

**African Development
Bank**

**African Development
Fund**



**ADB/ADF/OPEV/2008/11
AUGUST 2008
ORIGINAL: ENGLISH
DISTRIBUTION: LIMITED**

**Ethiopia
Country Assistance Evaluation 1996-2007**

FINAL REPORT

OPERATIONS EVALUATION DEPARTMENT

TABLE OF CONTENTS

	Page
CURRENCY EQUIVALENTS.....	iii
ACRONYMS AND ABBREVIATIONS.....	iii
FOREWARD.....	vii
EXECUTIVE SUMMARY	vii
1. INTRODUCTION: OBJECTIVES AND APPROACH OF THE EVALUATION ..1	
1.1 Objectives and Scope	1
1.2 Approach of the Evaluation	1
2. COUNTRY CONTEXT AND SOCIOECONOMIC DEVELOPMENT.....2	
2.1 Geopolitical Context	2
2.2 Macroeconomic Performance and Social Indicators.....	3
2.3 Development Challenges	4
3. BANK ASSISTANCE STRATEGIES AND PROGRAMS .....5	
3.1 Bank Assistance and Alignment to Government Strategies	5
3.2 Relevance of Bank Assistance Strategies	7
3.3 Bank Lending Assistance	9
3.4 Nonlending Assistance.....	12
4. DEVELOPMENT OUTCOMES.....14	
4.1 Macroeconomic Stability and Improved Public Sector Management	14
4.2 Sustainable Growth and Rural Development.....	17
4.3 Health and Education Services Delivery.....	25
4.4 Overall Outcome, Institutional Development, and Sustainability	28
5. PERFORMANCE OF BANK, GOVERNMENT, AND OTHER PARTNERS.....31	
5.1 Bank Performance	31
5.2 Government Performance.....	33
5.3 Other Development Partners' Performance	34
5.4 Exogenous Factors	34
6. CONCLUSION, LESSONS, AND RECOMMENDATIONS.....35	

LIST OF ANNEXES

ANNEX A: Ethiopia – Administrative Map

ANNEX B: Statistical Tables:

B-1	Ethiopia – Selected Economic and Social Indicators
B-2a	Ethiopia – Net Receipts of External Financial Resources
B-2b	Ethiopia and Comparators: External Financial Resources
B-2c	Bank Group Commitments to Ethiopia and Comparators
B-2d	Ethiopia – Bank Group Approvals, 1996-2004
B-3	Ethiopia – Bank Program Approvals and Disbursements, 1996-2004
B-4a	Ethiopia – Bank Assistance Strategies, 1996-2004
B-4b	Ethiopia – Country Assistance Strategy Objectives and Selected Indicators, 1996-2004
B-4c	Ethiopia – Alignment of Project Objectives to RMF Indicators
B-4d	Ethiopia – Performance Ratings of Projects Completed, 1996-2007
B-4e	Ethiopia – Performance Ratings of Projects Completed, 1996-1999
B-4f	Ethiopia – Performance Ratings of Projects Completed, 2000-2007
B-4g	Ethiopia and Comparators: Projects and Commitments at Risk, 2004
B-5a	Ethiopia – Project Disbursement Efficiency of Approvals, 1996-2004 by Sector
B-5b	Ethiopia – Bank’s Annual Disbursement Rate, 1997-2007
B-6a	Ethiopia – Summary Rating of Bank Assistance Program Outcome
B-6b	Ethiopia – Summary Rating of Bank Performance
B-6c	Ethiopia – Summary Rating of Selected Exogenous Factors
B7	Ethiopia – National MDGs

ANNEX C: Methodological Approach

ANNEX D: Effectiveness of the Pilot Delegation of Education and Health Project Management Authority to the Ethiopia Field Office

ANNEX E: Management response to CAE recommendations

ANNEX F: Persons with Whom Discussions were Held

REFERENCES

<p>This report was prepared by Mr. F. TURAY, Principal Evaluation Officer, Operations Evaluation Department (OPEV), and Mr. H. K. TAYE, Consultant (Macroeconomist). Mr. K. SARHANE, Research Assistant, OPEV, provided the statistical support. Any further matters relating to this report may be referred to Mr. C. KIRK, Director, OPEV, extension 2041 or Mr. F. TURAY, extension 3257.</p>
--

LIST OF BOXES, FIGURES AND TABLES

<u>Boxes</u>		<u>Page N^o.</u>
Box 3.1	Five Pillars of the Government's Development Strategies, 1996-2007	6
Box 3.2	Bank Assistance Strategies, 1996-2009	6
Box 3.3	Ethiopia – Performance Rating of the Bank's Lending and Nonlending Assistance	14
Box 4.1	Ethiopia – Objectives of Bank Agriculture Projects, 1996-2004	20
Box 4.2	Rating of Bank Program Outcomes	29
Box 5.1	Outcomes Summary of Delegated Education and Health Project Management and Procurement Authority	32
<u>Figures:</u>		
Chart 2.1	Ethiopia – Overall Economic Performance Positive but Unstable	3
Chart 3.1	Ethiopia – Project Disbursements Lag, except in PBL, 1996-2004	11
Chart 3.2	Ethiopia – Per Capita Net Receipts of External Financial Resources (USD) Relative to Comparators	12
Chart 4.1	Ethiopia – Relatively Low Share of Population with Access to Safe Water, 1993-2002	19
Chart 4.2	Ethiopia – Population with Access to Improved Sanitation, 1993-2002	19
Chart 4.3	Ethiopia – Highly Unstable Agricultural Value Added	21
Chart 4.4	Ethiopia – Crop, Food and Livestock Production Indices (1999-2001 =100) and Food Price Index (2000 = 100)	21
Chart 4.5	Ethiopia – Maize, Wheat, and Teff Yields (mt/ha), 1992/93-2004/05	21
Chart 4.6	Ethiopia – Cereal Yields (kg/ha), 1995-2004	22
Chart 4.7	Ethiopia – Average Annual Real GDP Growth Rate, 1983-2005	25
Chart 4.8	Ethiopia – Gross Primary School Enrollment, 1995-2004	26
Chart 4.9	Ethiopia – Ratio of Girls in Primary and Secondary Education, 2000-2004	26
Chart 4.10	Ethiopia – Under Five Mortality Rate (per 1,000 live births)	26
Chart 4.11	Ethiopia – Infant Mortality Rate (per 1,000 live births)	26
<u>Tables</u>		
Table 3.1	Ethiopia – Bank Group Approvals by Support Area, 1996-2004	9
Table 3.2	Project Performance in Ethiopia Relative to Comparators, 1996-2007	10

CURRENCY EQUIVALENTS*Ethiopian Currency Unit = Birr (B)*

Currency	1997	1998	2001	2004	2006
B/UA	9.29	9.75	10.92	12.96	12.46
US\$/UA	1.36	1.38	1.26	1.55	1.45

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
ADLI	Agriculture Development Led Industrialization
AIDS	Acquired Immunodeficiency Syndrome
APPR	Annual Portfolio Performance Report
BADEA	Arab Bank for Economic Development in Africa
CAE	Country Assistance Evaluation
CAR	Commitment at Risk
CIDA	Canadian International Development Association
COMESA	Common Market for Eastern and Southern Africa
CPA	Country Performance Assessment
CPIA	Country Portfolio and Institutional Assessment
CPR	Country Portfolio Review
CS	Country Strategy
CSP	Country Strategy Paper
DAG	Development Assistance Group
DBS	Direct Budget Support
DFID	Department for International Development (UK)
DO	Development Objective
DPMA	Delegated Project Management Authority
EIB	European Investment Bank
EP	Education III Project
EPA	Ethiopian Privatization Agency
EPCP	Economic Prospects and Country Programming Paper
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESAF	Enhanced Structural Adjustment Facility
ESDP	Education Sector Development Program
ESRDF	Ethiopian Social Rehabilitation and Development Fund
ESW	Economic and Sector Work
ETC	Ethiopian Telecommunication Corporation
ETFO	Ethiopia Field Office
EU	European Union
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GoE	Government of Ethiopia
HDI	Human Development Index
HIPCs	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HQ	The African Development Bank Group's Head Office

