2006/07).

To this date there has never been full harmonisation among DPs although the extent of harmonisation achieved is remarkable considering the uneasy political situation since 2005. Outstanding differences between DPs arise mainly from their different positions with respect to the centrality of political governance as a criterion for the provision of BS support. So, not all DPs provided GBS; some DPs which were providing GBS did not join the PBS group (e.g. Sweden); within the PBS group some donors do not provide funds for the largest 'decentralised block grant' component (Component 1) precisely because it is so similar to budget support (Canada, Netherlands, Italy). AfDB is part of the group of DPs financing PBS Comp1, together with WB, EC, DFID, KfW, Spain and Irish Aid. AfDB has its

specific menu in the PBS: it supports the components 1/A (decentralised block grant) and 3/C1 (support to financial transparency and accountability) but not the components 2 (provision of health commodities through earmarked pooled funding) and 4/C2 (social accountability). It also does not support the new M&E component (in PBS2) and the new pilot 'local investment grant' (LIG). The WB supports all components except Comp2 though it manages the MDTF supporting it. DFID supports all components except Comp2. The EC supports Comp 1/A, Comp 4/C2 and the new M&E component. Overall, different interpretations of the situation with regard to political governance and/or different responses to it prevail even among bilateral DPs and between them and the EC. Country teams and HQ have had different roles/weights in these political assessments (e.g. in the case of Canada the country team deemed that it would not even request HQ permission to join Comp1 whereas the Swedish country team has grown quite frustrated because of the increasingly 'tough' stance of their HQ).

In addition, the PBS instrument was **classified differently** by different DPs. For the WB it is a SIL hence following project investment lending modalities; it also is a project for the EC, using 'ways round' its quasi-BS nature similar to the WB; it is BS for DFID – although the country team stresses the centrality of PBS 'safeguards' (the framework of principles, IFRs, continuous audits and reviews, and sufficient progress to be made with the transparency and accountability measures) as a major difference from GBS. After internal debate the AfDB classified its PBS PBO as 'earmarked' (to decentralised authorities) budget support. This has implications in terms of nature of engagement. E.g. the WB is engaged in more detailed transactions such as checking the submission of IFRs for all funds etc. The classification as a project has also led to PBS being considered as earmarked 'nominally' to recurrent sub-national spending for the WB and the EC. This does **not** apply to AfDB funding, which is explicitly stated as supporting both recurrent and capital spending at sub-national level (PBS1 appraisal document). DPs (including AfDB in its PBS2 appraisal documentation) have repeatedly raised concerns that in practice most of the block grant funding at district level is consumed on recurrent costs and mainly salaries. This has led the WB to introduce a separate LIG component which as noted above the AfDB does not support.

While PBS has now been recognised as having value in its own right, over the past two to three years there has been an ongoing debate about a possible 're-introduction of GBS'. The AfDB is among the DPs considering options for this as is the EC. There is no harmonisation among DPs about (i) whether this would mean reverting to GBS or reintroducing it in parallel with PBS; (ii) what would be the scope/ focus of a GBS instrument (how 'traditional' or 'innovative' and what exactly 'innovative' would mean); (iii) whether reintroducing GBS would be 'desirable' at this point in time (bilateral donors challenged this, which is an issue for the EC; in the WB there may not be 100% consensus but some officials suggested that for the moment continuing with PBS was not in doubt); and (iv) what criteria should be used to assess the desirability of GBS (regaining a space and potential ability of influencing policy in areas 'out of reach' with PBS – which is AfDB's and EC's concern, vs. progress in political governance – which is the main criterion for bilateral donors and EU MSs in particular).

The AfDB's own position reflects this uncertainty. The country team has yet to work out a common position on this issue. On the one hand there is recognition that the PBS has value and 'has worked well'. On the other hand there is a perception that it focuses on areas that are not AfDB's comparative advantage (with the exception of PBS focus on decentralised financial management governance issues); and that there is a great need to reinstate a (better) dialogue on the growth agenda and an instrument to support this. The issue is highly topical as the government has unveiled its next five-year 'Growth and Transformation Plan', the country is again under an IMF programme (under the Shock Facility) after several years of Art IV consultation without an IMF-led reform programme, and the AfDB (and several other DPs) are undertaking the preparation of their next CSP (or equivalent). The assessment of pros and cons is biased by the 'cap issue' – in the sense that ETFO would otherwise see a case for AfDB to continue to support the PBS and at the same time 'incentivise' growth-oriented reforms through a complementary instrument. Yet, it is not clear at this stage that GOE want a return to GBS. Senior officials have expressed the view (i) that GOE is comfortable with PBS and its preference for it to be continued is understandable considering its good track record as a reasonably predictable instrument capable of channelling large amounts of funds well aligned with GOE's own priorities and commitment to the MDGs and with an ability to support five sectors at the same time, and (ii) that their only concern is to get more and more effective funding for large-scale infrastructure development.

**F4. Tranching (and predictability):** SALs were multiple tranche operations (with long delays affecting the disbursement of second tranches, mainly linked to difficulties with conditions identified at the outset for all tranches). As the BOP support was not financing the GOE budget there was limited (if any) attention paid to linking tranche disbursement to fiscal years. The PRSL was a single-tranche operation and there was supposed to be a series of such operations that would channel BS funds programmed for specific fiscal years; the series was stopped after the first such operation (as DBS was replaced by PBS as a collective response by the BS DPs). The AfDB single tranche was disbursed very late in FY2005/6, which was also linked to the time needed for GOE to meet the conditions. The shift

from multiple tranche multi-annual instruments to single tranche annual instruments followed a similar shift by the WB.

The AfDB PBS loans are multi-annual operations – as is the case for some other DPs (including WB and EC) but not all (e.g. DFID had to adopt a policy of annual commitments following a negative assessment of the political governance situation at the end of PBS1). The disbursement triggers are of a very different nature which makes it less likely that PBS as a multiple tranche instrument would create the same difficulties as with earlier PBOs. The AfDB PBS1 was disbursed in two tranches per year; in PBS2 the AfDB frontloaded funding and disbursed two tranches in the FY2008/09, which was agreed with GOE, all PBS DPs and the IMF as a contribution to macro-stabilisation, and one tranche in FY2009/10. Overall the PBS design would now lend itself to annual tranches as joint review missions are now bi-annual (a decision taken considering the good progress made in the initial years of implementation of PBS and GOE's argument that there was a need to decrease the transaction costs associated with the earlier design of four reviews a year), but the timing of tranche disbursements is not yet well aligned with the GOE budget financing requirement cycle (see WB PBS1 ICR, June 2010).

Indeed GOE officials highlighted that insufficient within-year predictability of PBS disbursements greatly complicates GOE and NBE quarterly programming of government budget financing and of the use of foreign currency, with implications for the economy at large. This is also affecting GOE ability to meet IMF targets with regard to forex reserve levels, credit to non-government sector and government budget financing, under the IMF programme which has been in place since early 2009. The reasons for this are multiple. However, AfDB disbursements have been prompter than other DPs once triggers have been met. This is partly because AfDB avoids the administrative cumbersomeness of channelling funds through the WB-managed MDTF, and it has allowed the AfDB to disburse PBS funding within the FY for which they were programmed – which is not the case for some other PBS DPs. For the AfDB between-year predictability has drastically improved with the PBS compared to its earlier operations and this is appreciated by GOE. As noted above, the facts that the AfDB can commit resources for several years, has relatively 'easy' disbursement triggers, and does not use 'implicit political conditionality', contribute to this. In PBS2 the WB and other DPs have in principle agreed to a clause which should guarantee better predictability (no within-year cut and funding levels based on previous year's achievements) – but this clause does not appear to be known by GOE and does also not appear to be consistent with ongoing DP practices. Somewhat ironically considering the AfDB good performance in relation to predictability this clause is not reflected in the AfDB PBS2 documentation.

F5. In earlier AfDB operations (SAL and PRSL) **conditionality** focused on macro/structural reforms and some budgeting/PFM reforms. Conditionality was a major means of influencing policies in AfDB PBO focal areas. AfDB also provided TA to support the privatisation process, and investment lending to a programme focusing on strengthening rural finance intermediation services (RUFIP), which provided some analytical underpinning to its conditions on privatisation and financial sector reform. It supported PERs that provided a basis for its budgeting conditionality. In other areas (e.g. PFM/fiduciary) AfDB relied on joint DPs' work/assessments. Some of the conditions were fulfilled after long delays (notably in relation to land tenure, privatisation, PSD including in agriculture, and financial sector reforms). With the PRSC series/DBS, DPs initiated the practice of joint high level dialogue focusing on a joint BS policy matrix that included the areas in which AfDB was particularly interested. These more joined-up dialogue modalities did not provide markedly more leverage to DPs (and AfDB as part of them) on a number of sensitive policy issues in the same areas. PCRs (prepared long after the date of closure of the loans) state that there was unrealistic assessment of the 'feasibility' of the AfDB conditions. On reflection, members of the AfDB country team involved in these operations and other DPs (including WB, see PBS1 ICR 2010) recognise that the main issue was lack of genuine consensus between DPs and GOE on the underpinning policies. Since then GOE has somewhat evolved in its position with regard to some of these areas but: (i) this is hardly related to BS-linked conditions as this shift occurred post-2005, i.e. in a period during which this type of conditionality was abandoned; and (ii) there continue to be underlying divergences with what would be the preferences of (some) DPs in some areas (e.g. agricultural marketing, land tenure, telecoms and financial sector reforms).

Conditionality in the AfDB PBS operations is joined up with other DPs, and is of a totally different nature linked to the nature of the instrument: PBS was characterised by one DP as a 'principle-based instrument'. The PBS 'tests' or 'principles' support and strengthen GOE decentralisation policy and its systems and processes of basic service delivery and local service delivery governance, including PFM reforms at sub-national government level. This is complemented by work plans and jointly agreed actions monitored from one review to the next. This 'conditionality framework' has been negotiated between DPs as a group, GOE and other stakeholders (civil society, Parliament, regional officials). All stakeholders are also involved in the continuous monitoring of the programme (participation of Parliament, regional governments, CSOs in the regular joint missions). Under PBS2 there is no longer any specific AfDB 'condition'. Triggers for disbursement are

satisfactory conclusion of six-monthly joint reviews involving checking adherence to the principles and completion of actions agreed at the previous review.

Again, the shift in the nature of the AfDB conditionality reflects a broader similar shift by other BOP/BS donors, and AfDB has not been at the vanguard of the shift. In SAL2 and PRSL there was evidence of AfDB's inability/unwillingness to recognise that conditionality was not working in "buying reforms" in areas of controversy with GOE, but this was not unique to AfDB. The AfDB decision to join other DPs in DBS first and then PBS suggests an ability to recognise that DPs as a group might have more traction than individually. However, the AfDB country team also highlights that the 'group effect' is not sufficient to explain the fact that PBS conditionality framework is working whereas it was not the case earlier on. Equally and likely more important is the shift in focus: PBS supports things that GOE wanted to do and is therefore effective.

As noted above and recognised by e.g. the WB, there continue to be 'no-go zones' in the policy realm, i.e. zones in which GOE is not ready to be pressured into reforms that it does not want to implement at this point in time. In these areas (notably PSD, land, full liberalisation of telecoms and of the financial sector) SAPs and macro-BS instruments were broadly unsuccessful. Some argue that at least there was a forum for DPs to raise issues related to structural reforms and that with the shift from DBS to PBS this forum has disappeared. This is quite correct, although there is no guarantee that recreating the same kind of forum would go any further in terms of influencing GOE or even in terms of dialogue, on the very same issues. One recent development is the fact that in the midst of the financial crisis GOE has requested IMF support and has undertaken a number of reforms under an IMF programme. This is seen by some as a sign that there could be scope for a return to a BS-like dialogue focusing on the 'growth agenda'/structural reforms. However, the IMF itself highlights that much more subtle forms of influence are required in Ethiopia, involving quiet advocacy based on high-quality analytical work presented as knowledge sharing and advice addressed to the relevant most senior level in GOE and 'avoiding publicity'. DPs would also need to demonstrate a readiness to understand constraints and the need to sequence reforms over a fairly long period of time. At senior level the AfDB seems willing to adopt such an approach and talks about how to support GOE with quality advice and 'peer learning opportunities'. Putting aside for a moment the debate around the use of GBS as a political instrument, there are views among DPs that the AfDB is not technically well-equipped to deliver the kind of top-quality advice required – and GOE officials, who have indeed stressed the necessity of quality advice for it to be considered, have expressed a polite 'wait and see' attitude.

**F6. Addressing non-compliance** with PBO conditions – For SAL2 there was a lack of supervision in spite of the very long delay in disbursing the 2<sup>nd</sup> tranche. SAL2 was concluded with almost two years of delay and with some of the conditions not fully met or with uncertainty on the data. PRSL conditions were fulfilled although also with delay. But the AfDB appeared not to have thought about cutting programmed funding. In contrast the WB decided to cut down its PRSC1 and PRSC2 funding in response to some of its conditions being unfulfilled.<sup>32</sup>

The PBS operations no longer talk about compliance with conditions but (i) meeting 'tests'/adhering to 'principles' and (ii) achieving jointly agreed undertakings. Tests/principles and progress in action plans are regularly reviewed; discussions and agreements as to whether reviews have been satisfactorily concluded are couched in joint DP-GOE aide-memoires (partnership approach). During PBS1 the AfDB had to request a waiver for the completion of a Quality Service Delivery Survey in health, which was one action among a list of between 50 and 75 actions in the PBS1 work plan but had been identified as a specific disbursement trigger. The fact that the AfDB decided not to delay its disbursement has to be analysed in the light of the arguments outlined above in relation to predictability, and the fact that progress was deemed satisfactory, overall. Under PBS2 there is no longer any AfDB-specific disbursement trigger other than satisfactory conclusion of six-monthly reviews. Aide-memoires reflect data issues which could have led to interpretations as to whether tests were met or not, stricter than has been the case. E.g. in a number of instances the data was insufficient to conclude with any certainty and parts of some 'tests' needed to be checked ex post. Smaller bilateral DPs perceive that there is some laxity and that 'the big donors' and notably the AfDB will usually push for relatively soft interpretations. Yet in the opinion of WB officials this is rather a sign of 'acting responsibly', considering the size and 'centrality' of PBS funding in GOE budget. This is an opinion shared by the IMF which insists that Ethiopia needs highly predictable sources of external finance and predictability is critical for programmes as large and as 'embedded' in GOE budget as PBS.