HSDP	Health Sector Development Program
IDA	International Development Assistance
ILO	International Labor Organization
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JBAR	Joint Budget and Aid Review
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MoFED	Ministry of Finance and Economic Development
MTEF	Medium-Term Expenditure Framework
NDF	Nordic Development Fund
NDP	National Development Program
NTF	Nigeria Trust Fund
ODA	Official Development Assistance
OPEC	Organization of Petroleum Exporting Countries
PAR	Project at Risk
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBL	Policy-Based Lending
PCR	Project Completion Report
PE	Public Enterprise
PER	Public Expenditure Review
PFP	Policy Framework Paper
PPESA	Public Enterprise Supervisory Authority
PRGF	Poverty Reduction and Growth Facility
PRSL	Poverty Reduction Support Loan
PRSP	Poverty Reduction Strategy Paper
PTAP	Privatization Technical Assistance Project
RB-M&E	Results-Based Monitoring and Evaluation
RMF	Results Measurement Framework
RSDP	Road Sector Development Program
RTTP	Rural Travel and Transportation Program
SAL	Structural Adjustment Loan
SDP	Sector Development Program
SDPRP	Sustainable Development and Poverty Reduction
SIP	Sector Investment Program
SSA	Sub-Saharan Africa
TA	Technical Assistance
TAF	Technical Assistance Fund
TWG	Thematic Working Group
UA	Unit of Account
UNDP	United Nations Development Program
WMU	Welfare Monitoring Unit

FOREWARD

1. Ethiopia is an important country in many ways. A large country of 1.1 million km², it is strategically positioned in the troubled Horn of Africa. With a population of nearly 80 million people, Ethiopia is the second most populous country in sub-Saharan Africa. Economic growth rates have been high in recent years, averaging nearly 9% between 2004 and 2006. Yet almost 10% of the population experiences chronic food insecurity, and although poverty levels are slowly declining, around 36% of Ethiopia's people live below the \$1 a day poverty line. Despite signs of progress, the development challenge remains both massive and urgent.
2. It is therefore fitting that Ethiopia should have received substantial support from the African Development Bank. Since the African Development Bank Group started operations there in 1975, the Federal Democratic Republic of Ethiopia has been the largest recipient of African Development Fund (ADF) funding, accounting for more than 8 percent of total ADF resources for the period 1975-2004.
3. This report evaluates the Bank's assistance to Ethiopia in the period 1996-2007, focusing on projects and interventions approved over the period 1996-2004. It seeks to assess the relevance, achievement of objectives, and contribution of the Bank's assistance program to national development outcomes. It also draws lessons and recommendations to help inform the ongoing and future AfDB assistance to the country.
4. This country assistance evaluation (E-CAE) was carried out by the AfDB's Operations Evaluation Department (OPEV), under the management of Mr Foday TURAY. OPEV is an independent unit of the Bank, reporting directly to the Operations and Development Effectiveness Committee (CODE) of the Bank's Board. OPEV has undertaken a number of country assistance evaluations in recent years, with a view to learning what has worked well in the Bank's country programmes as well as identifying areas for improvement.
5. The present evaluation is based on a review of sectors, project files, project completion reports and evaluation notes, project performance evaluation reports, country portfolio review reports, annual portfolio performance review reports, other OPEV evaluation reports on Ethiopia, and other relevant reports. Information has also been drawn from interviews with government officials, representatives of civil society and development partners, including the World Bank, IMF, EU, DFID, CIDA, and JICA, in addition to meetings with AfDB staff in Tunis and Addis Ababa. OPEV fielded missions to Ethiopia in 2005/06 for the sector reviews, and again in 2007 for an informal feedback from Government on the draft E-CAE report. Comments on the draft report were also obtained from relevant AfDB staff in Tunis and Addis Ababa, and subsequently reflected in the report.
6. The evaluation found the Bank assistance strategy to be relevant. But the delivery of the assistance program was weak and highly inefficient: consequently the development results were limited. The Bank improved its performance over the review period but overall it was unsatisfactory.
7. The case of Ethiopia illustrates problems faced more widely by the Bank's operations teams. Implementation has often been hampered by inflexibility in procedures and delays both on the part of the Bank and the recipient. But lessons have been learned and the Bank's ongoing reforms are intended to remove blockages, speed implementation and raise

performance. Decentralization of Bank personnel backed by greater delegation of authority should help to address many of the problems detailed in the present report. Indeed, following further strengthening of the Bank's Field Office in Ethiopia, it appears that programme management is improving. The evidence presented in this report of the Bank's unsatisfactory performance in past years should spur faster and deeper reforms going forward. And to the extent that the report provides evidence of shortcomings in implementation on the side of Government, the Ethiopian authorities may likewise wish to consider ways and means of strengthening performance.

8. The E-CAE was prepared by Foday TURAY (OPEV) and Haile K. TAYE (consultant) under the initial direction of Getinet GIORGIS, and subsequently that of Douglas BARNETT and finally Colin KIRK. Gennet HALL-YIRGA (OPEV), and Nelson MELSON-RICHARDS, Prof. Oladeji O. OJO, and Tesfaye TEKLO (consultants) provided the sector review inputs. These consultants also provided comments on the draft E-CAE report, and OPEV professional staff also did the same. Fareed HASSAN (IEG-WB) peer-reviewed the E-CAE report and Steven TABOR (consultant) also provided detailed comments. Sandra JONES and Sandhya SHARMAN (consultants) provided editorial services and comments. Research assistance was provided by Sarhan KECHELFI, and administrative support by Ruby ADZOBU-AGYARE, Myrtha DIOP, and Aminata KONE.

Colin Kirk
Director, OPEV

EXECUTIVE SUMMARY

Evaluation Objective, Approach, and Country Context

1. **Evaluation Objective and Approach:** This report presents an evaluation of the African Development Bank Group's ("the Bank") assistance to the Federal Democratic Republic of Ethiopia (Ethiopia) during the period 1996-2007 focusing on the assistance approved under the 1996-2004 programs. The period comprises four ADF programming cycles, each informed by a Country Strategy Paper (CSP) – 1996-1998, 1999-2001, 2002-2004, 2005-2009.

2. The Bank's assistance was evaluated at (i) *project-level*, focusing on the results of the Bank inputs (loans, grants, dialogue, analytical works, aid coordination and resource mobilization); and (ii) *country-level*, analyzing the contribution of Bank assistance to national development outcomes. The evaluation drew its information from the background sector reviews, project evaluation reports, other pertinent documentation, and interviews with key stakeholders including government officials and Bank staff. OPEV's four standard evaluation criteria (relevance; efficacy; efficiency; institutional development impact; and sustainability) and four-point rating scale provided the evaluation framework. To facilitate the evaluation at the country-level, the three CSPs were assessed in terms of the following outputs: (i) macroeconomic stability and improved public sector management, (ii) sustainable growth and rural development, and (iii) better health and education service delivery.

Country Context

3. **Political background:** Since 1991, Ethiopia has been governed by the Ethiopian People's Revolutionary Democratic Front (EPRDF), which replaced the socialist military regime, with its centrally planned economic agenda. The EPRDF has been gradually pursuing political, economic and legal reforms. It established a federal system of governance and held multiparty elections in 1995, 2000, and 2005. The EPRDF initially focused on reconstruction and rehabilitation of the damaged economy, before pursuing stabilization and adjustment measures which have been deepened over time. The Government of Ethiopia (GoE) adopted the poverty reduction process in the late 1990s, leading to an Interim Poverty Reduction Strategy Paper (I-PRSP) and then to full PRSPs in 2002 and 2006.

4. **Economic Context:** One of the most populous and poorest states in Africa, Ethiopia is highly dependent on rain-fed agriculture, making it particularly vulnerable to drought conditions. *Notwithstanding GoE's continuous efforts, poverty remains the main development challenge.* The country's economic performance since the early 1990s has seen a marked improvement. Over the period 1996-2004, the average real annual GDP growth was positive and relatively high; the human development index (HDI) slightly improved, and the national income poverty rate declined from 46 percent to 36 percent. However, Ethiopia continues to face major development challenges, including unstable economic growth; high debt stock; over-dependence on external aid; slow pace of poverty reduction; vulnerability to natural and economic shocks, and declining productivity of natural and environmental resources.

Bank Group Assistance

5. The Bank started operations in Ethiopia in 1975, and in 1975-2004 the country was the *single highest recipient of the African Development Fund (ADF) resources* – UA 1,106.2

million (8.4 percent) of the cumulative ADF loans and grants (UA 13,238.1 million). In 1996-2004, the Bank committed to Ethiopia UA 564.0 million (US\$ 794.8 million) for 28 operations; averaging UA 62.7 million (US\$ 88.3 million) per annum, which is above the average committed to other African countries. The country's net receipt of Bank financial resources during the review period was UA 231.22 million, representing 41 percent of the total commitments.¹ Four-fifths (UA 444.0 million) of this assistance was for investment lending in agriculture and rural development, infrastructure (transportation, power, water and sanitation), and social (education and health). The remaining one-fifth (UA 120.0 million) was for policy-based lending (PBL) covering two multi-sector operations.

Evaluation Results

6. *Bank country strategies (CSs)* over the review period were, in general, relevant to the development needs of Ethiopia and internally coherent. Anchored on the prevailing government development strategies and policies, they aimed at reducing poverty, thereby also aligning with Millennium Development Goals (MDGs) and the objectives of other development partners. However, the Bank's project approach in supporting education and health was not coherent with the sector-wide approach adopted by other donors. And largely because of a limited planning and results culture, the Bank's overall 1996-2004 strategy was less effective in its project selectivity and in using lessons learned. It also failed to establish realistic and appropriate results-chain monitoring and evaluation systems. Given the relatively slow Bank processes and weak GoE management capacity, the CSPs' implementation timeframe was unrealistic for realization of the planned objectives.

7. The overall outcome performance of the *Bank's assistance at the project-level* was satisfactory. It was satisfactory for the *lending assistance* but unsatisfactory for the *non-lending services*. Almost all of the completed projects produced satisfactory outcomes with benefits likely to be sustained. Most of the ongoing projects, particularly in infrastructure, are also likely to generate satisfactory development results, despite delays to their expected delivery period. The Bank's assistance worked best in delivering physical infrastructure facilities (roads, air transportation; power; water and sanitation), but was less effective in agriculture, education, and health projects. This was largely because of (i) the failure to deal with design deficiencies, and (ii) the relatively high staff turnover. The limited engagement of the Bank in analytical work, policy dialogue, and aid coordination contributed to the unsatisfactory performance of its non-lending assistance.

8. Progress toward Bank's *country assistance strategy (CS) objectives*, though positive, was slow and unsatisfactory. The Bank's assistance for *macroeconomic stability and improved public sector management* produced an overall satisfactory outcome. Although the 1996-2004 CS targets were not attained, the Bank's contribution was satisfactory in improving public sector expenditure management but modest in public enterprise management. The government adopted a fairly cautious and prudent fiscal stance in support of macroeconomic stabilization. However, the CS targets for fiscal deficit and inflation were not met, largely due to (i) the pressure for increased expenditure on the MDG activities and (ii) the costs of the Ethiopian-Eritrean border war. Bank assistance through the Structural Adjustment Loan (SAL II) (which was implemented with satisfactory outcomes) and Poverty

¹ As the net receipts refer to both Bank's disbursements and Ethiopia's repayments, they concern the Bank's commitments made prior to and during the period 1996-2004.

Reduction Support Loan (PRSL), supported the GoE's efforts to reduce tariffs, adopt legal codes and public notary law, improve service delivery, and privatize some public enterprises.

9. In respect to *sustainable growth and rural development*, the combined outcome of Bank assistance (to infrastructure, agriculture and natural resources, and private sector development) was on balance unsatisfactory. Bank assistance was effective in delivering transportation, water and sanitation facilities and services, as well as in improving the enabling environment for private sector development. It was, however, less effective in boosting agricultural productivity and income, and the supply of power mainly because of the limited delivery of the assistance. Support to the agriculture and rural development sector – the highest to a single sector – though relevant, had insufficient development results.

10. With regard to the *education and health outcomes*, the progress made was slow and limited, hence unsatisfactory. This reflected the gross under-delivery – only about a third of the planned schools and health facilities were realized – and unsatisfactory design of the support. Consequently, the Bank made an insubstantial contribution to the country's achievements in education and health MDGs.

11. *The Bank 1996-2004 assistance program's overall outcome was unsatisfactory*. While its contribution to macroeconomic stabilization was substantial, its support to economic growth and poverty reduction was inefficiently delivered with modest results. This poor performance is largely attributable to its ineffectiveness in addressing key implementation challenges concerning procurement, disbursement and weak capacity. Agricultural growth, the key driver of the economy, though positive, was highly unstable in the 1996-2004 period. So too was economic growth, which averaged about 4.6 per cent over the same timeframe. Poverty, both in income and social terms, declined – the poverty headcount fell and the social MDG results especially in education were positive.

Ethiopia: Bank 1996-2004 Program Performance Rated "Unsatisfactory"	
Evaluation Criteria	Rating
Program Outcome	Unsatisfactory
Institutional Development Impact	Modest
Sustainability	Likely
Overall Bank Performance	Unsatisfactory

12. The overall *institutional development impact* of Bank assistance program was modest. Its contribution was rated as substantial in establishing the Addis Ababa Bole International Airport management unit, the agricultural extension training program, the Public Enterprise Supervising Authority; and in enhancing public expenditure management, agricultural development and administration. However, it was weak in the following areas: roads, water and sanitation, health, and education subsectors, again due mostly to the limited delivery of its assistance.

13. The *sustainability* of most of the benefits from the Bank's assistance program – macroeconomic stability, growth, and poverty reduction – is likely, given the GoE's support and commitment for macroeconomic stability, irrigated small-scale agriculture and diversified economic structure, as well as for improving the country's development management capacity and relations with the neighboring countries. The GoE will continue its efforts to deepen the financial sector and to push ahead with its privatization process, though with caution in the case of its strategic monopolies.

14. *Overall Bank performance* over the review period was, on balance, unsatisfactory. The Bank was an important development partner in Ethiopia with substantial and relevant

development assistance. It showed understanding of the GoE's pace and approach in dealing with delicate issues like land tenure and privatization of strategic state enterprises. The Bank's assistance was also successful in supporting the government's public expenditure management; improving infrastructure and access to health and education facilities, particularly to assist the poor; and to diversify the economy (e.g. tea production). However, largely because of its slowness in empowering its field office and in ignoring the lessons of earlier interventions, substantial results were not met in many areas. The Bank's overall supervision, procurement, disbursement, and monitoring services in support of its portfolio were weak and of moderate value.

Key Lessons from the Evaluation

15. *To achieve development results on the ground and contribute to poverty reduction, the Bank must deliver its assistance effectively. This requires flexible business processes and effective supervision on the part of the Bank, and sufficient capacity to manage aid resources effectively on the part of the GoE.* About four-fifths of the rated bank assistance (with complete deliveries) produced satisfactory development outcomes. However, most of the commitments were not delivered within the programming periods. These delays resulted in constrained national development outcomes and negatively impacted country ownership. The slow delivery of Bank assistance was mainly due to: (i) its relatively inflexible business processes and procedures; (ii) its ineffective supervisory services, and (iii) the GoE's weak development management capacity.

16. *Requirements for a country field office to be fully effective include: portfolio management authority; appropriate and timely technical and resource support from the Bank's Head office (HQ); and flexibility and practicality in the relevant Bank rules and procedures.* The presence of the Ethiopian Field Office (ETFO) has increased the Bank's efficiency, effectiveness, and visibility, while its delegated education and health project management authority enhanced assistance delivery to these sectors. Its effectiveness was, however, limited by the inadequate technical and financial support from the HQ and by poor HQ-ETFO communication and coordination.

17. *Effective results-based management requires, inter alia, robust and comprehensive systems for tracking and evaluating performance, and processes to enable learning from past interventions.* With the recent adoption of the Results Measurement Framework (RMF) for project design, the Bank has scaled up the results orientation of its operations. However, during the review period this orientation was largely lacking; so too was an effective monitoring and evaluation (M&E) system to increase the Bank's development effectiveness. As a result, compliance with M&E reporting requirements was generally low. Staff incentives were also skewed in favor of loan approvals at the expense of other activities further down the results chain.