The AfDB is also perceived as keeping silent when broader 'compliance' questions are raised. On the one hand, as highlighted above there is no consensus among

<sup>32</sup> WB 2010 PBS ICR: "Because of disagreements, particularly over telecoms sector reforms, the Bank reduced the amount of PRSC I from US\$150 million to US\$120 million. Similarly PRSC II was reduced to US\$130 million because of inadequate progress on PSD. However, the resources were not lost to Ethiopia; the funds that were cut were added on to other operations."

DPs as to whether budget support should be used as a political instrument (as was done in 2005/06). The AfDB's absence in discussions related to allegations of human rights abuses (as has regularly been the case in Ethiopia) may be said to be in line with its apolitical mandate, similar to that of the WB, although it fits oddly with its supposed role in the NEPAD APRM process. In certain instances AfDB's lack of engagement is harder to justify and is interpreted by other DPs (especially bilateral DPs) as mere laxity. E.g. the lack of visibility of the AfDB in relation to the 'distortion study' mentioned above (undertaken as a response to allegations of political distortion in the use of aid funds, including PBS, in the run-up to the 2010 elections) is seen by some DPs as an indication that in contrast with what it claims the AfDB does not take advantage of its nature as an African institution (compared to e.g. the WB) and merely avoids any instance where it might have to convey tough messages to GOE – even though in this case the message could be justified on developmental grounds.

F7. Steps taken to ensure that **monitoring and reporting requirements** of PBOs were appropriate. See E7 above. SAL/PRSL operations were characterised by lax monitoring and reporting practices against requirements. Monitoring requirements were also unrealistic in terms of data collection for outcome monitoring (e.g. indicators of poverty reduction whilst the relevant surveys are conducted every five years only). Since then, monitoring requirements have been increasingly aligned with those of the BS/PBS group of DPs and negotiated with GOE in this context. In this sense they have been increasingly appropriate. PBS monitoring and reporting requirements are fully aligned with what should be the requirements of well-functioning systems of decentralised provision of basic services and so are also appropriate in the sense that they strengthen GOE systems and processes. The (joint) PBS2 design puts increased emphasis on M&E and in particular, on linking spending and basic service results. This is seen as an appropriate shift as the basic systems to track inputs (funding) are now in place.

F8. **M&E framework** – See E6 above on weaknesses in the chains of causality links made in AfDB log frames throughout the period (and that this is not specific to AfDB). In addition, M&E frameworks have been rather weak for SAL2 and PRSL in terms of actual monitoring activities. This (e.g. lack of supervision) contributed (together with unrealistic design in terms of reform requirements) to delays in disbursements/ implementation. The M&E framework of AfDB PBOs was gradually strengthened including through gradually closer harmonisation with that of other DPs through the PBS joint design.

Feedback/lesson learning loops (from one operation to the next and/or from broader corporate knowledge) appear to have been weak. The change in the nature of AfDB PBOs in 2005/06 (from 'somewhat imposed conditionality-based' to 'agreed principle-based' design) was not so much the result of lessons learned as that of collective DP pragmatism and commitment to the Ethiopian people when confronted with the 2005/06 unforeseen political developments. Ex-post, DPs and AfDB among them identified the lesson that BS-type instruments work better when they support consensus, although as noted above there continues to be unease with the implications of this lesson, including within AfDB. Other factors that have been important in better designing and implementing PBOs did not arise from change in Ethiopia but from broad corporate reform processes in AfDB. In particular, the establishment of the ETFO and its gradual (and still insufficient) strengthening made a big difference in the ability of AfDB to harmonise with other DPs, hence piggy-backing on joint and more appropriate M&E frameworks and better implementing these joint M&E frameworks through participation in joint reviews.

#### **G. What has been achieved by AfDB through the provision of PBLs?**

G1. What has been the disbursement record of PBL?

G2. What has been the record of achievement of policy targets set by the AfDB and agreed with RMCs?

G3. To what extent is AfDB perceived by partner governments and donors as playing an active part in policy dialogue and adding value to the process?

G4. To what extent has AfDB demonstrated to the donor community the benefits of PBL in new and difficult environments such as fragile states?

#### **Answers**

G1. **Disbursement record** of PBOs – The timeline diagram in Annex C (Figure C1) indicates that there has been a marked improvement in disbursement records, from SAL2 to PBS2. As explained earlier the shift in nature and in focus and scope of associated 'conditionality' frameworks of the PBOs (from BOP/BS poor dialogue and controversies about policy conditions to PBS consensus around principles) has been a major factor in this improvement. Year-on-year predictability of

AfDB PBOs has improved to the extent that PBO resources programmed for a particular fiscal year in one operation have been disbursed within that year. The 'dip' between PRSL and PBS1 has not been much longer than for WB and DFID and has been similar to other DBS/PBS DPs. AfDB has been able to move faster than other PBS DPs in the transition from PBS1 to PBS2 in 2009, and so to provide much needed foreign currency early: it went to its Board (earlier than the WB) as soon as assurance was given by the IMF that this was the thing to do, whereas other DPs stalled the process longer as they also wanted assurance from GOE that the controversial CSO law would not affect the implementation of the PBS2 SA component. AfDB disbursements cannot yet be accurately programmed on a quarterly basis. There is also no change in medium-term predictability as there is no certainty as to how much PBO resources will be available for Ethiopia under the successive ADFs, and as noted above, there also is uncertainty about the type of PBO which AfDB might use in the future.

These trends/features are not unique to AfDB. Other DPs' disbursement record has been similarly moving toward better alignment with GOE budget planning and resource programming annual cycles although other DPs have been less good in both their year-on-year and within-year disbursement record, due to the practice of linking disbursements to political governance issues and for MDTF DPs, lengthy administrative procedures linked to the channelling of their funds through the WB-managed MDTF. Other DPs have been similarly unable to commit for more than 2 or 3 years at a time, at best. Taking the 'PBO DPs' as a group, the mixed progress in disbursement is linked to a mix of factors including institutional constraints like replenishment for IDA and AfDB and annual budget cycles for bilateral DPs, and more or less lengthy disbursement procedures. It is also underpinned by a sense of uncertainty as to whether even the PBS modality would be robust enough in case of (renewed/further) deterioration of the political governance situation (robustness meaning, insulation from disruption prompted by DPs' 'home constituency' or Board). In practice, the overall disbursement record has also been affected by DPs' concerns over macroeconomic stability and an initial lack of clarity in the relationship between IMF and PBS DPs when the IMF programme started. It is noticeable that whilst concerns over political governance have been a recurring issue ever since 2005, DPs have not developed any explicit mechanism of graduated response to potential crises/tensions.

**G2. Record of achievements of policy targets.** As noted above, achievements of 'policy' 'targets' has been much better under PBS – due to the fact that PBS supports/strengthens genuinely GOE-owned policy priorities. In SAL2 and PRSL, 'traditional' policy conditionality was a major reason for delays in implementing programmes. PCRs highlight that policy targets were finally met for most but this failed to lead to the definite and wholehearted change in GOE policy underpinnings which was the ultimate goal of the PBOs, as is now recognised by the AfDB country team. SAL1 was deemed to be one of the more successful structural adjustment programmes in Africa (in spite of long delays in implementation reportedly due to GOE lack of familiarity with import documentation requirements of the AfDB BOP modality) but it focused on a very basic macroeconomic stabilisation and structural reform package, establishing the foundations for a market-led economy in the immediate aftermath of the fall of the Derg and its planned economy model. Already, then, one major reason for delay in the disbursement of SAL1 second tranche was a more 'sophisticated' policy target related to privatisation. SAL1 was followed by a period of difficult GOE-IMF relationship. This was just over when SAL2 was prepared but should have highlighted that certain issues would need to be approached cautiously. Instead of which, policy targets continued to be ambitious, only to be met with long delays. Basically in the SAL2-PRSL period policy targets related to the "no-go zone" areas identified above were continuously problematic. Lack of capacity of GOE in implementing the policies may have played a role but underpinning ideological differences were no doubt a much more powerful factor in the problems faced in policy targets about privatisation (beyond small enterprises and including e.g. telecoms), land tenure, agricultural marketing and role of private sector, and financial sector reforms.

With PBS the picture changes completely. However, it is very difficult to ascertain how much of the 'PBS policy targets' have been met because of PBS, let alone because of AfDB as one of a group of DPs. Decentralisation, expansion of basic service delivery and focus on local governance were policies previously rolled out by GOE. PBS has strengthened their implementation by developing/strengthening systems and processes that are increasingly embedded in GOE ways of working (e.g. sub-national expenditure reporting, auditing, FTA and even SA to an extent) and by providing approximately one third of the rapidly increasing resource flows transferred to from federal to sub-national levels. PBS was not directly involved in important decentralisation policy changes such as refinements in fiscal transfer formulae – although it engaged with this issue by requesting to be regularly informed about these changes and so may have helped experience-sharing among Regions. PBS has not been visible in sector policy developments and whilst in PBS2 there is a new focus on linking sector spending and results, there is lack of clarity and consensus about how exactly (if at all) PBS should engage with sector policy dialogues. Some line ministries see PBS as irrelevant when it comes to sector policy objectives (e.g. ARD) or just able to provide funding for sector staff salaries. Sector DPs indeed tend to pursue policy dialogue primarily around other 'vertical' sector funding programmes (e.g. GEQIP, health MDG Performance Fund, AGP in ARD, and WASH in watsan). There are areas in which PBS might add

value (such as unpacking and discussing the implications of sector policies and targets for sub-national budgets on an **inter-sectoral** basis), but they do not seem to be clearly identified in the PBS2 design.

**G3. Value added of AfDB** in the dialogue. AfDB has been part of the BOP/BS group of donors all along. It may have had a more distinct identity under SALs due to its specific conditions, as opposed to PBS which implies that DPs speak with one voice. AfDB is now seen as part of the PBS group voice, it is more visible under PBS2 than under PBS1, and it brings to bear knowledge of individual country team staff members. Overall opinions are mixed. Some note that it still brings little by way of specific inputs in the elaboration of the group's voice proportionally to its financial weight and comparatively to some other DPs. Other note that it brings more value added than in the past and/or anyway, is no worse than some other PBS DPs in terms of value added. Limitations arise from both the smallness of the AfDB team on the ground and their lack of access to resources which would enable them to contribute more (through studies, analytical work and evaluative inputs). Their presence is appreciated, their lack of greater capacity deplored by other DPs, and ETFO staff alike.

DPs have divergent views about AfDB's contribution and value added in the 'high level dialogue' which goes beyond PBS but is seen as indispensable for securing PBS effectiveness. The AfDB is a member of the DAG and through the Res Rep it is involved in the DAG discussions. But it does not play a distinct role as an African institution and this is highlighted as a weakness by both DPs and GOE – although there is no consensus about what it would mean to play such a role and on what it should focus (e.g. economic governance vs. political governance or both; smart quiet advice vs. tough message etc.). There is a common view that 'AfDB does not have the capacity' and therefore is not able to do its homework but the TORs for this homework are not clear.

#### **H: What did AfDB set out to achieve by providing PBOs and what factors influenced the choice of modality?**

H1. Did the country strategy provide an adequate strategic and analytical framework for choosing an appropriate mix of aid instruments?

H2. Was there a clear link and consistency between country programme and PBOs objectives?

H3. What was the rationale for PBOs, the type chosen and the allocations made?

H4. What were the objectives (written and unwritten) and the expected outputs of the PBOs?

H5. How was the overall level of PBO determined within the country budget?

H6. How were choices between aid instruments made in practice and how was the overall level of PBOs determined within the country budget?

H7. Was the design of PBOs shaped to the specific institutional, economic and political context? Specify how.

H8. What other (unwritten) factors and incentives may have influenced decisions to select PBOs?

#### **Answers**

H1. **CSPs and mix of instruments** – In the 1999–2009 period CSPs were not prepared regularly (usually approved late i.e. well within the period covered, and extended ex-post). Generally, it is unclear how much the CSPs did frame the PBOs or whether PBOs were taken as a given factor as they were prepared as contributions to joint programmes in which other DPs had more of a lead, and therefore CSPs were framed around PBOs.

E.g. the decision to provide BOP alongside WB, IMF and others, was taken at the same time as a first 'pre-CSP' was drawn up in the early 1990s; since then providing BOP/BS has always been influenced by what other donors were doing and whether GOE was interested in AfDB providing this type of support (e.g. there was no such request in the 1996–2000 period which was also a period of difficulties with the IMF and this together with the war with Eritrea would probably have made it difficult for AfDB to respond to any request anyway). The CSPs of the late 1990s-early 2000s do not dwell on issues of choice of modalities in sectors, consider PBOs as 'multi-sector support', and do not dwell much on the specific objectives that PBOs would support. The last CSP (2006–08) does not discuss sector PBOs either. It was finalised simultaneously with the AfDB decision to suspend GBS and join the PBS. In this way there is close but 'ex post' alignment



between the CSP and PBS objective of strengthening governance. The CSP does not discuss alternative ways in which this objective could have been pursued (including e.g. through AfDB continuing to provide GBS); it merely reflects the only option retained at the time which was to align with PBS (decision gratefully acknowledged as positive by other PBS DPs), and at the time it was not yet clear that PBS would be categorised as earmarked BS (the CSP refers to AfDB providing support mainly through project instruments as all DPs have suspended GBS). The most recent decision to pursue with PBS2 and a request for additional financing was not taken within the framework of the CSP, as the CSP has been obsolete for almost two years. (It is currently being extended 'ex post' again, to cover the period up to December 2010; as noted above, this will also allow AfDB to align the CSP cycle with GOE macro planning cycle). Finally, whether AfDB will continue with a PBS3 and/or mix this with another type of macro-BS instrument or revert fully to such type of instrument is a decision which will be taken concurrently with the preparation of the next CSP, as well as whether it would be relevant and agreeable to GOE to develop a sector PBO in a sector like watsan for instance. In other words, discussions about the CSP and about mixes of instruments seem to have been of an iterative nature, rather than the former leading the latter.

**H2. Link and consistency between CSP and PBO objectives** As just explained, CSP objectives and PBO objectives have always been consistent in broad terms – as processes of preparing them were intimately interwoven and similarly disrupted and resumed following key events in the broader political and GOE/DP dialogue context in Ethiopia. As discussed earlier the nature of AfDB PBOs shifted twice in the 1999–2009 period and so did the PBO objectives: (i) from BOP (focus on macroeconomic stabilisation and structural reforms) to (joint) BS (same and additionally, greater focus on GOE budget policies and systems to align these better with poverty reduction objectives, notably through increasing budget allocations to pro-poor sectors); (ii) from there to PBS (focus on a subset of GOE budget and other policies and systems, monitoring of the macroeconomic framework but no limited direct dialogue and influence over it, and relegation of the structural reforms/growth agenda to the background). These shifts are to some extent reflected in the CSPs. However, links between AfDB PBOs and other activities planned in the CSPs have been relatively weak throughout the review period. In earlier PBOs there were some links between the PBO conditions and other AfDB activities (such as the links between conditions on privatisation, agricultural marketing reform and financial sector reform, and the privatisation TA, agricultural investment lending, and the RUFIP). Under PBS, as noted above the links with sector dialogue processes are tenuous, and AfDB has not been able thus far to address this for the PBS sectors in which it is also active through investment lending (ARD and watsan).