18. *Relevant knowledge from ESW and evaluation is required to ensure that the Bank's country assistance strategy is of satisfactory quality and also to add value to national development processes and planning.* By providing a sound basis for project formulation, the feasibility studies undertaken by the Bank impacted positively on project design. However, the limited investment by the Bank in broader analytical work and in evaluation weakened the analytical basis for CSP design, partnership development, and dialogue with the GoE. Such targeted investment could also have enhanced understanding of program-contextual

factors, such as the federal decentralization process and the financing instruments of development partners in the education and health subsectors.

19. *To ensure that the Bank's assistance strategy is adequately selective requires CSP guidelines that are appropriate and easily applicable.* CSP selectivity was undermined by the gross under-delivery of Bank assistance; shifts in some of the priority sectors from one programming cycle to the next; and unrealistic planning horizons. Although the Bank targeted its assistance to about four sectors per programming cycle, it had an active portfolio over the review period in at least seven sectors. Further, none of the Bank's commitments made within a programming period led to any disbursements within the same period.

Recommendations for Future Bank Assistance

20. *Improve the performance of the active portfolio to achieve development results on the ground:* The Bank's 1996-2004 assistance was chronically slow in disbursement, and a substantial part of it was still active in 2007 and early 2008, thus delaying national development results and undermining country ownership. This was a generic problem across sectors but more severe in education, health, agriculture, and in the Bank's technical assistance (TA). The Bank, in collaboration with the GoE, should accelerate the delivery of its assistance through (i) enhanced and timely TA to improve management capacity and facilitate compliance with lending conditions; (ii) appropriate Bank procurement and disbursement rules and procedures; (iii) effective and appropriate supervision and dialogue, backed by knowledge generation through ESW. The performance of future assistance will also depend upon the realism and quality of project and program design.

21. *Improve the effectiveness of the field office:* The Bank should further empower its ETFOs. This would improve the Bank's effectiveness in partnerships, aid coordination, policy dialogue, and in project/program design and implementation. This should translate into an effective, efficient, and accountable ETFO with enhanced portfolio management authority and appropriate HQ support.

22. *Scale up the results orientation of Bank processes, projects, and programs:* The Bank should: (i) ensure its projects, programs, and implementation processes are RB-M&E compliant, and that the M&E systems are realistic and generate appropriate data; (ii) clear the backlog of outstanding PCRs; (iii) support Government efforts to build its federal and regional M&E capacity.

23. *Broaden ESW knowledge:* In addition to carrying out feasibility studies for project/program formulation, the Bank should undertake more in-depth ESWs. This will support its policy dialogue, aid coordination, and investment choices, and will facilitate the replicability of successful projects in other areas.

24. *Enhance selectivity in lending and nonlending programs:* The lack of selectivity in Bank strategy also undermined the effectiveness of Bank assistance. The Bank should be selective in both lending and nonlending activities because it cannot afford to engage, on a sustainable basis, in too many sectors. The Bank should take into account (i) its sector comparative advantage in relation to other development partners and (ii) government's and other development partners' expectations of the Bank's role.

1. INTRODUCTION: OBJECTIVES AND APPROACH OF THE EVALUATION

1.1 Objectives and Scope

1.1.1 The African Development Bank Group (“the Bank”) started providing assistance to the Federal Democratic Republic of Ethiopia (Ethiopia) in 1975, and as at end 2004 it had committed a cumulative total of UA 1,106.24 million for 80 operations. This level of assistance accounted for 8.4 percent of the total cumulative commitment of the African Development Fund (ADF) for 1975-2004, making Ethiopia the single largest recipient. This report presents an evaluation of the assistance of the Bank to Ethiopia during the period 1996-2007 which covers four ADF programming cycles, each informed by a Country Strategy Paper (CSP): 1996-1998, 1999-2001, 2002-2004, 2005-2009².

1.1.2 The purpose of this country assistance evaluation (CAE) is to report to the Bank’s Board on the effectiveness of the assistance program, and to provide lessons for improving the ongoing and future interventions. The report evaluates the Bank’s lending and non-lending assistance comprising loans, grants, and services. These covered projects and programs approved before and completed after 1996 and those approved under the 1996-2004 assistance programs (some were still ongoing in 2007), as well as, policy dialogue, analytical works, aid coordination, and resource mobilization.³ The report focuses on the relevance of the Bank’s assistance strategies, the coherence of its operations, achievement of objectives, delivery efficiency, issues of sustainability and institutional development impact, and the performance of the key contributors.

1.2 Approach of the Evaluation

1.2.1 The report’s framework is anchored on the OPEV CAE methodology. It included the identification of the evaluation issues, and tested the consistency of the evaluative judgments and ratings. It uses the standard evaluation criteria (relevance; efficacy; efficiency; sustainability; and institutional development impact) and the four-point rating scale (see Annex C). The methodological approach adopts two perspectives: (i) *bottom-up*, focusing on individual bank assistance inputs and their results, and (ii) *top-down*, assessing higher-order development outcomes. The performance of the Bank and other factors contributing to the overall development outcome of the Bank assistance program are also analyzed.

1.2.2 The evaluation uses documented evidence (including OPEV records and country sector reviews; published reports and other Bank data), in addition to the viewpoints of selected stakeholders and Bank staff (at HQ and the field office [EFTO]) (see Annex C for more details).

1.2.3 After this introductory chapter, Chapter 2 provides the context for the evaluation, examining the economic and social performance of the country in order to determine the key development challenges and strategic priorities. The Bank’s performance and effectiveness in addressing these challenges is evaluated in the three subsequent chapters. The concluding chapter presents the lessons and recommendations for future Bank assistance to Ethiopia.

² This evaluation only took into account the design of the 2005CSP and not its implementation and results.

³ Regarding Bank’s projects approved prior to 1996 and completed in 1996-2004, only those whose objectives are aligned to those of the Bank’s 1996-2004 programs are included in the evaluation.

2. COUNTRY CONTEXT AND SOCIOECONOMIC DEVELOPMENT

2.1 Geopolitical Context

2.1.1 Ethiopia is landlocked by five countries: Somalia, Djibouti, Kenya, Sudan, and Eritrea. Its surface land area of about 1.104 million sq km comprises diverse agro-ecological zones with some mineral and natural resources. About 55 percent of the country's land area is arid, semi-arid and sub-moist with low and highly variable rainfall, as well as drought risks. The rest of the land area, especially in the highlands, has more rainfall, but some parts are prone to periodic flooding. About 10 percent of the country is arable land.

2.1.2 The country's population was 8.3.1 million in 2007, which was the second largest and with one of the fastest growth rates (about 2.5 percent) in Sub-Saharan Africa (SSA). The Ethiopian population is predominantly rural (about 85 percent) and young – about 45.4 percent of the population is less than 14 years of age – and the active population (14-60 years) accounts for 50 percent. The population dependency ratio is high at about 90 percent.

2.1.3 Ethiopia, relative to its population, has one of the smallest economies in Africa, accounting for just 1 percent of the continent's Gross Domestic Product (GDP) in 2003. The economy is highly agrarian; the sector's contribution stands at almost half of GDP, 60 percent of exports, and 80 percent of employment. Agriculture is overwhelmingly rain-fed and dominated by smallholders with limited access to productivity-improving technologies. The service sector is second most important in the Ethiopian economy, accounting for about one-third of GDP. The contributions of the industrial sector and of manufacturing are in the region of 10 and 5 percent of GDP, respectively.

2.1.4 The country, over the last four decades, shifted from centralized monarchy to social military rule (DERG) before the present government, the Ethiopian People's Revolutionary Democratic Front (EPRDF), took power in 1991. The centrally planned economic agenda of the DERG undertook a nationalization campaign, including the means of production (such as land), which left virtually no room for private sector development. Ethiopia's economy has suffered from the aftermath of conflicts, including the war with the Republic of Somalia (1977) and the border war with Eritrea (1998-2000), leading to overall economic decline.⁴ The EPRDF separated Ethiopia from Eritrea and initiated political and economic reforms in line with free market principles. It introduced a federal structure with four levels of government; (i) Federal Government, (ii) Regional Governments, (iii) *Woreda*/Municipal Administrations and (iv) *Kebellie* Administration.⁵ The EPRDF organized multiparty elections in 1995, 2000, and 2005 in pursuit of its Parliamentary system of governance. However, there were protests by the opposition following the May 2005 election, and this has negatively impacted foreign budgetary support to the country.