**H3. Rationale for PBOs, type chosen and allocations made** The rationales underpinning decisions to provide BOP, then BS, then PBS support were different and this reflects a similar shift in rationales for other contributing DPs. This shift in rationale was largely dictated by the local political and national planning context. However, the shift from BOP to BS in Ethiopia (from SAL2 to PRSL), and the associated shift/expansion of objectives (to consider government budget financing strategies in addition to macro/structural reform strategies), was also underpinned by a corporate shift.

With regard to sector support the rationale for not considering sector PBOs thus far seems to be a 'by default' one. Sector PBOs are not widely present in Ethiopia, AfDB does not have a tradition as a path-breaker in developing aid instruments, and GOE appears to be rather cautious in what it wants AfDB to do. GOE attitude with regard to SBS is cautious generally too. The EC has a road SBS but as a single donor operation. In this sector and in other large-scale investment sectors like rural electrification GOE has nothing against large-scale projects and says so overtly. In the education sector the GEQIP operation, which could be characterised as strictly earmarked and traceable SBS, has been developed at a time when the AfDB was desperately trying to close down highly problematic education and health projects; it is unlikely that AfDB would want or be asked to 'directly' re-engage in the social sectors. In ARD it is not clear that the past two years of dialogue will lead to drastically more harmonised modalities (in spite of initial high hopes); international experience has shown that it is not a sector easily amenable to sector-wide approach modalities; AfDB, which has to deal with an ongoing slow-moving project, does not stand out as having a strong comparative advantage in taking the lead through developing an ARD sector PBO. In watsan a sector PBO might make sense, considering that AfDB project modalities are ineffective and AfDB rules prevent them from joining a (more effective) project pooled funding modality. AfDB appears to have made proposals in that sense to GOE. As noted above there is a disincentive linked to the cap on PBO resources. GOE has also stated that it would first want to be sure that any new modality like a 'sector PBO' "à la AfDB" would indeed really be more effective.

More broadly, AfDB and other DPs are uncertain about how to strengthen sector policy formulation and implementation in the highly decentralised structure of government in Ethiopia. ETFO staff are very much aware of the necessity for aid instruments to be tailored to support the different mandates of the different

government levels (mandates that differ in different sectors, and are not defined unambiguously in certain sectors like ARD). The PBS does just this. Yet oddly enough, whilst it is therefore deeply engaged in all the sectors in which major responsibilities lie at regional and district levels (including the social sectors) it is disconnected from the explicit sector dialogues (like most GBS programmes generally have been elsewhere too) and so is not considered as a form of 'real engagement' in these sectors. This is a somewhat generalised perception among both GOE and DP representatives and certainly also among AfDB officials. Although the ETFO is now in the process of recruiting a social development/M&E staff member who would focus on sector results, it is not clear at this stage whether and how this will feed into the sector dialogues. More broadly, the team's discussions with line ministries suggest that the disconnect between PBS and sectors, supposed to be better addressed in PBS2, remains quite wide.

Until now (consideration being given to watsan PBO but very early stage) there has not been a question of fixing levels for different PBOs. See H5 for the determination of the overall PBO level.

**H4. Written and unwritten objectives of PBOs** – See e.g. H2 above for the written objectives. All along, an unwritten objective of AfDB PBOs has been to 'keep a seat at the table' through contributing to one of a few largest and most critical multi-DP programmes (now PBS and the Productive Safety Net Programme/PSNP). In doing so AfDB was mainly a follower and not a path-breaker. Expected outputs of AfDB PBOs changed in nature. Initially (SALs and PRSL) these were laws, regulations and action plans, measures indicating macro/structural policy changes (e.g. action plan for privatisation, privatisation of a number of enterprises, external audit of the Development Bank of Ethiopia), and outputs related to budget planning/ spending policies (e.g. shift away from defence to increased pro-poor spending) and to basic PFM reforms (timely closing and auditing of GOE accounts at various levels). Under the PBS, expected outputs are adherence to a number of principles framing fair and transparent functioning of the inter-government fiscal transfers and the provision of basic services, and specific actions supporting improved adherence over time and strengthening spending, service delivery and accountability systems and processes at sub-national level.

**H5. Determination of overall PBO level** – One set of factors influencing the determination of the level of AfDB PBOs is local. For BOP operations, there was macro-fiscal consideration of BOP projections and financing by other DPs; for BS there was in addition consideration of GOE budget financing targets; for PBS considerations were mainly focusing on GOE budget plans for basic services, overall budget financing strategy, and other DPs' planned contributions. Throughout the 2002/03–2009 period in particular, there was some debate between GOE and DPs feeling that GOE planning and hence financing objectives were too ambitious. However, the rationale for determining the AfDB overall PBO contribution is mixed anyway as any local discussion takes place within the framework of the overall 25% cap on PBOs in the ADF and the rather unclear way this is translated into country allocations. As a result, AfDB could not have responded to GOE requests for higher BOP/BS levels. As we have seen above (in the case of the curtailed reallocation of project lending to PBS) the 25% cap does in some instances act as an exogenous limit on the overall PBO level that AfDB can provide.

**H6. Choice of instruments in practice** – See above. The choice of instruments seems to reflect a mix of influence of the 25% cap on PBOs, agreement that projects can be a suitable modality for some of the activities in which AfDB is seen to have a comparative advantage (large scale infrastructure, GOE and other DPs' opinions) and the lack of familiarity on both AfDB and GOE sides with untested alternatives to projects even in sectors/for activities in which AfDB project instruments have proven to be problematic.

**H7. Design of PBOs shaped by specific institutional, economic and political context** – In broad terms, the shift from SAL to budget support was indeed linked to GOE-led shift toward PRSP and poverty reduction as overarching objective, following the 1991–2001 period focusing on restructuring the battered economy left by the Derg. The shift from GBS to earmarked BS (PBS) was dictated by the 2005/06 political circumstances. This fitted well with the ongoing deepening of decentralisation and strengthening of decentralised provision of basic services undertaken by GOE in 2002/3, although this institutional 'fit' was a by-product of the shift and not the prime rationale. The details of the PBS design responded to DPs' perception of the need for strong safeguards (the tests/principles, the FTA and social accountability and now effectiveness/M&E components) which 'make all the difference' with GBS. As noted above the detailed design of PBS was not influenced by AfDB. Other DPs perceive that AfDB response to the specific institutional, economic and political context might, at the extreme, have been different from what it eventually was (aligning with PBS).

Since the start of PBS there has been an ongoing debate as to whether this left DPs ill-equipped to respond to other characteristics of the institutional, political and

economic situation and in particular, whether this shift left DPs without means of engaging with the macro/structural reform/growth agenda and with macro political governance issues. Lately a half-hearted consensus has emerged that the GBS instrument was perhaps providing some space for DPs to raise issues related to these two broadly defined areas (growth and political governance) but there had not been a real dialogue in so far as there were issues over which GOE would simply not be influenced. The AfDB is one among the DPs struggling to assess what to do in the forthcoming period, based on this lesson. Note that in response to the specific institutional and political context some DPs use separate instruments to address some of their political governance concerns (e.g. Democratic Institution Programme and various means of supporting civil society), but the AfDB is not part of these groups of DPs.

H8. **Unwritten factors and influences** – See H4 above.

**I: How relevant was the PBOs' support to partner country problems, policies and priorities and were policy reforms owned?**

11. Was the PBOs' support consistent with the national poverty reduction objectives and development plans of the Government? Explain how this was assessed

12. How far were the policy and institutional reforms targeted by the PBO developed by and in consultation with local stakeholders (both within and outside government) and how far did they engage in preparatory analysis?

13. In what ways did the AfDB analyse the political economy context and the potential winners and losers from policy and institutional reforms?

14. Were alternative policies and reform measures considered?

15. What inputs were actually provided and to what extent did they match the plans envisaged by the Government?

16. Explain the process by which the programme was designed to ensure it was appropriate for achieving the objectives (e.g. adequate programme logic, appropriate reform instruments, adequate tranching?)

**Answers**

11. **Consistency of PBOs with national plans** – The first PBOs (BOP) were consistent with GOE stated objectives of reconstruction, macro stabilisation and basic structural reforms as pre-requisites for reversing the trend of economic deterioration and GDP shrinking that had characterised the Derg regime period. In the late 1990s/early 2000s the emphasis in GOE national development plans shifted towards poverty reduction and economic growth as a means – following a global trend. This was also reflected in AfDB PBOs (shift from rehabilitation/reconstruction to structural adjustment programmes to support to the I-PRSP then SDPRP as first PRSP, through a PRSL). The balance of objectives tilted a little back to further emphasising growth with the PASDEP (the 2<sup>nd</sup> PRSP). SAL2 and PRSL and other DPs' contemporaneous PBOs were all broadly consistent with these plans but ran into difficulties when trying to influence GOE's course of action in relation to a number of dimensions of the growth agenda. These difficulties were quite consistently underestimated though as noted above this was not unique to the AfDB. In contrast there was good convergence in relation to basic service expansion/the MDG agenda.

The shift from BOP to BS in 2004/05 was in line with the GOE focus on budget-driven objectives such as expansion of basic services. The second shift from BS to PBS was not at all linked to a shift in GOE policies or objectives. PBS is in a way more aligned with GOE policies and objectives as it no longer tries to influence those in sensitive areas and supports those over which there is agreement. However, this 'fit' initially came as a matter of expediency for DPs, i.e. it was a politically-motivated response to a politically-charged situation, not a policy-driven response to a change in GOE policy objectives.

12. **Consultation over policy and institutional reforms** – AfDB PBO objectives in terms of policy and institutional reforms were negotiated as part of a broader package of reforms. In the BOP operations the negotiation involved GOE and other DPs but hardly anyone else – as was the case for most other BOP DPs at the time. The AfDB PRSL was part of a joint BS process which was not strongly linked to local constituencies outside of GOE. Federal level NGO coalitions had had the opportunity of providing comments on the draft SDPRP and as such, on the draft 'SDPRP matrix' which was the basis for the BS 'policy matrix', but there was no CSO/NGO involved in the joint GOE-DP BS dialogue. The BS process was also only loosely connected to sub-national levels (including the autonomous

Regional State governments), apart from the consultations that had underpinned the preparation of the PRSP/SDPRP. The PASDEP recognises some of the CSO-led analytical inputs as a complement to GOE analysis – in relation to the service delivery agenda and not the growth agenda. GOE engagement with private sector operators has always been mainly separate from the DP/GOE dialogue.

The PBS framework is markedly different: the joint process has been and is much more open to the CSO/NGO constituency (which has a direct stake in the implementation of the social accountability PBS component judged critical by all bilateral DPs, the EC and the WB), Parliament, and regional executive and elected officials. The influence of these stakeholders on the broad design of the PBS has been limited but their involvement in the review process is a significant new factor. However, the extent to which this allows a genuine dialogue between them and GOE is not entirely clear. In 2009 GOE passed a CSO law which is considered by many as rather restrictive and even though GOE committed to maintain the necessary space for the PBS social accountability activities the broader GOE/CSO engagement context is not particularly conducive to frank dialogue. As for regional officials, it is unlikely that they would strongly challenge the 'ruling party line' underpinning all GOE policies and elaborated in collaboration between senior federal/regional party officials behind relatively closed doors.

If anything, the federal government has strengthened its lead role in policy-making in Ethiopia, as illustrated by the GTP preparation process. DPs have been consulted last among stakeholders, and have not been invited to provide any inputs beforehand. Observers do not agree as to whether consultations with regional and civil society constituencies were more than a dissemination exercise. GOE argument with regard to this form of relationship with DPs is that it reflects the Paris Declaration agenda of country ownership and government leadership. To some extent this clarifies the scope of DPs' influence: GOE leads in determining the broad directions of policy and institutional reforms; whether this is to DPs' liking or not is up to them; if they agree to support GOE-led reforms they may have some influence over the way these reforms are implemented (as the PBS experience suggests). This seems to put a premium on 'smart and quiet' diplomacy, advocacy and knowledge generation (as e.g. USAID bringing a world-renowned economist for high level discussions) as opposed to blunt financial incentive instruments. This context defines the scope of influence for AfDB as well as for any other DP, with as noted above question marks over AfDB's ability to exert influence in this way without radically changing its mode of operation in the country (strengthening its technical policy capacity and clout).

**13. Analysis of political economy context and winners and losers** – As noted above there was limited original analysis of the local political context, and altogether no analysis of the political economy of the political governance and economic reforms targeted by AfDB PBOs. This is not specific to AfDB. Focusing on economic reforms (in line with AfDB mandate), the SALs and PRSL reflect a general consideration of the considerable costs that the reforms targeted by the reform programmes would have had for some economic actors and possibly for the government as a whole. E.g. arguably, the high level of sensitivity of issues of land tenure and party ownership of large-scale economic activities and how this might affect privatisation and land tenure reform plans should have been highlighted more than they were. As highlighted by the IMF representative GOE will always balance economic gains and political costs and if the latter are perceived to be too important will likely decide to forego economic gains, until the balance shifts. External actors are ill-positioned to understand all the factors at play. This was not even tried in the way DPs promoted some economic reforms. In contrast, PBS was more of a win-win-win situation, with little/no threat to vested interests, and on the contrary bringing political capital to GOE/the ruling party as well as gains for the Ethiopian people at large, and the satisfaction for DPs of having contributed to the latter.

14. There is no evidence that there was any **analysis of alternative options** in terms of policies and reform measures (other than scenario-making with low and high cases of AfDB resource flows in some CSPs – not in PBO designs). This stands in contrast with some of the analytical work done by the WB. The CEM 2007, for instance, appears to have been indirectly influential in promoting the idea of adopting a differentiated approach (in the agriculture and rural development sectors) for growth potential and other areas, which was then reflected in the GOE-led RED/FS process and is found in the outline of the GTP currently available. The WB's more recent work on rural investment climate, investigating options for developing non-farm based options for rural development, may also prove to be indirectly influential as it would fit with the emphasis of the emerging GTP on the development of SMEs.

15. **Inputs provided** were mainly BOP/BS funds and 'conditions' as well as presence in the joint policy dialogue – in a more continuous and visible manner since the PBS2 and with the strengthening of the ETFO. The AfDB also provided TA in relation to privatisation, initially to support GOE to meet some of the (SAL2 and PRSL) privatisation targets. The TA, which took off in 2003/04, was extended and only closed recently as its effectiveness was affected by GOE's cautious approach to privatisation in the same way as the associated conditionality in AfDB PBOs. AfDB provided some analytical inputs related to the focus of its PBOs –

e.g. consultancies to contribute to PERs/PFRs, in-house inputs in analytical/evaluative work of the DPs' PBS working groups, a financial sector diagnostic and facilitation of a private sector forum in 2008, with mixed effectiveness. Notably, the status of the financial sector diagnostic is unclear including in relation to its consideration by GOE, and there does not appear to have been a clear follow-up to the private sector forum (whilst in the meantime other DPs have been active in the sector – notably, USAID and SIDA). Currently the AfDB provides support to PFM reforms through the PBS Comp3/C1 but had and has no other complementary support. As noted above the AfDB is planning to undertake ESW in a number of areas that could contribute inputs to a renewed growth-focused policy dialogue, if this was happening around the GTP as some DPs (including the AfDB) hope might be the case. The premium on high-quality ESW seems poised to increase in the current context, and so will the challenge for AfDB to measure up to other DPs in undertaking ESW.

**J: How efficiently and effectively did the AfDB collaborate with other donors and contribute to the harmonisation process?**

J1. What were the areas of focus for AfDB conditionality and did this generate any “signalling” effects and positive incentives for implementation?

J2. In the PBO process, what steps were taken to ensure an effective dialogue with government was established which focused on key strategic priorities of Government, for example around PFM or procurement issues or other national or sectoral policies?

J3. Was the PBO associated with non financial forms of assistance such as economic and sector work or technical assistance or linked to other AfDB capacity building projects and programmes in areas of strategic priority for Government? If so, specify how.

J4. Explain how the AfDB provision of PBO has contributed to harmonisation and helped reduce transaction costs for Government?

J5. How well did AfDB systems support harmonisation in country-in particular what was the role of the HQ based task leaders, convenience of mission schedules, engagement and voice in joint donor groups, role of the Field Office, Field Office and HQ relations etc.

J6. If there has been non-compliance, explain what happened and specify how effectively AfDB dealt with this and was action taken and the extent to which they occurred in collaboration with development partners?

**Answers**

J1. **Areas of focus of AfDB conditionality and “signalling effect”** – See above, and Table C2 in Annex C. SAL2 and PRSL conditions related to budgeting policies and basic PFM and decentralisation reforms (account closing, streamlining of the inter-governmental fiscal transfer formula) may have had some effects as positive incentives. Other conditions, notably those linked to privatisation, land tenure, financial sector reform and agricultural marketing reform, did not: nominally most AfDB conditions were met but there was not a radical shift in GOE’s underpinning positions on these issues.

In contrast most of the PBS framework works well in terms of “signalling effects” and positive incentives for implementation. The AfDB has not engaged with the only component that has proven to be more problematic initially – i.e. the social accountability component. But now this component as well as the FTA component provides an interesting illustration of the importance of other factors as incentives for GOE. Initially GOE made slow progress in implementing the FTA activities and was rather reluctant about the SA component. It has now fully embraced the former as a cornerstone of its own ‘good governance’ strategy, and has given responsibility for implementing the FTA activities to the MOFED structure in charge of the overall PFM reform programme. Reportedly even the SA activities now prompt some interest on the GOE side, as there was evidence that SA pilots generated positive effects in terms of quality of the services provided in the pilot areas – something which fits well with GOE objectives of strengthening the quality of basic services.

J2. **PBO process and identification of priorities** – Appraisal and evaluation missions as well as consultation/discussion of CSPs were the main means of identification of PBO priorities. As noted above, over time preparation for and appraisal of AfDB PBOs became increasingly part of a joint and formal process linked to the GOE national planning process and were disrupted and shaped by political events; AfDB processes were linked to preparation and appraisal of similar operations by other DPs (e.g. appraisal of PRSL at the same time as PRSC2, appraisal of PBS1 at the time of the first PBS review). AfDB is a member of the DAG

and of several of the DAG sector and thematic groups and has at times taken the lead in some of these groups. This leadership role is rather recent though, corresponding with the strengthening of ETFO, and generally the links between AfDB sector work and the ongoing PBO are still weak although ETFO intends to strengthen these. The increasing participation of ETFO in the PBS management (including for instance in the area of PFM reforms, and through the fact that it is now co-chairing the PBS donor group) provides an opportunity for ETFO to have more influence on the determination of future directions for AfDB PBOs, but it depends on the balance between ETFO and HQ (and notably, how strong the incentives will be for AfDB to return to a form of PBO more familiar to HQ). AfDB was DAG co-chair at the time of the shift between GBS and PBS but this did not appear to have played any role one way or the other. Evaluation missions have been less well coordinated with those of other DPs and for instance, completion reports for PBS1 were prepared separately by the AfDB and the WB.

**J3. Links between PBOs and other analytical, ESW and CD/TA activity** – See I5. AfDB PBO inputs other than funding were fairly limited (the main exception of some importance was the privatisation TA) and there are questions about the relevance of some of them (e.g. financial sector diagnostic). Throughout the SAL and PRSL period AfDB has never had a specific TA/CD programme focusing on PFM reforms and currently its support to PFM reforms is in the form of contributing to the ‘PFM component’ of the PBS. This has been challenged as insufficiently systemic in the PBS1 PCR of the AfDB. As a response, ETFO has stepped up its engagement in the PBS-related PFM dialogue and is active in attempting to make it more effective – but this relies exclusively on ‘in house’ capacity. There is express intention to put far more emphasis on ESW in the future. As noted above, ensuring high quality products will be a challenge as competition will be high, and there seems to be a lack of joint mechanism to identify relevant ESW.

**J4. Harmonisation and reduction of transaction costs** occurred through AfDB adopting joint preparation, appraisal and review processes and conditionality/performance assessment frameworks for its PBOs, with near full harmonisation in the case of PBS2, and reliance on joint analytical/assessment work (e.g. PEFA) to which AfDB has at times contributed (e.g. regional PERs in the context of the 2010 PFR). Harmonisation is good but not complete. Notably, AfDB uses a separate PAD, does not expect all IFRs and FMRs to be submitted as trigger for disbursement, does not use the WB-managed MDTF, and uses a separate special account to feed in GOE consolidated account. In some instances these distinct modalities have been advantageous for GOE as they enabled AfDB to disburse its PBS block grant funding more promptly than other DPs. Generally PBS has modified the nature of TCs, which in large part are also useful to GOE.

AfDB’s performance in terms of harmonisation is striking, all the more so as it is in stark contrast with its performance in non-PBO operations. The Monitoring Survey 2008 highlights very mixed progress in implementing the Paris Declaration in Ethiopia, with highly achieving areas and other areas in which progress is extremely slow or had even reverted since 2006. Donors as a group do not perform very strongly, and AfDB’s performance is for most indicators below that of most donors – although both the general assessment and the assessment of the performance of AfDB may be affected by the fact that PBS is oddly categorised as a non-budget support operation in the survey.

**J5. AfDB systems and harmonisation** – In the case of PBOs it seems that AfDB systems were effective in supporting the move toward greater harmonisation, although to an extent this came from AfDB’s position as a follower rather than path-breaker. Since 2008 the ETFO has played a key role in allowing AfDB to be continuously engaged in the PBS-related work and hence supporting harmonisation directly. ETFO’s role has also been important in allowing AfDB to understand other DPs’ positions and constraints and decide about its own approach – e.g. in agreeing to move ahead and frontload PBS2 funding whereas other DPs were facing constraints. Other AfDB systems related to project lending (and in particular, the impossibility of pooling funds in non-PBO multi-donor operations because of the ‘rule of origin’ applying to procurement in these cases) have proven to be highly problematic, preventing AfDB from joining more effective modalities of support to sectors and undermining efforts by ETFO to contribute to the development of more harmonised sector dialogue processes and support modalities. This is a serious concern for GOE and a source of intense frustration for ETFO staff members active in these sectors (e.g. ARD and watsan).

**J6. Non-compliance** See F6 above.

**K: How far were the immediate objectives of PBO met and what were the effects on Government?**

K1. Specify how AfDB contributed to an increased external resource flow into the Government budget over the period of successive PBO tranches?

K2. Were AfDB funds disbursed as planned and in line with a timetable agreed with other donors and the Government? If not, what happened and why?

K3. Did the PBO contribute to an increased predictability of funds going into the Government budget e.g. in year and between years as well as over the medium term budgeting cycle? If so, specify, if not explain why and what happened

K4. To what extent did the PBO align with the Government budget cycle (financial management, accounting and procurement systems)?

K5. Did the provision of PBO contribute to any overall reduction in transaction costs? If so, in what ways, and how was this positive outcome assessed? How did transaction costs of the Government working with the AfDB compare to those of other donors?

K6. What did the AfDB achieve in terms of greater alignment? How did this compare with other donors?

K7. How did AfDB systems support or limit alignment of PBOs to country systems and needs e.g. in relation to annual and multiyear budgeting, degree of AfDB flexibility to accommodate timing, and the degree to which Bank procedures support disbursement early in the financial year?

### Answers

K1: **External resource flow level** The first BOP (SAL1 and SAL2) were not contributing to Government budget financing as forex was used to procure imports through AfDB procurement procedures – though a large proportion of this was used in Government programmes. AfDB SAL2 provided 16% of the financing of the joint reform programme also financed by IMF, WB and EC – this was the smallest contribution. AfDB PRSL represented 23% of the joint DBS financing for the FY2004/05, or the second largest contribution after the WB. In PBS1 AfDB contribution was 4% of the total programme costs (counting GOE contribution to the block grant transfers to sub-national governments from its own resources) and 14% of the DP contributions (the fourth largest after DFID, WB and EC). In PBS2 before additional financing (requested but not yet approved) AfDB is also the fourth largest contributing DP with 11% of the total DP funding (after WB, DFID and EC) but it would become the third largest if the additional financing is approved. Note that (i) these are the figures as per appraisal documentation, AfDB actual disbursements have always been close to 100% though not within the planned disbursement period for SAL2 and PRSL; (ii) for PBS, data are complicated by the fact that different DPs joined at different times, additional financing was provided by some DPs under PBS1 which was also extended in time; and (iii) the figures above include DP funding for all PBS components whereas only component 1 can strictly speaking be considered as budget support, but the data we have (which is the data readily available in the joint DP PBS Secretariat) does not allow disaggregating DP funding by year, DP and component.

With regard to absolute levels of AfDB PBO funding, the trend has been for increasingly large PBOs with PBS2 still by far larger than PBS1. However, as noted above, medium-term predictability is weak and it is not clear yet how this trend might evolve in future. (See Table C3 in Annex C.)

In terms of financing of annual government budgets, we were not able to obtain annualised data for all DPs contributing to GBS and PBS but the data we have shows that: (i) annually, PBS financing of the GOE budget has consistently been above the levels reached by GBS in 2003/04–2004/05 (see Figure 2.3 in main text) and has represented about one third of the federal government transfers to sub-national governments; (ii) in 2010/11 for instance, PBS2 financing in GOE budget is programmed at ETB 7 billion or just above 10% of the total revenue in GOE budget. The trend has been of a sharp increase in the proportion of GOE budget financed by PBO-type funding. AfDB has expressed some concern about the sustainability of this type of financing (see e.g. PBS1 PCR) but on the other hand, there are pressures for DPs to scale up aid to support Ethiopia in reaching the MDGs and the PBS has proved to be a reasonably robust instrument for doing this.

K2 and K3. **Predictability** (vs. planned disbursement and in relation to GOE budget) – See F4 above. For the SALs and PRSL, AfDB PBO funding was not disbursed according to AfDB-GOE schedule as agreed in the loan agreements – with usually both some delay in programme start-up date and (much longer) delay in the disbursement of second tranches (18 months for SAL2) and for the disbursement of the PRSL single tranche. With PBS AfDB has been able to disburse its budget support funding (component 1) much more in line with the schedule as agreed in the AfDB-GOE loan agreements – which aligns with schedules agreed with other PBS DPs. AfDB has always disbursed in the fiscal year for which PBS component 1 funds were programmed and quite rapidly once reviews were held and aide-memoires submitted as per AfDB condition, in contrast with longer delays after these steps by some other DPs. There was one tranche in PBS2 which was

disbursed late due to problems of treasury in AfDB HQ. As seen above, when AfDB frontloaded disbursements as for the PBS2 first FY, this was in agreement with all stakeholders (GOE, other DPs and IMF). So with PBS, year-on-year predictability has considerably improved in relation to government budget financing (with and as a result of the shift in the nature of the AfDB PBO). With regard to within-year government budget financing disbursements are not yet sufficiently predictable to align with the GOE system of quarterly programming of foreign currency and budget financing, although this is not specific to AfDB. Medium term-predictability has been weak all along – which is linked to the general history of disruptions in the provision of BOP/BS explained above, AfDB specific constraints such as delays and difficulties in AFD replenishment in the 1990s, the 25% cap on PBOs which limits the amount that AfDB can commit in the form of PBOs whilst (known and legitimate) financing needs are larger, and today, AfDB and the ‘budget support’ DP group’s uncertainty about the way forward in relation to ‘multi-sector’ instruments, also described above.

**K4. Alignment with GOE systems** – For SAL2, BOP-financed procurement of imports used AfDB systems. For PRSL and PBS, component 1 systems were near fully aligned with GOE PFM systems whilst these were being strengthened (as with for instance under PBS, the introduction of quarterly financial reporting from sub-national government levels and of continuous roving audits being mainstreamed in GOE systems). The use of special accounts managed by MOFED to feed into the government consolidated account requires a special audit of this account. Otherwise annual audits are audits of government accounts.

**K5. There were several shifts in transaction costs.** There was a reduction of TCs specific to AfDB and linked to the move from the use of BOP-financed AfDB procurement systems to the use of GOE budget and PFM systems for PRSL and PBS. MOFED officials highlight an overall reduction of TCs considering the joint nature of the GBS and now PBS programmes. There was a change in the nature of TCs associated with the move from GBS to PBS so not specific to AfDB, with a more focused and less controversial dialogue and review process around PBS compared with the more extended dialogue hitting a number of areas of controversy with DBS – of which the AfDB PRSL was part. There has been an increase in some forms of TCs with PBS in the sense that the dialogue/review process requires a large amount of evidence to assess whether GOE meets the tests/adheres to the principles – but this evidence is directly useful to GOE too as it focuses on the functioning of GOE decentralised financial management systems, and DPs take their share of the TCs as well. Evidence is also required in relation to the rather large set of measures included in PBS action plans related to components other than component 1, and the associated volume of TCs has necessitated the establishment of a dedicated coordination unit in MOFED – although this unit also works for other large multi-donor programmes. One of the largest TC volumes arises from the requirement that GOE must submit Interim Financial Reports for all PBS components, entailing collection and compilation of IFRs from all (800+) districts in the country. Although this could be a useful characteristic of mainstream GOE reporting systems, for various reasons thus far the IFR system has not been integrated into the GOE automated accounting and reporting system and the production of IFRs is therefore a very cumbersome process.