2.1.5 Among the notable economic policy changes that the EPRDF has undertaken are: devaluation of the domestic currency, removing price controls, liberalizing trade, privatization of public enterprises, and opening up the economy to foreign investment. Focusing on the poverty agenda, the EPRDF government adopted in 1992 its Agricultural

⁴ The unfavorable weather changes also negatively affected economic performance.

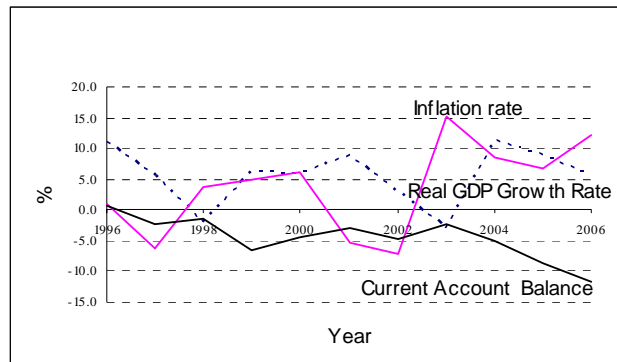
⁵ The *Woredas* are the basic units of government and seen as centers of socioeconomic development. The *Kebellie*, are organized villages and several of them form a *Woreda*. Unlike in the DERG era, there are no councils or people's representatives.

Development Led Industrialization (ADLI) strategy which provided the basis for its subsequent policies and national poverty reduction strategies. The ADLI aimed, inter alia, at i) transforming the Ethiopian economy into a fully market-based economy, ii) promoting labor-intensive agricultural growth and iii) devolution of power from the capital to the states (see Section 3 for details of these strategies).

2.2 Macroeconomic Performance and Social Indicators

2.2.1 The performance of the Ethiopian economy over the period 1996-2004, though highly unstable, improved considerably and remained on average positive (see Chart 2.1). The economic growth rate averaged 4.5 percent in 1991-2004, compared to 2 percent in the preceding period of (1974-1991). Real GDP had, over the review period, its lowest deep at minus 4 percent in 1998, and then its highest rise at 13.1 percent in 2004, largely attributable to the strong recovery in agricultural production after the drought of 2002/03. The agriculture sector, the mainstay and driver of the Ethiopia economy, had an annual growth performance of 2.8 percent over the period 1993-2002, which was high relative to the preceding decade. Domestic investment was marginally up over the period 1995-2004. This was partly due to a rise in private investment;

Chart 2.1: Ethiopia – Overall Economic Performance Positive but Unstable



Source: ADB-IMF-WDI

reaching 9.1 percent of GDP in 2004 compared to 5.3 percent in 1995 (see Annex B-1). Although the overall fiscal deficit was marked by high inter-year variations, it was maintained below 15 percent of GDP throughout 1995-2004. The current account balance, negative throughout most of the period 1996-2004, showed an average deficit ranging from minus 0.8 percent of the GDP in 1996 to minus 5.1 percent in 2003/4. It, however, doubled in 2004/5 to minus 10.6 percent of the GDP, largely due to the reduction in donor inflows into the country after the 2005 general elections. The public debt (as a percentage of GDP) decreased significantly from 158 percent in 1996 to 66 percent in 2000 and then marginally to 65 percent in 2004. The terms of trade, however, deteriorated between 1995 and 2004. Inflation was single-digit over the period 1996-2004, except in 2003 when it spiked at 15 percent, reflecting the aftermath of the drought of 2002/3 and the pressure on food prices.

Progress in Reducing Poverty

2.2.2 Despite gains made since the mid-1990s, Ethiopia remains one of the poorest countries in Sub-Saharan Africa (SSA) (see Annex B-1). According to the UNDP 2005 human development index (HDI), Ethiopia was ranked 170th out of 177 countries, and well below the average for SSA. The gross national income per capita averaged US\$ 104.3 (Atlas method) in 1996-2004, reflecting the unstable economic growth and rising population. Income inequality was low and unchanged in 1996-2004 (see Annex B-1), while the poverty headcount declined from 46 to 36 percent for the same period. However, the absolute number of people living in poverty in 1996 and 2004 remained the same, at about 28 million.

2.2.3 From the early 1990s through 2004, the country made substantial progress toward achieving universal primary education and gender equality in primary and secondary schooling. It also made headway in reducing the adult illiteracy rate (see Annex B-1), though this is still very high at almost 40 percent of the total population (49% of the female population). The country is therefore on track to reach the national education MDG targets. Improvements in the health and health-related outcomes were, however, limited. While the country progressed in reducing the spread of the HIV/AIDS and infant mortality, as well as in improving access to improved water and sanitation, very little progress was made in reducing under-five mortality and increasing life expectancy.⁶

2.3 Development Challenges

2.3.1 **Improving and sustaining growth:** Ethiopia's economic progress is largely influenced by (i) high reliance on low-yielding and rain-fed agriculture (hence vulnerability to drought conditions); (ii) a narrow export base, dominated by coffee (47 percent of exports); and (iii) weak private sector resulting inter alia from limited financial markets and credit facilities, and from bureaucratic "red-tape," property registration issues, and investor protection. The highly variable agriculture growth performance, reflected in the overall GDP, has hampered efforts to reduce poverty and high unemployment. Given the importance of the agriculture to the Ethiopian economy, a key challenge is to address the source of instability of the sector, especially in exploiting the huge irrigation potential of the country.⁷ Over the years and particularly as a result of drought, there has been a chronic shortage of food, contributing to the high dependence on external food aid.

2.3.2 **Reducing environmental and natural resource degradation:** The high population pressure and level of poverty, coupled with weak institutions, low access to technological developments, and poor management development policies, have contributed to the ongoing environmental and natural resource degradation in both the rural and semi-urban areas of the country. Furthermore, although the national population density of 70 people per sq km (2005) is low, about 80 percent of the Ethiopians live on the highlands. As a result, the population densities in some of the southern farming highlands are close to 500 persons per sq km. This situation is worsened by the high population growth rate, slow demographic transition and dependence of most of the population on the natural resource base for livelihoods. All these factors have contributed to the dwindling forest and vegetation cover and declining soil fertility. Continued environmental and natural resource degradation is likely to put a significant constraint on the development efforts that are underway.

2.3.3 **Enhancing health and other social provisions:** Although the country is making progress towards better social outcomes, the pace of such a progress is too modest to enable the country to meet most of the MDG health targets, although the country is on track to meet those for education (see para. 2.2.3; also 4.3.5). Social achievements, especially in health and access to safe water and improved sanitation, are not very encouraging. The country has a low HDI and is ranked among the ten least developed countries in the world. A key development challenge is the prevalence of the HIV, as Ethiopia has about 1.5 million people living with HIV, though the figure is below the average for the East Africa sub-region and SSA. The HIV/AIDS pandemic will continue to have a significant negative impact on both the economic and social lives of the population. Obstacles to progress in the social sector are

⁶ The spread of HIV/AIDS, though declining, is a serious threat; affecting about 5.6 percent of the adult population (15-49 years) who are the most productive members of society.

⁷ Less than 2 percent of the cropland is irrigated (WB, 2005).

mostly related to insufficient budgetary allocations (though improving), as well as by inefficiencies in the delivery of services. The GoE recently launched the Civil Service Reform initiative for improving the effectiveness and efficiency of the public service deliveries though this has yet to have a marked impact.

2.3.4 Lowering dependency on external aid and debt stock: Ethiopia is highly dependent on external assistance. Total Official Development Assistance (ODA) relative to GDP more than doubled from 11.8 percent in 1990 to 25.15 percent in 2003. In per capita terms this was about US\$ 27.67. This amount was slightly lower than the SSA average of US\$ 32.9 per person, but was a significant jump compared to the early 1990s (Driscoll et al., 2005). ODA represented about 38percent of government spending in 2002.

2.3.5 Notwithstanding the high grant element of the external assistance, the total external debt stock of the country is high. In 2003, the country's total nominal external debt stood at US\$ 6,845.4 million, representing 86.4 percent of GDP. Ethiopia has also benefited from a significant debt reduction, as it reached its HIPC decision and completion points in November 2001 and April 2004, respectively. By the end of the 2002/03 (the end of the Completion Phase) the stock of its external debt had reduced to US\$ 4,461.5 million from a high of US\$ 8,630 million in 1990 (IMF, 2005). The overall debt relief approved by the ADB amounted to US\$ 461.39 million in nominal terms. Even though the total debt stock decreased in recent years (owing to debt relief via the HIPCs initiative and some repayments), the existing debt is still unsustainable with any acceptable fiscal policy trade-offs (Taye, 2005).

2.3.6 Mitigating natural and economic shocks: The Ethiopian economy is particularly susceptible to the effects of drought through its high dependence on the agriculture sector and its primary export, coffee. (Ethiopian Economic Association, 2004). The dependence on a few primary commodities and unstable terms of trade present a serious challenge to the Ethiopian economy in terms of ensuring both internal and external balance.

2.3.7 Resolving border disputes and preventing regional conflicts: The unsettled border demarcation with Eritrea and the political conflict in Somalia pose serious security problems and refugee movements with attendant economic consequences for Ethiopia.

3. BANK ASSISTANCE STRATEGIES AND PROGRAMS

3.1 Bank Assistance and Alignment to Government Strategies

3.1.1 Over the period 1975-2007, the Bank formulated programming papers and then country strategy papers (CSPs) to guide its operations in Ethiopia⁸. For the period 1996-2004, the Bank prepared three CSPs (1996-1998; 1999-2001; and 2002-2004) in order to better channel its assistance. The overarching objective of these CSPs was to contribute to poverty reduction mainly through continued support for (i) macroeconomic stability and better public sector management focusing on economic management and private sector development themes; (ii) sustainable growth and rural development; and (iii) better health and education

⁸ The CSP was introduced in 1996.

service delivery⁹. In addition to these three CSP target areas, the 2005-2009 CSP approved in 2006 made the promotion of good governance a priority objective.

3.1.2 The Bank's strategies in 1996-2007 were underpinned by those of the government, which focused on macroeconomic stability, growth and rural development, human development, governance, and crosscutting issues (see Box 3.1). Although the Bank's strategies focused on poverty reduction, they showed some variations in areas of support over time (see Box 3.2 and Annex B-4a). They maintained macroeconomic stabilization and sustainable growth throughout the period. The 1996 CSP and 1999 CSP were based on the GoE's 1995-2000 National Development Plan (NDP) which supported (i) better delivery of economic and social facilities to the poor, and (ii) promotion of private entrepreneurship, including expanding exports.

Box 3.1: Five Pillars of the Government strategies, 1996-2007 :
1. Macroeconomic stability
2. Sustainable growth and rural development <ul style="list-style-type: none"> • Agriculture and rural development • Infrastructure • Water supply and sanitation • Private sector development
3. Human development <ul style="list-style-type: none"> • Education • Health
4. Good governance <ul style="list-style-type: none"> • Decentralization • Capital building • Judiciary and civil service reforms
5. Crosscutting issues

Box 3.2: Bank Assistance Strategies, 1996-2009				
CSP Results Area	CSP Programming Period			
	1996-1998	1999-2001	2002-2004	2005-2009
Macroeconomic stability and improved public sector				
• Policy based lending & human capacity	**	X	x	**
Sustainable growth & rural development				
• Agriculture development	x	X	x	x
• Road transportation	x	X	x	x
• Air transportation	x			
• Power		X	x	x
• Water & sanitation			x	x
• Private sector development		**	**	**
Human development				
• Education	x			
• Health	x			
Governance				x
i) X shows direct Bank support				
ii) ** shows policy dialogue and indirect support				

The 1995 NDP set out specific strategies for the key sectors– agriculture, infrastructure, and social (education and health). The objectives included increasing the productivity of small-scale farmers; expanding road networks; extending primary and secondary school coverage; and improving the delivery of basic health services to the poor in the rural areas, in addition to scaling up provision of sanitation facilities.

3.1.3 The Bank's 1996 CSP continued to target the same priority areas of agriculture, health, education and transportation. It also encouraged the GoE to continue economic reforms, for which the Bank had provided financial support during the preceding programming period. Although the Bank had envisaged extending PBL in support of the reforms during the 1996-1998 program, the GoE failed to request this type of assistance.

⁹ These three main intermediate objectives of the Bank's assistance strategies over the period 1996-2004 were reconstructed from those stated in each of the three CSPs for 1996-1998, 1999-2001, and 2002-2004.

3.1.4 Prepared within the context of the country's post-conflict rehabilitation and reconstruction period, the 1999 CSP continued to support policy reforms. Through its Interim Poverty Reduction Strategy Paper (I-PRSP), the GoE sought to secure debt relief and to increase agricultural food production and rural accessibility. The Bank's assistance was, therefore, mainly directed to adjustment lending and investment lending in agriculture and infrastructure (road network and rural electrification).

3.1.5 The I-PRSP was developed from the GoE's 2000-2005 NDP, which reiterated support for poverty reduction. It was adopted by the World Bank and IMF in 2001, and focused on pro-poor economic growth through four major pillars (i) Agricultural Development-led Industrialization (ADLI), (ii) Civil Service and Judicial Reform, (iii) Decentralization and Empowerment, and (iv) Capacity Building in the Public and Private Sectors. Other government programs continued to focus on agriculture, health, education, and infrastructure. The I-PRSP also placed emphasis on food security, gender equality, reducing HIV/AIDS prevalence and specific measures for restoring macroeconomic stability. The Joint Staff of the World Bank and IMF assessed the I-PRSP not only to meet the basic requirements of the I-PRSP framework but also to serve as a basis for the full PRSP. However, the I-PRSP lacked a strategy for monitoring implementation, and was also vague in specifying the institutional arrangement and process for preparing the full PRSP.

3.1.6 The Bank's 2002 CSP was based on the GoE's full PRSP (2002/03-2004/05) – the Sustainable Development and Poverty Reduction Program (SDPRP). While supporting improvements in the country's institutional and policy environment through policy-based operations and capacity building, the 2002 CSP continued to support agriculture and rural development by enhancing access to improved agricultural technologies and to rural infrastructure facilities (rural roads, safe water, and sanitation).

3.1.7 Developed from the I-PRSP, the SDPRP was adopted by all the key stakeholders in 2002. The SDPRP maintained the same pillars of support as the I-PRSP, and promoted rapid pro-poor growth and reduction of dependence on food aid within a stable macroeconomic environment. Assessed by the Joint Staff of the World Bank and IMF, as well as the Development Assistance Group in Ethiopia (including the AfDB), the SDPRP was found to be country-owned and poverty-focused with deep and broad-based participation, appropriate emphasis on agriculture, rural development and food security, and recognition of the importance of the private sector in reducing poverty. However, areas noted as requiring further work included formulating strategy for private sector development and for trade, analysis of macroeconomic policies, structural reforms, poverty linkages, full implications of the ongoing decentralization process, better integration of crosscutting issues (including HIV/AIDS, gender, and environment), and realistic costing of the SDPRP programs.

3.1.8 The Bank's 2005 CSP was anchored on Ethiopia's Plan for Accelerated Progress and Sustained Development to End Poverty (2005/06-2009/10) (PASDEP) which maintained the same pillars of the SDPRP with a special emphasis on the MDGs. The 2005 CSP retained three of the PASDEP's development pillars: agriculture, infrastructure development, and good governance.