AfDB has added little specific TCs since the PRSL and PBS although some of its PRSL-PBS missions were stand-alone. As, in contrast with IDA and MDTF DPs, the Bank does not require the PBS IFRs (due to the budget support nature of PBS for the Bank) it does not contribute to the largest volume of TCs under PBS. Again it is important to compare this good track record with the huge TCs associated with AfDB investment project instruments in instances where these instruments are expected to support activities to be undertaken at decentralised levels. This is starkly contrasted by GOE officials.

**K6. AfDB has a good track record in terms of alignment** through the PBS, both policy and system alignment – and has done as well as, and even better than some other PBS DPs in that respect. Weak multi-annual predictability linked to the factors noted above, including some AfDB systems like the 25% cap on PBOs, is a limitation in terms of both policy and system alignment. The still weak precision with which AfDB disbursements can be programmed in the GOE quarterly programming system arises more from the overall PBS framework than from weaknesses on AfDB side. This relatively good track record contrasts with an earlier more mixed record with SAL2 and PRSL: although formally there was policy alignment (SAL2 and PRSL were formally aligned on the I-PRSP and SDPRP policies) implementation showed that in some of the policy areas there was less agreement than initially assessed. It also contrasts with AfDB’s poor track record in terms of system alignment for its investment project instruments – although there is no evidence that projects have not been policy aligned.

**K7. Support to alignment by AfDB systems** – AfDB systems appear to have been reasonably supportive and not to have prevented the degree of alignment just outlined in relation to PBOs. The remaining non-aligned element in the ongoing AfDB PBO (the use of a special account to feed into the GOE consolidated account instead of the PBS Component 1 joint pooled sub-account used by several other PBS donors) is an oddity that does not have a *raison d’être* any longer. See above



in relation to AfDB systems and predictability.

**L: What contribution has AfDB support made to improve policy, systems or institutions in the areas where PBOs were focused?**

L1. What policy changes have been introduced over time in areas or sectors where the PBO conditionality was focused and why were these changes made?

L2. In what ways did AfDB policy dialogue in specific areas such as PFM contribute to improved results in those areas?

L3. What is the role of the AfDB field office in relation to the use of PBOs?

L4. What were the type, role and use of pre conditions by the AfDB and what specific influence did they have?

L5. What institutional or system changes have taken place in areas or sectors where the PBO conditionality was concentrated?

L6. To what extent is it able to show how far can any of these institutional or system improvements be attributed to AfDB engagement and provision of PBOs?

L7. What do Government and donors think was the value added arising from AfDB involvement and provision of PBOs?

**Answers**

L1. See above the story of the evolution from SAL/PRSL policy areas to PBS policy areas. I.e. this was a political shift dictated by political developments, not a shift related to changes in GOE policies. In relation to changes in GOE policies, it is important to note that PBOs contributed better in supporting implementation of existing, strongly-owned policies than in changing policies. This is clearly illustrated by the contrast between the effectiveness of PBS in supporting GOE policies of decentralisation, expansion of basic services and local level 'good governance' compared to the much more limited effectiveness of earlier PBOs in changing policies related to privatisation, land tenure, reform of the financial sector and agricultural marketing. This finding fits with international evidence (e.g. SBSiP review 2010). In this way, AfDB's contribution should not necessarily be gauged in terms of policy changes.

L2.L5.L6. First it is important to note that all along and increasingly over time, AfDB policy dialogue and support to institutional or system improvements have been part of the dialogue between GOE and a broader group of DPs, and an array of other such support, joint or not. Specific AfDB contributions have been outlined above – suggesting, overall, that with perhaps the exception of its emphasis on conditions linked to privatisation and financial sector reform AfDB was more a follower/supporter than a path-breaker in the policy dialogue and that relatively few institutional/system improvements can be attributed specifically to AfDB.

SAL1 was successful in supporting broad macroeconomic and basic structural reforms, although the more sophisticated condition focusing on privatisation was met with greater difficulty. Thereafter, SAL2 and PRSL can be deemed to have contributed to good and lasting results in relation to government budget re-structuring (from defence to pro-poor sectors), although the end of open hostilities with Eritrea was the predominant factor allowing this to happen, and this was also supported by the whole HIPC-PRSP development process. The dialogue also successfully contributed to highlighting the importance of timely closure and auditing of government annual accounts – although this was made possible through PFM reform support financed by a group of non-BS donors at the time. The dialogue and AfDB conditions in the other areas targeted by SAL2 and PRSL all proved to have less satisfactory effects – with some direct results but no change in the underpinning position of GOE. E.g. AfDB focus on privatisation and its associated TA support is likely to have led to greater achievements than would have been the case otherwise, with comparatively 'easier measures' (strengthening of government agencies dealing with privatisation and of privatisation systems and processes, number of privatised outlets), but did not move GOE's position in relation to privatisation of big strategic state-owned and run enterprises such as telecoms. A similar comment applies to land tenure (no move in relation to privatisation of land), financial sector reform (no move in relation to opening up the sector to international banks) and the role of the private sector in agricultural marketing (even the GTP, five years after the suspension of DBS which led to discontinuation of the attempts at dialogue about these issues, continues to emphasise the importance of small-holder cooperatives in this respect). PBS supported the implementation of 'consensus policies' and the dialogue has been about how to strengthen implementation more than about policy change/reform – although

arguably, the emphasis on FTA and SA activities prompted a shift in how GOE assesses the importance of transparent information and accountability to citizens about local budgets and service delivery. The AfDB has contributed to the dialogue on FTA activities though not through any specific input beyond its financial contribution to the relevant component of PBS. It has not focused on SA activities.

In relation to PFM reforms specifically, until very recently the AfDB did not play any particular role in the dialogue and so cannot be credited with the overall good progress made with the GOE reform programme (the EMCP). Under PBS2 the AfDB has been active in the PBS PFM working group and has taken the lead in trying to mainstream the PBS-based dialogue and broader PFM reform dialogue. This is very recent and it is too early to assess how successful this attempt might be. There appears to be a serious need for the PFM reform process to 'regroup', and a need for GOE to re-articulate its broad vision and a medium to long term priority sequencing framework, and for donors to harmonise medium to long-term support. PBS is not ideally suited for this as it focuses on a sub-set of the required reforms and is quite short-term. AfDB's role in terms of streamlining the dialogue may not be easy as AfDB does not contribute to the other multi-donor programme supporting PFM reforms (PSCAP). Moreover, although there is a lot of good will and energy on the part of the ETFO staff in charge, they lack PFM expertise or support to acquire it more systematically than 'on the job'.

L3. **Role of ETFO** – ETFO inputs in PBO design before the PRSL were nil or limited as the office was established in 2001 i.e. just at the time when preparations started for SAL2. ETFO has played a bigger role in the preparation of the PRSL. Notably, it made it possible for the AfDB to participate more fully in the intensive in-country process of consultation on the SDPRP. Thereafter AfDB as a whole did not actively participate in the design of the PBS1; at the time (2005/6) ETFO was weakly staffed and overwhelmed by project administration issues for highly problematic projects. Under PBS2 ETFO has been more visible in the fine-tuning of the design based on the PBS1 design, and in the day-to-day joint donor management of the operation: it is co-chairing the PBS donor group, providing in-house prepared inputs in PBS joint donor work, and participating in selected working groups. This greater role was made possible through the strengthening of ETFO capacity although other DPs are still of the view that AfDB is punching below its weight. Moreover, beyond its presence in/contribution to the continuous dialogue ETFO has no decision-making power and this makes it difficult for it to fully 'represent' the AfDB. For instance it cannot decide on matters such as reallocation of funds from non-PBOs to PBOs even when this is requested by GOE and is endorsed as legitimate by other DPs (and according to GOE officials would be feasible for the WB Country Director).

The ETFO is also the link between AfDB HQ and the high level donor coordination (DAG) and GOE-donor dialogue (HLF) structures and processes, although it is not clear whether and how these in-country processes interact with HQ and AfDB-wide dynamics and processes. In the sectors in which AfDB has an active portfolio, ETFO is a link between the relevant HQ sector departments and in-country sector processes and dialogues – although it seems that any decision on new orientation and/or reorientation of the active portfolio requires HQ missions, and most DPs expressed a sense that AfDB was still in some instances prone to be HQ-driven and make insufficient references to in-country processes (this was raised in e.g. the ARD sector). GOE officials mentioned a number of cases in which agreements reached with ETFO and supervision missions were voided by HQ later on – as examples of the very limited decision-making power of ETFO. This is also affecting the PBS operation as seen in the case of the reallocation of non-PBO funding to PBS2 mentioned above.

L4. The evaluation team did not see evidence of any specific **role for pre-conditions** (meaning by this conditions having to be met before loan effectiveness).

L5 and L6 – See above.

L7. **Value added of AfDB** – AfDB value added in terms of financial contribution to PBOs is significant though artificially limited because of the 25% cap. GOE also highlights that in the past few years AfDB has been able to provide rapid responses to support GOE facing macroeconomic difficulties and other shocks such as the food crisis.

Its value added in terms of contributing technical inputs and generating knowledge in the policy/system areas focused on in its PBOs has been fairly limited compared to its financial weight. Similarly, its contribution to the policy dialogue in PBO-related areas has not been outstanding. It is hard to judge for the earlier period (SAL1 and SAL2). For the more joint dialogue put in place with first DBS and now PBS, AfDB value added at this level has been nil in the transition between DBS and PBS, and is gradually improving now – but is still limited in various ways (few staff members, skill mix imperfectly matched with requirements, limited/no

access to support in terms of staff CD and support from HQ, limited access to other means of generating knowledge compared to e.g. WB ESW in particular).

AfDB value added in the high level policy dialogue between GOE and DPs, beyond PBOs but necessary to ensure their relevance and effectiveness and the sustainability of PBO-supported achievements, has also not been outstanding. According to other DPs AfDB did not play any specific role (as an African institution) when the relationship between GOE and DPs was more difficult because of political governance issues (2005/6 political crisis, 2009 CSO law, 2010 allegations of political distortion of aid and joint DP study as a response). It is debatable what form this role should have had and unclear whether AfDB would have had the necessary capacity and credibility for this. The issue of credibility, in particular, is tricky, as it seems that part of the value added that GOE sees in AfDB precisely lies in the fact that it does not take position in political governance issues (or not visibly so). In relation to economic governance issues (or the growth agenda as it is now called) AfDB also has not had any outstanding contribution so far.

**M: Is there any evidence of a sustained improvement in pro poor spending or public services and have external donor contributions including that by AfDB, contributed to this?**

M1. What has been the total financial contribution of the donor community and what proportion of this total was financed by AfDB?

M2. Has the quantity or quality of public services improved in the areas where commitments were sought by the donors and the AfDB? If so specify how.

M3. To what extent can any improvement be attributed to the external donor support including that of the AfDB? Specify.

**Answers**

M1. **Financial contribution** – See K1 above. In summary, AfDB contribution to the PBO-type funding has increased over time, both in the absolute and in relative terms compared to other DPs. This fits well with what is perceived as one of AfDB's comparative advantages.

M2. **Improvements in quantity and quality of public services** in areas supported by AfDB/DP PBOs. The quantity and quality of public services has significantly improved in the 1999–2009 period. This is most visible in the social sectors where the data are more readily available. Data in agriculture and water and sanitation are more fraught with problems and should be considered cautiously. Based on the WB June 2010 PBS1 Implementation Completion Report which is the most recent and comprehensive account of such progress, in education primary school enrolment grew from 8.75 million in 2002/03 to 15.3 million in 2007/08 (26% annual growth rate) and secondary enrolment grew at the same rate to 1.3 million in 2007/8 from 0.5 million in 2001/2. The gender gap has significantly reduced in primary education. Whilst some indicators of quality are of concern, the deterioration of quality has not been as massive as might have happened and did happen in neighbouring countries like Uganda. Turning to health, there was significant progress in some indicators (e.g. immunisation up from 61% to 81% between 2003/04 and 2007/08, contraceptive acceptance rate up from 23% to 51% over the same period, theoretical coverage of 100% with basic preventive health services) but slow progress in outcome indicators and no progress in the rate of utilisation of health facilities. Micro-level studies corroborate these macro data trends.

M3. **Attribution** – Drawing on the PBS1 Implementation Completion Report of the WB (which was prepared by a fairly large team over a period of several months and entailed some original analytical work on various PBS activities and on decentralisation): (i) PBS has had a protective effect – in the sense that the introduction of PBS not only mitigated the general pressure on expenditures (which would have been felt if GBS had been discontinued without putting in place this alternative instrument), but did so more clearly for the sub-national levels; (ii) one needs to acknowledge that the increased spending made possible in this way supported strong access policies, well-established for a decade or so especially in health and education; (iii) decentralisation has likely facilitated the implementation of strong federal policies, most visibly in education and health as mandates and roles of sub-national governments are clearer than in ARD for instance, and policies have been clearer too; (iv) consistently high economic growth rates since 2002/03 and the reduction of income poverty measured between 1994/95 and 2004/05 are likely to have contributed to pushing demand for services upwards.

Linking this more specifically to PBO-type operations and financing of the GOE budget, education has been most consistently benefiting from early reforms

redirecting the GOE budget on 'pro-poor sectors' in the early 2000s and from the PBS emphasis on increasing resources available for sub-national levels in charge of basic service delivery since 2005/06. Other pro-poor sectors have similarly benefited from this increased government spending (supported by PBO-type funding) though less consistently and strongly. Some sectors have also attracted large amounts of 'parallel funding' (health in particular) whereas in other sectors (like agriculture and rural development and rural infrastructure) it is debatable whether some of the fairly large-scale financing for productive safety nets and food security packages should be considered as inputs or not. In other words, in education it is clearer that most of the improvements in quantity and quality have been supported directly by the increasing resource envelope in government 'regular' budget (so for instance, pupil per teacher ratios have been kept reasonably in check in spite of the massive enrolment expansion, and this is clearly linked to among things others the districts' financial capacity to recruit a sufficient number of teachers – although this may have been at the detriment of other priorities). In other sectors the influence of parallel funding sources is probably larger. In roads and other large-scale infrastructure development most of the DP support is projectised.