3.2 Relevance of Bank Assistance Strategies

3.2.1 Bank strategies in 1996-2007 were relevant in that they were aligned to the GoE development strategies and programs (NDP, annual PFPs, SDPRP, and PASDEP). Although

the spread of the Bank's assistance was nationwide, part of it was directed to Tigray, Amhara, and SNNPR – three of the regions with the highest incidence of poverty. Bank assistance was also aligned to the national MDGs (see Annex B-7).¹⁰

3.2.2 The Bank strategy documents (CSPs) were satisfactory, especially in highlighting the development problems facing the country, and issues relating to strategic partnerships and dialogue with government. They also highlighted how effective the GoE strategies were proving to be. The priority sectors were also compatible within each CSP and across the three CSPs. The CSPs also covered nonlending services that were supportive of the lending assistance (see Section 3.3). The Bank's financing instruments, though dominated by investment projects, were also compatible. The designs of the 2002 and 2005 CSPs were of better quality than the two preceding ones, largely because they (i) were informed by broader stakeholder participation, and (ii) had a better analysis of poverty and self-evaluation frameworks.¹¹

3.2.3 The quality assurance, compliance and safeguards Division of the Bank assessed the design of the 2005 CSP to be satisfactory. However, the three CSPs prior to 2005 were deemed unrealistic in their implicit assumptions on: (i) the appropriateness of rules and procedures for delivering and administering Bank assistance; (ii) quality and timeliness of Bank supervisory services; and (iii) adequacy and appropriateness of the GoE's development management capacity. These three CSPs were also judged deficient in governance analysis; the use of scenarios and triggers; contribution to the Ethiopian development planning processes; treating selectivity and comparative advantage; and performance monitoring and use of self-evaluation findings. These weaknesses mainly resulted from the (i) generality and timing of the CSP Guidelines;¹² (ii) constraints imposed by the available project pipeline and CSP resource envelope which had a predetermined PBL allocation; (iii) limited Bank interest in generating useful and timely knowledge from analytical works and evaluations; and (iv) slow delivery of the assistance.

3.2.4 **Bank's CSP support to Government development planning:** The Bank, during the period 1996-2007, took the government's development priorities as a given, without critically analyzing which should be included in each CSP. Furthermore, the Bank made a negligible contribution to the Government's development planning processes and the setting of national development priorities, especially before the SDPRP. However, during the formulation of the SDPRP, the Bank provided assistance for the participation of regional and national stakeholders. Nonetheless, its 1996-2004 CSPs failed to adequately address the implications of the GoE's decentralization policy for the delivery of its assistance.

3.2.5 **Selectivity and comparative advantage:** The Bank improved its selectivity during the period 1996-2004 by focusing investment lending on four main sectors in each of its successive programs (see Box 3.2). The 1996-2004 CSPs also provided support for two PBL

¹⁰ This was revealed by OPEV's 2005 analysis of the alignment of the objectives of 8 of the 23 projects approved for Ethiopia during the review period with the national MDGs.

¹¹ Each of the three CSPs was guided by its design principles. The Bank revised its CSP Guidelines in 2001, and then adopted the results-based CSP annotated format in 2002. The 2002 CSP annotated format was subsequently revised in 2005 and 2006, and was used to prepare the 2005-2009 CSP. However, the revision of each of the CSP Guidelines during the review period was done without any assessment of the appropriateness and effectiveness of the prevailing ones.

¹² The CSP Guidelines were prepared during the preparation of the CSPs, which limited the extent to which they were put into practice. The Guidelines, especially those preDPMating 2002, did not emphasize results-orientation or make provision for CSP completion reports.

multi-sector operations. However, the sector shifts from one CSP period to the next were not adequately justified. Furthermore, the Bank's comparative advantage in certain sectors was assumed and not demonstrated.

3.2.6 Performance monitoring and use of lessons learned: The 2005 CSP apart, the three Bank CSPs did not specify realistic actions, nor time-bound intermediate indicators and outcomes, for monitoring its performance. The Bank had no effective system for generating program output and outcome Data and linking them to those at the project levels. The designs of most of the Bank-funded projects, approved in 1996-2004, were deficient in M&E. About half of the PCRs due for preparation were not carried out. Furthermore, each of the CSPs reviewed the performance of the preceding CSP but without a focus on results, so few lessons were learnt. These weaknesses resulted mainly from the lack of an effective, results-based culture in the Bank at the time.

3.3 Bank Lending Assistance

3.3.1 The Bank operated a normal lending program in 1999-2001 and 2002-2004, and an enhanced one in 1996-1998.¹³ Its total lending assistance (including grants) in 1996-2004 was UA 564 million compared to a planned allocation of UA 567 million.¹⁴ The late approval of the extra resources under the enhanced program – only available during the fourth quarter of 1998 – largely contributed to the lack of full commitment of the planned allocations.¹⁵ The approved assistance for Ethiopia in 1996-2004 represented 4.5 percent of total Bank Group approvals during the same period. Bank lending assistance per project during the review period averaged UA 23 million, which was higher than average for Bank projects and higher than the average in the rest of the East Africa subregion.

3.3.2 During the review period, about 80 percent of the overall Bank approvals were for investments in six sectors, and the rest was for two policy-based loans (see Table 3.1).¹⁶ The PBL covered a structural adjustment loan (SAL-II) and direct budget support (PRSL). The Bank also provided complementary resources in the form capacity-building grants.

Table 3.1: Ethiopia – Bank Group Approvals by Support Area, 1996-2004 (UA million)

Support Area	Amounts	%
Policy-Based Lending	120.00	21
Agriculture & Rural Dev.	190.74	34
Transport/Roads	106.41	19
Power Supply	58.55	10
Water & Sanitation	21.01	4
Education	32.3	6
Health	29.67	5
Multisector (TA Projects)	4.88	1
Total	563.56	100
<i>Source: ADB Database</i>		

3.3.3 The Bank strategy supported six key sectors in 1996-2004 for investment lending (Table 3.1). The agricultural and rural development sector was the principal focus (accounting for about one-third of the overall Bank lending assistance), followed by infrastructure (transportation, power, and water and sanitation). Although the GoE was satisfied with the number of sectors covered by the Bank's assistance program, the selection of projects across several sectors strained Bank capacity to

¹³ As a result of the improved performance of the country, its indicative allocation was increased from the base case scenario of UA 141.25 million to UA 189.71 million.

¹⁴ The grants comprising 14 operations accounted for 8 percent of the total approved program resources for Ethiopia. And the HIPC debt relief from the Bank Group amounted to UA 199.42 million by the end of 2004.

¹⁵ The approval of the additional resources by the Bank was conditional on that of the ESAF by the IMF in the last quarter of 1998.

¹⁶ This share of adjustment lending was within the Bank's ceiling.

provide effective supervision. This, coupled with the relative high turnover of Bank task managers and project management staff, impacted negatively on the overall quality of Bank supervision of its lending program. The projects in the social sector were the worst affected, with the highest turnover of project task managers and the lowest number of Bank supervisions.

3.3.4 Performance of Bank lending: Of the completed projects in 1996-2007, 15 with a total commitment of UA 478.86 million have been evaluated¹⁷, showing a satisfactory performance in outcome and sustainability but less so in institutional development impact (see Table 3.2). Table 3.2 also shows project outcome performance in Ethiopia to be better than in Kenya, Tanzania, the East Africa subregion, and ADF Bank-wide. Despite an insufficiency in evaluative evidence, the indications are that there was a better outcome performance in infrastructure and PBL than in agriculture¹⁸. Performance was satisfactory for all the rated nine infrastructure projects and two PBL projects, but for only two of the three agriculture projects. The agriculture projects were also judged to have limited institutional development impact and unlikely sustainability. The only rated project in education, though its outcome was satisfactory, had a negligible likelihood of sustainability and institutional development impact.

3.3.5 The delivery of the closed portfolio was, however, inefficient. Although the delivery of the Bank assistance to Ethiopia during the review, expressed in terms of the country field office administrative expenses per unit of disbursement, was relatively better,¹⁹ it was subject to substantial delays (see Chart 3.1). These delays, largely linked to procurement and disbursement,²⁰ resulted in significant lags in realizing the intended benefits, at some additional costs.

Table 3.2: Project Performance in Ethiopia, 1996-2007

Country	Evaluated		% Satisfactory Outcome		% Substantial Institutional Development Impact		% Likely Sustainability	
	UA M	No.	UA M	No.	UA M	No.	UA M	No.
Ethiopia	478.86	15	95	93	64	53	86	80
Kenya	63.50	5	57	40	57	40	42	40
Tanzania	358.96	14	75	71	33	43	56	43
Uganda	277.43	15	85	87	68	73	71	73
East Africa Subregion	1,278.30	58	77	76	50	54	67	61
ADF Bank-Wide	7,278.17	273	74	71	64	53	65	57

Source: OPEV Database of rated projects
Ratings weighted by committed amount (UA Million) and by number of projects (No.)