From the above it should be clear that it would be far more complex and hazardous to attribute progress made in e.g. private sector development indicators (such as a decrease in time needed to open a business etc. – which has happened) to PBO-type operations, after the first period of basic reforms which moved the economy away from the central planning model of the Derg in the mid-1990s. To this day the Ethiopian economy is not fully 'market-led' (this is not a value judgement but a fact).

## Annex B Country time line and aid dialogue architecture

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
1960s			<b>1962:</b> Haile Selassie annexes Eritrea, which becomes an Ethiopian province.
1970s	An economic crisis was experienced by African economies in the 70s; this was largely attributable to endogenous factors that were embodied in inappropriate policies adopted by governments. The first generation of Policy Based Loans (PBLs) came about partly in response to this crisis (at the end of 1970s and the in the 1980s). The loans focused on redressing short-term macro-economic imbalances.	<b>1975:</b> The AfDB started operations in Ethiopia. From 1975–2004, Ethiopia was the single highest recipient of African Development Fund (ADF) resources (8.4% of the total).	<p><b>1971–75:</b> Tigray and Wollo famine: successive rain failures. Estimated 200,000 – 500,000 excess mortality; 50% livestock losses.</p> <p><b>1974:</b> Haile Selassie overthrown in military coup. General Teferi Benti becomes head of state.</p> <p><b>1975:</b> Haile Selassie dies in mysterious circumstances while in custody.</p> <p><b>1977:</b> Benti killed and replaced by Colonel Mengistu Haile Mariam.</p> <p><b>1977–79:</b> Thousands of government opponents die in “Red Terror” orchestrated by Mengistu; collectivisation of agriculture begins; Tigrayan People’s Liberation Front launches war for regional autonomy.</p> <p><b>1977:</b> Somalia invades Ethiopia’s Ogaden region.</p> <p><b>1978:</b> Somali forces defeated with massive help from the Soviet Union and Cuba.</p>
1980s	<p>AfDB introduced Policy Based Loans (PBLs) in the 1980s in response to the demand by the Bank’s Regional Member Countries (RMCs) for support in balance of payments as they implemented stabilisation and structural reforms.</p> <p><b>1984:</b> The Board of Directors approved non-project lending to regional member countries and laid down the necessary guidelines such that the Fund would support institutional and policy reforms already being undertaken by borrowing countries and in close collaboration with the WB and IDA.</p> <p><b>1986:</b> The AfDB Group decided to strengthen its intervention in the area of economic policy and policy dialogue with member states.</p> <p><b>1987:</b> Establishment of the Special Programme of Assistance to Africa (SPA).</p> <p><b>1988:</b> Publication of the AfDB’s ‘<u>PBL Guidelines and Procedures</u>’. which defined PBLs as instruments “to assist regional member countries (RMCs) in their</p>		<p><b>1984–85:</b> Country-wide drought, conflict. Estimated 590,000 to one million deaths; 8 million people affected. Derg’s Relief and Rehabilitation Commission; REST in Tigray.</p> <p><b>1987:</b> Mengistu elected president under a new constitution.</p> <p><b>1988:</b> Ethiopia and Somalia sign a peace treaty.</p> <p>The centrally planned economic agenda of the social military rule (DERG) undertook a nationalisation campaign, including the means of production (such as land), which left virtually no room for private sector development.</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
	<p>effort to restructure their economies and to restore growth with equity and creditworthiness”, with two main instruments: Structural adjustment loans and sectoral adjustment loans.</p>		
<p><b>1990s</b></p>	<p><b>1990:</b> Special Programme of Assistance for Africa (SPA) discussions – it was agreed that the case for earmarking of counterpart funds for specific uses should be decreased as progress is made in effective public expenditure monitoring and periodic reviews.</p> <p>From the beginning of the 1990s a second generation of PBLs began. These were focused on long-term objectives such as sustainable growth, private sector development and poverty reduction.</p> <p><b>1992:</b> Special Programme of Assistance for Africa (SPA) report on PERs – this recognised that generally agreed aims of priority spending are not easily achieved.</p> <p><b>1993–1995:</b> The bank financed very few projects as a result of the non-availability of African Development Fund (ADF) resources.</p> <p><b>From 1999,</b> the governance component of reforms within the African Development Bank (AfDB) increased, including legal and judicial reforms, audit reform, and public expenditure reforms. Also, PBLs started addressing some aspects of regional integration.</p>	<p><b>1993:</b> Structural Adjustment Loan I approved (UA 63m). In response to the near collapse of the Ethiopian economy about 1991, coupled with unsustainable internal and external imbalances, high inflation rates, negative interest rates and non-viable debt ratios, the Government of Ethiopia (GOE) initiated a Structural Adjustment Programme (SAP) for the period 1993–96 with the support of ADF, other multilateral and bilateral donors. The goals of the SAP were: the stabilisation of the economy in order to restore macroeconomic balance and reduce inflation; and structural adjustment to stimulate medium and long-term growth.</p> <p><b>1996–1998:</b> AfDB Country Strategy Paper (UA 158m) approved. The strategy pursued rural and human development, and sustainable growth within a stable macroeconomic environment through enhanced support for (i) increasing the productivity of small-scale farmers, (ii) basic health and education facilities, and (iii) roads. The participation of the Bank’s private sector window was envisaged. Assistance programme: a normal lending programme was initially proposed with an indicative allocation of UA 141.25 million – UA 127.58 million and UA 13.67 million for project lending and TAF resources respectively. Because of the satisfactory performance of Ethiopia, the programme was increased from UA 141.25 million to UA 189.73 million, about 91% of which was project lending and the rest as TAF. The lending programme was to support investments in agriculture, transportation, health, and education.</p> <p><b>1999–2001:</b> AfDB Country Strategy Paper (UA 192m approved, of which UA 132m was investment and UA 60m was PBL). This CSP was prepared within the context of the country’s post-conflict rehabilitation and reconstruction period. The strategy maintained the objectives of the previous strategy in addition to macroeconomic stability. For these, the Bank was to support (i) the increased use of improved technologies</p>	<p><b>1991:</b> Ethiopian People’s Revolutionary Democratic Front (EPRDF) captures Addis Ababa, forcing Mengistu to flee the country and establishing the Transitional Government of Ethiopia (TGE); Eritrea establishes its own provisional government pending a referendum on independence.</p> <p><b>1992:</b> Haile Selassie’s remains discovered under a palace toilet.</p> <p><b>1992:</b> The government adopts its Agricultural Development Led Industrialisation (ADLI) strategy which provides the basis for its subsequent policies and national poverty reduction strategies.</p> <p><b>1993:</b> Eritrea becomes independent following referendum.</p> <p><b>1994:</b> New constitution establishes Ethiopia as a Federation of 9 ethnically-based autonomous Regions, and 2 City Administrations.</p> <p><b>1995 June:</b> General Elections. EPRDF captures 484 of the 547 seats in Parliament (88%), with independents winning 8, and other parties winning the remaining 45 seats. Most of these seats won by other parties were in "frontier regions" – Afar, Somali, Gambela, Benishangul-Gumuz, and Harar – allocated 57 seats. Four of the seven national parties, including the Oromo Liberation Front (OLF) boycott the poll, alleging unequal conditions for the various contending groups.</p> <p><b>1995:</b> Negasso Gidada becomes titular president; Meles Zenawi assumes post of prime minister.</p> <p><b>1998:</b> Ethiopian-Eritrea border dispute erupts into armed clashes. Open war starts in May 1998.</p> <p><b>1995–2000:</b> GoE National Development Plan (NDP) which supports (i) better delivery of economic and social facilities to the poor, and (ii) promotion of private entrepreneurship, including expanding exports.</p> <p><b>1995–96:</b> First ever household survey of national scope conducted (11,000 households).</p> <p><b>Late 1990s:</b> GoE adopts the PRSP process, leading to</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
		<p>by small-scale crop and livestock farmers, (ii) enhancing rural access to infrastructure, and energy facilities, (iii) economic management, and (iv) private sector development. The indicative country allocation – a base case scenario – was UA 132 million; UA 120 million and UA 12 million of which were for project lending and TAF respectively. The Bank support was to be directed to the development of agriculture, roads, and energy. The TAF resources were to be used for capacity building and project preparation. The program also envisaged PBL resources, amounting to 50% of the country's indicative allocation, in support of the reforms under the country's I-PRSP.</p> <p><b>1996:</b> Addis Ababa International Airport Development loan approved (UA 19.5 m).</p> <p><b>1997:</b> National Fertilizer Sector Project loan approved (UA 28 m).</p> <p><b>1998:</b> Alemgena – Sodo Road Project loan approved (UA 18.6m).</p> <p><b>1998:</b> Transportation Sector Studies loan approved (UA 3.4m).</p> <p><b>1998:</b> Education III loan approved (UA 32m).</p> <p><b>1998:</b> Rural Health Services Project I loan approved (UA 29.67m)</p>	<p>an Interim Poverty Reduction Strategy Paper (I-PRSP). The GoE seeks to secure debt relief and to increase agricultural food production and rural accessibility.</p> <p><b>1999–00:</b> Second household survey (17,000 households).</p> <p><b>1999–00:</b> Food crisis/famine, 10.2 million people in need of food aid: drought in earlier year, late arrival of aid subsequent to production recovery (1994–97), strained government-donor relationship due to Ethio-Eritrean war.</p>
<p><b>2000</b></p>	<p>From 2000 there was a new generation of PBLs which marked a policy shift towards Budget Support and SWAps</p> <p><b>2000:</b> The AfDB's Board Committee for Development Effectiveness (CODE) strongly endorsed the work programme of the Bank's Evaluation Department, OPEV, which included a move away from project level evaluation to the evaluation of higher-level interventions.</p>	<p><b>2000:</b> Pastoral Areas Development Study loan approved (UA 0.71m).</p> <p><b>2000:</b> Privatisation Technical Assistance Project loan approved (UA 3m).</p>	<p><b>2000 June:</b> Ethiopia – Eritrea sign a ceasefire agreement which provides for a UN observer force to monitor the truce and supervise the withdrawal of Ethiopian troops from Eritrean territory.</p> <p><b>2000 December:</b> Ethiopia and Eritrea sign a peace agreement in Algeria, ending two years of conflict. The agreement establishes commissions to delineate the disputed border and provides for the exchange of prisoners and the return of displaced people.</p> <p><b>2000 August:</b> General and Regional Elections. EPRDF captures 481 of the 547 seats in the national election (88%), broken down between its members as follows: the Oromo Peoples' Democratic Organisation winning 183, the Amhara National Democratic Movement 143, the Southern Ethiopian People's Democratic Movement 112, and the Tigray People's Liberation Front 40. Independents win 13 seats and other parties won 53. In the Regional elections, either the EPRDF or one of its</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
			<p>member parties win the election except in Afar, Benishangul-Gumuz, Gambela, and Somali. Although several opposition parties boycotted the election, 17 parties including the All-Amhara People's Organisation, the Southern Ethiopia Peoples' Democratic Coalition (SEPDC), and the Oromo National Congress did participate.</p>
<p><b>2001</b></p>	<p><b>2001:</b> The Bank introduced Development Budget Support Lending (DBSL) as one of its PBL instruments. The idea was that the DBSL would be used selectively to complement the Bank's existing lending instruments. The first DBSL operations were implemented that year in Benin, Burkina Faso and Uganda.</p> <p><b>2001:</b> The AfDB released the 'Handbook on Stakeholders Consultation and Participation in AfDB Operations' which outlined the different tools and techniques for civil society participation in Bank operations including policy formulation.</p> <p><b>2001:</b> The AfDB adopted the evaluation standards developed by the Consortium Evaluation Groups (CEG), which included a results-oriented, development effectiveness framework for all participating agencies.</p> <p><b>2001 June:</b> OPEV led a workshop on Results-Based Management to inform and solicit viewpoints from managers and staff on the possibility of moving towards a results-based framework.</p> <p><b>2001:</b> First DBSL operations took place in Benin, Burkina Faso and Uganda.</p> <p><b>June 2001:</b> under ADF-IX Guidelines, the Bank will finance stand alone PBLs targeting governance and regional integration for which the IMF had deemed the macroeconomic framework satisfactory. The first one was for Zambia focusing on Fiscal Transparency and Accountability in June 2001.</p>	<p><b>2001:</b> Structural Adjustment Loan II approved (UA 60m). The overall reform programme was articulated in the I-PRSP, which was endorsed by the international donor community, including the Bank. The I-PRSP provided a framework within which donor support for Ethiopia's poverty reduction efforts would be coordinated.</p> <p><b>2001:</b> The AfDB established a field office in Ethiopia (ETFO), but took six years to devolve some project management authority to the field office.</p> <p><b>2001:</b> National Fertilizer Sector Project Phase II loan approved (8.43m).</p> <p><b>2001:</b> Koga Irrigation and watershed Management Project loan approved (UA 34 m).</p> <p><b>2001:</b> Genale Dawa River Basin Integrated Development loan approved (UA 3.93m).</p> <p><b>2001:</b> Butajira-Hossaina-Sodo Road Project loan approved (UA 41.31m).</p> <p><b>2001:</b> Rural Electrification Project loan approved (UA 37.7m).</p> <p><b>2001:</b> Capacity Building of MoFED loan approved (UA 0.52m).</p>	<p><b>2001:</b> 24 February – Ethiopia says it has completed its troop withdrawal from Eritrea in accordance with UN-sponsored agreement.</p>
<p><b>2002</b></p>	<p><b>2002:</b> A new CSP format was adopted, representing a major start in improving the CSPs submitted to the Board in general.</p> <p><b>2002 June:</b> The AfDB participated in the first Global Roundtable and as a result it moved forward on</p>	<p><b>2002–2004:</b> AfDB Country Strategy Paper (UA 214m approved, of which UA 154m was investment and UA 60m was policy based). This CSP was based on the GoE's full PRSP. The CSP continued to support agriculture and rural development by enhancing access</p>	<p><b>2002 April:</b> Ethiopia, Eritrea accept a new common border, drawn up by an independent commission, though both sides then lay claim to the town of Badme.</p> <p><b>2002–03:</b> Drought. Declaration of food emergency, 11.3 million people in 2002, 14.3 million people in 2004 in</p>



Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
	<p>setting up and implementing a Balanced Scorecard system.</p> <p><b>November 2002:</b> The management presented to its Board the <u>Results Measurement Framework (RM)</u> that measures results at the intermediate and “bottom-line” levels of ADF operations. Three levels of measures were identified to capture country progress and institutional contributions to country progress.</p> <p><b>December 2002:</b> The Bank established the ‘Development Effectiveness and Results-Based Management’ (DERBM) made up of Managers, Directors or their representatives from each of the Bank’s Vice-Presidencies. The DERBM is mandated to oversee the MfR aspects of HA and MfR in terms of the design, implementation and Bank-wide adoption of policies in these areas.</p>	<p>to improved agricultural technologies and to rural infrastructure facilities, as well supporting improvements in the country’s institutional and policy environment through policy-based operations and capacity building. The programme was based on a normal case scenario with the possibility of increasing it by 50% as direct budget support. The base indicative country allocation was UA 125 million, including the grant resources of UA 33.75 million. Lending focused on agriculture and rural development, road transportation, water supply and sanitation. The grant resources were to build capacity and support other non-lending activities.</p> <p><b>2002:</b> The Bank undertook an Agriculture Sector Review.</p> <p><b>2002:</b> Harar water Supply and Sanitation Project loan approved (UA 21m).</p> <p><b>2002:</b> Institutional Support to OSSREA loan approved (UA 0.3m).</p>	<p>need of food aid. Famine averted as government-donor relationship has improved.</p> <p><b>2002/03:</b> Roll out of district-level decentralisation giving extensive service delivery responsibilities to district governments under regional fiscal decentralisation frameworks, in the four large Regions (representing 85% of population)</p> <p><b>2002/03–2004/05:</b> First full Poverty Reduction Strategy Paper (PRSP) – the Sustainable Development and Poverty Reduction Program (SDPRP).</p>
2003	<p><b>2003:</b> the ADF Results Measurement Framework (RMF) was presented to the Board, after being prepared with the World Bank’s IDA Measurement System.</p> <p><b>By 2003,</b> CSPs incorporated identified areas of reforms, which would be the focus of the Bank intervention justifying PBLs.</p> <p><b>2003:</b> The civil war in Cote d’Ivoire leads to the Bank relocation to Tunis.</p>	<p><b>2003:</b> Rural Finance Interim Support Project loan approved (UA 35m).</p> <p><b>2003:</b> Awash River Flood Control Study loan approved (UA 1.8m).</p> <p><b>2003:</b> Livestock Development Master Plan Study (UA 2.3m).</p> <p><b>2003:</b> Agricultural Sector Support Project loan approved (UA 39m).</p> <p><b>2003:</b> Wacha-Maji road upgrading Project loan approved (UA 23.7m).</p>	<p><b>2003 April:</b> Independent boundary commission rules that the disputed town of Badme lies in Eritrea. Ethiopia says the ruling is unacceptable.</p>
2004	<p><b>April 2004:</b> The board approved the ‘<u>Guidelines on Development Budget Support Lending (DBSL)</u>’. These are the guidelines for AfDB involvement in budgetary support operations. In line with the international agenda on aid effectiveness, DBSL aims to facilitate alignment and harmonisation and predictability of source flows.</p> <p><b>2004:</b> The board approved the ‘<u>Revised Guidelines for Bank Group Operations Using Sector-Wide Approaches (SWAs)</u>’. These are guidelines on how to engage in the provision of assistance to qualifying RMCs in alignment with sister institutions.</p>	<p><b>2004:</b> Poverty Reduction Support Loan approved (UA 60 m). This became effective in 2005, following the fulfilment of the expenditure management improvement conditions contained in the loan. Its evaluation saw it as well-designed and effective in enhancing public expenditure management.</p> <p><b>2004:</b> The Multi-sector Country Gender Profile identified the short- and long-term gender gaps and issues for the Bank to address.</p> <p><b>2004:</b> Fisheries Resources Development Study loan approved (UA 0.92 m).</p> <p><b>2004:</b> Creation of sustainable Tsetse and</p>	<p><b>2004 January–February:</b> Nearly 200 killed in ethnic clashes in isolated western region of Gambella. Tens of thousands flee area.</p> <p><b>2004 March:</b> Start of resettlement programme to move more than two million people away from parched, over-worked highlands.</p> <p><b>2004 November:</b> Ethiopia says it accepts “in principle” a boundary commission’s ruling on its border with Eritrea. But a protracted stalemate over the disputed town of Badme continues.</p> <p><b>2004:</b> Joint Budget and Aid Review (JBAR) mechanism introduced (regularised in 2005).</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
	<p><b>2004:</b> The Board approved the creation of a <u>Post-Conflict Country Facility</u> (PCCF) to provide support for clearing the arrears of countries emerging from conflict.</p> <p><b>2004:</b> The Bank approved the guidelines for the Policy Based Lending on Governance (PBLG) these aimed to complement other policy based lending instruments. The guidelines emphasise the relevance of improving public sector accountability, increasing citizen and investor participation and public sector transparency and reducing corruption and reforming laws and judicial systems.</p>	<p>Trypanosomiasis-free areas in East and West Africa – loan approved (UA 9.55m).</p> <p><b>2004:</b> Ethiopia-Djibouti Interconnection Project loan approved (UA 21m).</p> <p><b>2004:</b> Institutional Support For Women’s Affairs Office loan approved (UA 1m).</p>	<p><b>2004/05:</b> Third household survey conducted (26,000).</p>
<p><b>2005</b></p>	<p><b>2005:</b> The AfDB participated in the Paris Declaration meetings and signed up to the Paris Declaration on aid effectiveness.</p> <p><b>2005 May:</b> The ‘ADF-X Financing Policy Guidelines’ were published. These govern all project loans and grants; policy based lending operations; technical assistance operations; additional resources; and any other activities of the Fund during the period 2005–2007. Among the guiding principles for the ADF-X operations, the document highlights its efforts towards the principles of the Paris Declaration and its progressive involvement in Sector Wide approaches and Development Budget Support.</p> <p><b>2005 October:</b> The Bank’s President launched a Task Force on Institutional reforms (TFIR) to examine how the Bank could best play an expanded role in the development of the African continent.</p> <p><b>2005 December:</b> The ADF Results Measurement Framework Paper – this paper implies that progress achieved towards meeting the PRS priorities and MDGs will increasingly be attributed to collective HA/JAS process.</p>	<p><b>2005–2009:</b> AfDB Country Strategy Paper (approved in 2006). This CSP was anchored on PASDEP. The CSP retained three of the PASDEP development pillars: agriculture, infrastructure development and good governance, making the latter a priority objective.</p> <p><b>2005:</b> The Bank jointly produced with the ILO a study on support for women entrepreneurs in Ethiopia, Kenya and Tanzania, which was of high quality and informed the design of the post 2004 CSP.</p> <p><b>Nov 2005:</b> In response to the post-2005 election deterioration of the political governance context all ‘Direct Budget Support’ DPs providing GBS decided to suspend their GBS operations.</p> <p>The WB had an ongoing PRSC series; PRSC III was stopped on its way to being approved by the Board and replaced by PBS as a SIL. Similarly, the EC and DFID joined the PBS. The AfDB PRS-L was part of the joint DBS arrangements and preparation of a second PRSL was stopped. Instead, the Bank joined the PBS donors in February 2007, with a PBS1 loan.</p> <p>So there was no budget support/PBS disbursement from June 2005 to May 2006, when the WB and DFID disbursed first.</p>	<p><b>2005 March:</b> US-based Human Rights Watch accuses army of "widespread murder, rape and torture" against Gambella region’s ethnic Anuak people. Military angrily rejects charge.</p> <p><b>2005 May – September:</b> General and Regional Elections on <b>May</b> 15th. Disputed elections lead to violent protests over months. Although results had to be announced by June 8th, the vote tallying process was jeopardized when the opposition claimed that the Addis Ababa vote was rigged and during the evening of May 16, the Prime Minister declared a state of emergency, outlawed any public gathering, assumed direct command of the security forces, and replaced the capital city police with federal police and special forces drawn from elite army units. In <b>2005 August–September:</b> there are election re-runs in more than 30 seats. In the official results announced in <b>September</b>, EPRDF captured 327 of the 547 seats (59%). The main opposition parties were the Coalition for Unity and Democracy (CUD) with 109 seats, the United Ethiopian Democratic Forces (UEDF) with 52 seats and the Somali People’s Democratic Party with 24 seats.</p> <p><b>2005 December:</b> International commission, based in The Hague, rules that Eritrea broke international law when it attacked Ethiopia in 1998.</p> <p>More than 80 people, including journalists and many opposition leaders, are charged with treason and genocide over November’s deadly clashes.</p> <p><b>2005:</b> UNDP Human Development Index (HDI) ranks Ethiopia 170th out of 177 countries, and well below the average for SSA.</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
			<p><b>2005/06–2009/10:</b> Second PRSP – Ethiopia’s Plan for Accelerated Progress and Sustained Development to End Poverty (PASDEP). This PRSP maintained the same pillars of the SDPRP with a special emphasis on the MDGs.</p>
<p><b>2006</b></p>	<p><b>2006 April:</b> <u>‘The revised Bank Group Action Plan on harmonisation, alignment, and managing for results’</u> – This paper summarises ongoing Bank activities to promote the HA and MfR agenda and set the Bank’s future plans for deepening its work in this area.</p> <p><b>2006:</b> The Bank published <u>‘Bank Group use of DBSL and SWAps: Issues and Challenges’</u>. This paper reviews the Bank Groups experience and the challenges faced in the use of these instruments it made three recommendations for the way forward:</p> <ol style="list-style-type: none"> <li>i. Amendment of the procurement provision in Article 15(4)(a) of the Agreement Establishing the ADF to permit effective Fund’s involvement in SWAps. This should be on the agenda of the Deputies during the Mid-term Review of the ADF-X</li> <li>ii. Enhance the Bank’s Field Presence to involve effectively in BSOs and SWAps – this requires reviewing staffing levels and mix</li> <li>iii. Provide increased support to PFM capacity building in RMCs to strengthen the country’s fiduciary system in parallel to moving to ‘untied’ aid assistance.</li> </ol> <p><b>2006: Organisational Reforms</b> – In April 2006, the Boards of Directors approved a proposal to strengthen the Bank Group’s organisational structure under the title <u>‘Enhancing the effectiveness of the bank’</u>. The reforms included changes in the organisational structure centred on the Operations Complexes and the Office of the Chief Economist, with the overarching goal of enhancing development effectiveness and delivering better results for RMCs.</p>	<p><b>March 2006:</b> Informal DAG Meeting in Paris. AfDB was DAG Co-Chair at the time. It was agreed among donors not to penalise the vulnerable and to resume aid, although not in the form of DBS but through an alternative instrument earmarking resources for the regions’ and districts’ service delivery programmes through ‘co-financing’ the federal block grant transfers, the PBS. The new instrument included a strong focus on improving governance for basic service delivery at the local level.</p> <p><b>May 2006:</b> The World Bank and DFID approved their PBS grants and since then more donors joined the programme, or committed to join the PBS.</p> <p><b>Dec 2006:</b> Protecting basic services (PBS) approved (UA 78m). PBS-I focused on improved human development and inclusive economic growth in Ethiopia. It was consistent with the GOE’s PASDEP. It had 4 components: Component I, block grants to sub-national governments (regions, districts or woredas and municipalities); Component II, the Health MDG Performance Pooled Fund; Component III, Institutional Support for the enhancement of Financial Transparency and Accountability; and Component IV, development of Social Accountability Mechanisms.</p> <p><b>2006:</b> The Bank delegated on a pilot basis to ETFO the authority to manage the education and health project and to review their procurement documents for works and goods of up to UA 250,000.</p>	<p><b>2006 May:</b> Six political parties and armed groups form an opposition alliance, the Alliance for Freedom and Democracy, at a meeting in the Netherlands. Several bomb blasts hit Addis Ababa. No organisation claims responsibility.</p> <p><b>2006 August:</b> Several hundred people are feared to have died and thousands are left homeless as floods hit the north, south and east.</p> <p><b>2006 September:</b> Ethiopia denies that its troops have crossed into Somalia to support the transitional government in Baidoa.</p> <p><b>2006 October:</b> UN Secretary General Kofi Annan urges Eritrea to pull back the troops it has moved into the buffer zone on the Ethiopian border. The UN says the incursion is a major ceasefire violation.</p> <p>War of words between Ethiopia and Islamists controlling much of Somalia. Prime Minister Meles says Ethiopia was "technically" at war with the Islamists because they had declared holy war on his country.</p> <p><b>2006 November:</b> UN report says several countries – including Ethiopia – have been violating a 1992 arms embargo on Somalia by supplying arms to the interim government there. Ethiopia’s arch enemy Eritrea is accused of supplying the rival Islamist administration. Ethiopia and Eritrea reject a proposal put forward by an independent boundary commission as a way around a four-year impasse over the demarcation of their shared border.</p> <p>Ethiopian troops enter Somalia, engage in fierce fighting with Islamist controlling large parts of the country and capital. The Islamists disperse.</p> <p><b>2006 December:</b> Exiled former dictator Mengistu Haile Mariam is convicted, in absentia, of genocide at the end of a 12-year trial. He is later sentenced to death.</p>
<p><b>2007</b></p>			<p><b>2007 February:</b> Around 50,000 Somalis have crossed into Ethiopia in the past six months to flee instability at</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
			<p>home, the UN High Commissioner for Refugees (UNHCR) reports.</p> <p><b>2007 April:</b> Gunmen attack a Chinese-owned oil facility in the south-east Somali region, killing 74 people working there.</p> <p><b>2007 June:</b> Opposition leaders are given life sentences over mass protests that followed elections in 2005, but are later pardoned.</p> <p><b>2007 November:</b> Ethiopia rejects border line demarcated by international boundary commission. Eritrea accepts it.</p> <p><b>2007:</b> PEFA assessment undertaken.</p>
<p><b>2008</b></p>	<p><b>2008: Organisational reforms</b> – The Bank embarked on a new phase of institutional reform to consolidate its role as Africa’s premier development finance institution presented to the board in April 2008 as the ‘<u>Governance Strategic Directions and Action Plan GAP 2008–2012</u>’. The strategic directions and Action Plan provided a rationale for greater strategic selectivity and focus in the Bank’s governance work.</p> <p><b>2008 January:</b> <u>ADF-11 Deputies Report</u> – the report states that at least 75% of funds will be allocated for specific investment projects and programmes and technical assistance and no more than 25% via PBL operations</p> <p><b>2008 March:</b> approval of the Bank Group’s Strategy for the Enhanced Engagement in Fragile States. This was followed in <b>July</b> by the approval of the <u>Operational Guidelines of the Fragile States Facility (FSF)</u>. FSF operations can be implemented using the Bank’s quick disbursing instruments combating issues of slow disbursement. The AfDB strategy on fragile states recommended the transfer of arrears clearance activities of the PCCF to the FSF.</p> <p><b>2008 May:</b> Paper on ‘<u>Bank Group approach towards enhancing the use of country systems</u>’ prepared, and approved by the Board in July.</p> <p><b>2008:</b> PBL type instruments were used as a fast-disbursing response to the African food crisis. ‘<u>The African food crisis response</u>’ (AFCR) was developed in July 2008 and forms a framework for AfDB accelerated support to RMCs affected by increased</p>	<p><b>2008:</b> Protecting basic services II (PBL) approved (UA 110m). Like its predecessor the PBS II will contribute to financing the delivery of basic services, targeting primary health, education, agriculture, and water and sanitation at the local level with the aim of influencing the implementation of Ethiopia’s Decentralisation Governance agenda. The entire programme shall retain the same four main components or sub-programs as its predecessor the PBS I. Sub-Programme A, Part A1 which supports the delivery of basic services will consume over 90% of programme resources while Part A2 pertaining to a Local Investment Grant pilot will account for 2%. As was the case with PBS I, Sub-Programme B accounting for about 3% of program resources will finance the Health MDG Support Facility, while Sub-Programme C will now combine support for Fiduciary arrangements, Transparency and Accountability. A new Sub-Programme D has been added to support Monitoring and Evaluation.</p>	<p><b>2008 June:</b> Peace agreement signed between Somali government and rebels provides for withdrawal of Ethiopian troops within 120 days.</p> <p><b>2008 July:</b> UN Security Council votes unanimously to end UN peacekeeping mission monitoring disputed border between Ethiopia and Eritrea.</p> <p><b>2008 December:</b> Police re-arrest key opposition leader Birtukan Medeksa, who was jailed for her role in the opposition protests after the 2005 polls, and freed under a government pardon in 2007.</p>

Time period	AfDB HQ Policy Changes	AfDB Ethiopia lending instruments	Ethiopia Country Context
	<p>food prices, with short (periods of 6 months to a year) and medium to long term measures (over 3 years and beyond) to the value of UA 472 million and UA 1.4 billion respectively. One of the short-term measures is the use of a budget support instrument for quick disbursement of resources to RMCs (UA 304 million).</p>		
<p><b>2009</b></p>	<p>In <b>2009</b> PBL type instruments were used to respond to the financial crisis in 2009. In March 2009, the Bank developed the '<u>Bank Response to the Economic Impact of the Financial Crisis</u>'.</p>		<p><b>2009 January:</b> Parliament passes bill banning foreign agencies from work related to human rights or conflict resolution, as well as severely restricting foreign funding for local agencies, in move seen as effort to clamp down on unwanted foreign interference.</p> <p>Ethiopia formally withdraws forces from Somalia.</p> <p><b>2009 June:</b> Ethiopia admits to "reconnaissance missions" in Somalia, but denies re-deploying troops there.</p> <p><b>2009 August:</b> Ethiopia and Eritrea ordered to pay each other compensation for the border war. The commission found that it was Eritrea which had resorted to force.</p> <p><b>2009 October:</b> Government says 6 million need food aid, mainly because of drought.</p> <p><b>2009 December:</b> Rebels of the Ogaden National Liberation Front claim capture of several towns in the east in a month of heavy fighting.</p>
<p><b>2010</b></p>		<p>Bank is requesting additional financing for PBS II.</p>	<p><b>2010 May:</b> Ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) wins huge majority in parliamentary elections, handing PM Meles Zenawi a fourth term. EU observes say the vote "fell short". Opposition leaders demand a re-run.</p>





**Table C1 Total ADF Approvals Ethiopia: 1999–2009 (UA million)**

<b>ETHIOPIA</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Project Lending</b>	0	0	120	19,89	49,88	0	0	152,2	0	0	0
<i>% Project lending</i>		0%	65%	16%	49%	0%	0%	66%		0%	
<b>Policy based lending</b>	0	0	60	0	21,24	60	0	0	0	0	0
<i>% Policy based lending</i>		0%	32%	0%	21%	29%	0%	0%		0%	
<b>Grants</b>	0	3,71	5,78	1,12	30,92	1,98	43,61	78,49	0	110	0
<i>% Grants</i>		100%	3%	1%	30%	1%	100%	34%		100%	
<b>Technical Assistance</b>							0	0	0	0	0
<i>% Technical Assistance</i>		0%	0%	0%	0%	0%	0%	0%		0%	
<b>Debt &amp; debt service reduction</b>	0	0	0	102,91	0	146,97	0	0	0	0	0
<i>% Debt Service</i>		0%	0%	83%	0%	70%	0%	0%		0%	
<b>Total Approvals</b>	<b>0</b>	<b>3,71</b>	<b>185,78</b>	<b>123,92</b>	<b>102,04</b>	<b>208,95</b>	<b>43,61</b>	<b>230,69</b>	<b>0</b>	<b>110</b>	<b>0</b>

Source: AfDB (2010 and 2009) Compendium of Statistics

Notes

1. These are approvals, not actual disbursement dates, which explains some of the discrepancies with the data on PBO disbursement in Table C3
2. PBO resources can be split into two lines, policy-based lending and grants, if parts of the PBOs are financed through grants. So, for instance SAL2 was approved in 2003 though disbursed in 2003 and 2004 and was financed partly as grant (for 30.92 UA million). In contrast PRSL was financed entirely as policy-based lending and approved in 2004 – but disbursed in reality in 2005. PBS1 and PBS2 are recorded as approved in 2006 and 2008 and fully grant-financed so far (the additional financing currently being requested is not mentioned here)
3. The data is slightly confusing also because under grant financing a number of TA operations are also recorded.



**Table C2 Comparison of Design and Selected Performance of AfDB PBOs in Ethiopia<sup>33</sup>**

	SAL 1	SAL 2	PRSL	PBS1	PBS2
<b>Performance</b>					
Year of Approval	1993	2001	2004	2007 (Jan)	2008 (end)
<b>Conditions:</b> Number	18	6 + 8	9	3 (standing achievements) + 4 to 5 specific actions for each tranche	3 (standing achievements) No additional actions
<b>Tranches:</b> Number	2	2	1	3	3
<b>Sectors:</b> Number (consistency with previous operation)		3	4 (3 with some within-sector variations)	2 (0) (2 PBS components)	2 (2) (2 same PBS components)
<b>Harmonisation</b>	Same reform programme: >3 + IMF <sup>34</sup>	Same reform programme: >2 + IMF	Joint review & policy matrix (including each DP's conditions): 7	Same principle framework and review process: 11 <sup>35</sup>	Same principle framework and review process: 11
<b>Predictability:</b> Delays overall programme	22 months (delay in release 2 <sup>nd</sup> tranche)	18 months (delay in release 2 <sup>nd</sup> tranche)	0 months	0 months	0 months
<b>Predictability:</b> % of funds not disbursed in programme fiscal year	44%	33%	0%	0%	0%
<b>In-year Predictability:</b> Delay in fund disbursement from planned timing	22 months	18 months	5 months	Disbursements were processed rapidly after reviews	Disbursements were processed rapidly after reviews
<b>Ranking:</b> PCR rating	Implementation 2.5 Bank performance 3.0 Program outcome 3.1	Overall 2.27 Borrower performance 1.17 Bank performance 1.9	Overall 2.8 (Timeframe 2) (Privatisation outcome 2)		
<b>Amount:</b> UA million	63.55	60	60	79	110 (additional financing requested)

<sup>33</sup> Please see Table 4.1 in the main text about the shift in AfDB PBOs operations in Ethiopia over 1999-2009.

<sup>34</sup> I.e. the reform programme supported by SAL1 was said to also be supported by at least three other donors (of which the WB and the EC) and the IMF; the reform programme supported by SAL2 was said to be supported by at least two other donors and the IMF. For GBS/DBS seven donor agencies had a joint policy matrix. For PBS 11 donor agencies have adopted a common programme framework

<sup>35</sup> This includes 3 bilateral DPs financing only non-budget support components of the PBS.

**Table C3 AfDB Policy-Based Operations – Commitments and Disbursements – Trend Table**

UA million	2002	2003	2004	2005	2006	2007	2008	2009	2010
SAL2									
Approved	60,00								
Disbursed <sup>36</sup>	40,00	20,00							
PRSL									
Approved				60,00					
Disbursed				60,00					
PBS1									
Approved						42,39	36,02		
Disbursed						42,39	36,02		
PBS2									
Approved								80,00	30,00
Disbursed								80,00	30,00
<i>Total PBOs</i>									
<i>Approved</i>	60,00	0,00	0,00	60,00	0,00	42,39	36,02	80,00	30,00
<i>Disbursed</i>	40,00	20,00	0,00	60,00	0,00	42,39	36,02	80,00	30,00

Source: Authors, various PCRs and ETFO data on PBS

Notes: Additional financing for PBS2 is being requested for UA 72.6 million planned to be disbursed in Nov 2010 and May 2011 (EFY 2010/11)

<sup>36</sup> SAL2 was planned to be disbursed entirely in the year 2002. In reality only the first tranche was disbursed that year and the second tranche was disbursed in 2003.

**Table C4 AfDB PBOs – Contributions to jointly financed programmes**

<i>PBO 1: Structural Adjustment Loan II</i>		
Financing sources	UA	% of total
ADF	60.000.000	16%
IMF	86.900.000	24%
World Bank	116.600.000	32%
European Union	105.000.000	28%
<b>Total</b>	<b>368.500.000</b>	<b>100%</b>

<i>PBO 2: Poverty Reduction Support Loan</i>		
Financing sources	UA	% of total
ADF	60.000.000	23%
World Bank (IDA)	101.320.000	39%
European Union	24.760.000	9%
Canada	12.890.000	5%
Germany	7.840.000	3%
Ireland	8.910.000	3%
Sweden	8.930.000	3%
United Kingdom	37.170.000	14%
<b>Total</b>	<b>261.820.000</b>	<b>100%</b>

<i>PBO 3: Protection Basic Services I</i>		
Financing sources	US\$	% of total
AfDB	115.880.000	4%
Government of Ethiopia	2.030.750.000	71%
World Bank (IDA)	213.981.750	8%
EC	176.891.580	6%
DFID	293.868.270	10%
CIDA	14.265.450	1%
Other	5.706.180	0%
<b>Total</b>	<b>2.851.343.230</b>	<b>100%</b>

<i>PBO 4: Protection Basic Services II</i>		
Financing sources	US\$	% of total
AfDB	176.160.000	5%
Government of Ethiopia	2.237.000.000	58%
World Bank (IDA)	650.000.000	17%
EC	224.660.000	6%
DFID	340.400.000	9%
CIDA	69.200.000	2%
Irish Aid	54.300.000	1%
KfW	49.800.000	1%
Spain	14.200.000	0%
Italy	10.700.000	0%
Japan and others	34.000.000	1%
<b>Total</b>	<b>3.860.420.000</b>	<b>100%</b>

## **Annex D ETFO Country Portfolio data**

The analysis of AfDB portfolio trends in section 3 including Table 3.1 is based on the data found in Annex II of the CSP 2006–09 (AfDB 2009a) (Ethiopia: List of Bank Group Operations As at 31 May 2006) and Annex VI of the OPEV evaluation of Ethiopia CSPs (AfDB 2008c) (Ethiopia – ADB On-Going Operations as at 31 Aug 2008). The evaluation team asked for but failed to obtain updated disbursement data. A portfolio review was ongoing at the same time as the evaluation team’s country visit and new data may be available soon.

## Annex E People met

Organisation	Name	Position
AfDB	Lamin Barrow	Resident Representative
AfDB	Peter Mwanakatwe	Senior Economist
AfDB	Senidu Fanuel	FM/PFM expert
AfDB	Hailemariam Hailemeskel	Agricultural economist/expert
AfDB	Admit Zerihun	Macroeconomist expert
AfDB (Tunis-based, met in Addis)	Mr. Matondo-Fundani	Regional Director East
AfDB (Tunis-based, phone call)	Carlos Santiso	Division Manager OSGE1 (Governance)
AfDB (Tunis-based, phone call)	Victor Ndisale	Chief Governance Expert OSGE1 (Governance)
IMF	Sukhwinder Singh	Resident Representative
World Bank	Robert Chase	PBS Team Leader, Senior HD Economist
World Bank	Ato Lemma Argaw	Ex-Auditor General, now consultant on PBS for WB
World Bank (Consultant)	Stephen Peterson	Consultant, PFM reform expert
DFID	Ali Forder	Senior health adviser
DFID	Paul Walters	Economist (by email)
DFID	Berhanu Lakew	Governance adviser
DFID	Malcolm Smart	Ex-Senior economist (now London)
Embassy of Ireland	Colleen Wainwright	Head of Development Agency
Embassy of Ireland	Hiwot Mebrate	Senior Programme Officer
Embassy of Ireland	Laura Leonhardt	PFM/Governance (now in Limerick)
Embassy of Netherlands	Geert Geut	Head of Development Agency
Embassy of Netherlands	Geerit Noordam	Sustainable Development/NRM
Embassy of Canada	Stuart Lane	Development Counsellor
Embassy of Canada	Berhanu Assefa	Rural Development adviser
Italian Cooperation	Giorgio Sparagi	Director
Italian Cooperation	Radio Save	Senior Adviser Water and Energy
Swedish Embassy	Abdi Foum	Head of Development Agency
European Union	Benedetta Musillo	Economic Attaché
European Union (Consultant)	Hendrik van der Heijden	Adviser on design of GBS
PBS Secretariat	Chris Gaukler	Acting Head
PBS Secretariat	Wendm Syamregne Mekasha	M&E lead expert
PSNP Secretariat	Matt Hobson	Acting Head
Ministry of Finance and Economic Development (MOFED)	Melaku Kifle	Channel One Program Coordination Unit (COPCU) Head
MOFED	Mezgabu Amha	Director Macroeconomic Policy

<b>Organisation</b>	<b>Name</b>	<b>Position</b>
MOFED	Mussa Mohammed	EMCP Head
MOFED	Dejene Demissie	Director, Multilateral Resource Mobilisation
MOFED	Kokeb Misrak	Multilateral Resource Mobilisation, AfDB focal person
National Bank of Ethiopia	Samuel Mulugeta	Ag Director Monetary and Macro Policy Research
Ministry of Agriculture and Rural Development	Techanew Adugna	Head Planning and Programming
Ministry of Education	Solomon Shiferaw Bogale	EMIS, planning and resource mobilisation, Process Owner
Ministry of Health	Roman Tesfaye	DG Planning