3.3.6 Portfolio performance: This improved over the period under review, evident in the declining project age; project-at-risk (PAR) and commitment-at-risk (CAR) (see Annex B-

¹⁷ The evaluated commitment comprised the projects rated by OPEV through the post-project evaluations, sector reviews or the validation of the self-evaluation ratings of the Operations Department. Only a third of the evaluated projects (UA 134.43 million) were approved under the 1996-2004 programs.

¹⁸ The rated projects were in infrastructure (9), agriculture (3), PBL (2), and education (1).

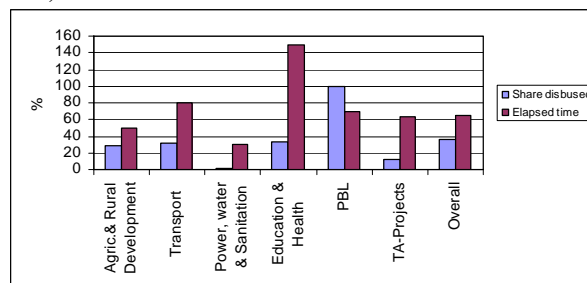
¹⁹ The Bank spent in 2004-2007 about UA 8 to disburse UA 1, on average, on the Ethiopia office compared to about UA 10, 9, and 10 spent on the Nigeria, Tanzania and Uganda field offices respectively.

²⁰ Insecurity in the Somali Region – the area of the South East Rangelands project – was also a limiting factor.

4g), but disbursement was relatively low. As a result of this performance, together with the generally high quality of the project design, the portfolio is likely to satisfactorily achieve (with substantial delays) most of its development objectives.

3.3.7 The PAR and CAR in Ethiopia, solely associated with the education and health subsectors in 1996-2004, were low compared to those of the East Africa subregion and Bank-wide. The ongoing portfolio, however, experienced high incidences of under-disbursements, particularly in the education, health and technical assistance projects. Chart 3.1 reveals that the Bank used about 60 percent of the planned portfolio implementation period to disburse just one-third of its 1996-2004 assistance.²¹ Of the 14 operations (UA 231.33 million) scheduled for completion by the end of 2004, only three (UA 27.93 million) were completed, and only with considerable delays.²² None of the commitments led to any disbursements within the same period. Furthermore, over the review period, the trend of undisbursed balances was increasing while the cumulative disbursement rate was declining. The portfolio implementation deficiencies mainly resulted from (i) the crowding of project approvals at the end of the programming cycles; (ii) substantial delays by the GoE in fulfilling the loan and disbursement conditionalities, and in complying with Bank procurement rules; (iii) the poor implementation capacity, which was further weakened by the GoE's decentralization process²³; (iv) limited provision of timely and effective Bank supervisory services.

Chart 3.1: Ethiopia –Project disbursements lag, except in PBL, 1996-2004



Source: ADB Database of projects approved in 1996-2004

3.3.8 The poor quality of Bank portfolio supervision during the review period was attributable to a number of factors: (i) the broad spread of operations in multiple sectors; (ii) high turnover of task managers; (iii) inappropriate supervision skills mix; (iv) lack of results orientation at the time; (v) the political crisis in Côte d'Ivoire²⁴; (vi) inappropriate balance of the Bank's efforts between meeting approval targets and providing effective services for loan effectiveness and delivery; (vii) limited experience and knowledge on the part of both the Bank and the GoE in designing and implementing projects within the context of ongoing decentralization process within the country; and (viii) limited implementation of the portfolio improvement measures proposed in the country portfolio reviews (CPRs) of 1996, 1998, and 2001.

²¹ The disbursement rate of the Bank's 1996-2004 assistance increased from 28 percent in December 2004 to 48 percent in 2006 and 57 percent in 2007. At 57 percent disbursement, the Bank had used 124 percent of the planned implementation period.

²² The Addis Ababa Airport Infrastructure Development Project (AAIADP) had a completion overrun of 58 months.

²³ With the decentralization of some the federal decision-making authority, management of most Bank-funded projects – particularly in agriculture, education, and health sectors – was shifted to the regions. However, the regions' weak development management capacity hampered the fulfillment of loan conditions and disbursement, as well as procurement.

²⁴ Although 80 percent of planned supervision missions in 2001-2005 were undertaken, they were not effective in substantially improving disbursement.

3.4 Nonlending Assistance

3.4.1 The overall engagement of the Bank during the review period in Economic and Sector Work (ESW), policy dialogue, and in building partnership development was less effective. Consequently, *the Bank's nonlending assistance*, though relevant, is rated as unsatisfactory.

3.4.2 **Economic and Sector Work (ESW):** This was limited, during the period under review, to two of the four planned ESWs plus a joint study in 2005 with the ILO²⁵. The Bank produced an Agriculture Sector Review and a Country Gender Profile (see paras 3.4.3 and 3.4.4), but abandoned the planned studies on land allocation systems and on the financial sector.

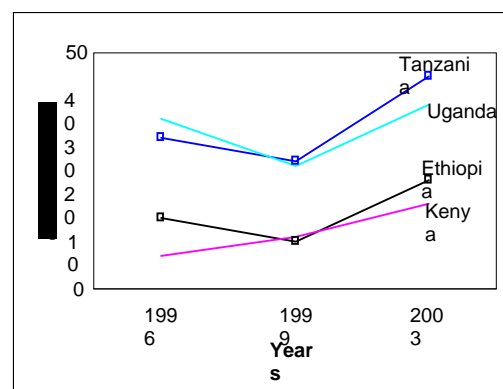
3.4.3 *The Agriculture Sector Review* assessed the problems and issues of the sector in order to identify strategic options for future Bank Group interventions. The review was of high quality and informed the Bank Group on the sector priority issues and GoE priorities; thereby feeding into the Bank's 2002-2004 CSP. However, one shortcoming of the review was that its scope was limited to the issues and priorities already identified by the Government.

3.4.4 The 2004 *Multisector Country Gender Profile* identified the short- and long-term gender gaps and issues for the Bank to address. The quality of the profile was satisfactory and other development partners, including the GoE, found it relevant. In 2005, 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. The 2003 Country Portfolio Review (CPR) was assessed by OPEV to be of a satisfactory quality.²⁶ The Bank also contributed to the piloting of the public expenditure reviews, which were of high quality.

3.4.5 **Policy dialogue:** The Bank was involved in policy dialogue with the GoE through a number of development forums. The consultative process enhanced the quality of the CSP, as well as government ownership of the CSP's development agenda. However, the Bank played a marginal role in generating and disseminating appropriate development knowledge drawn from analysis and its experience on the ground. This limited its effectiveness in policy dialogue – a viewpoint that was echoed by the GoE and other stakeholders, including those in DAG (see also section 3.4.11).

3.4.6 **Partnership development:** Ethiopia was, in the period under review, a major recipient of ODA in Sub-Saharan Africa (SSA). The ODA it received during 1997-2001 represented 13 percent of GDP, whilst that of SSA as a whole was 6 percent. In 2002-04 net, ODA accounted for about half of GoE spending. The annual net ODA of the country during 1993-2004 averaged US\$ 1,003 million, compared to US\$ 504 million, US\$ 1,123 million,

Chart 3.2: Ethiopia – Per capita net receipts of external financial resources (USD) relative to comparators



²⁵ The Bank also produced three Country Portfolio Reviews (CPRs).

²⁶ OPEV, *Review of Country Portfolio Review Reports 2000-2004*.

and US 735 million received by Kenya, Tanzania, and Uganda, respectively. However, Ethiopia's net per capita ODA compared less favorably with that of Tanzania and Uganda (see Chart 3.2), or SSA as a whole, owing to the country's high population.

3.4.7 Ethiopia received ODA from more than 30 donors, both multilateral and bilateral agencies. The Bank, though accounting for only 5 percent of net ODA to Ethiopia during 1993-2004, was the fifth ranked donor after the EC/EU (35 percent), the World Bank (21 percent), USA (21 percent), and Germany (6 percent).

3.4.8 The Bank contributed 11 percent of the UA 2,421.04 million of the co-financed operations in which it participated in 1996-2004. Close to half of the Bank assistance to Ethiopia during the review period was in co-financed operations, comprising both adjustment and investment lending. The Bank played the lead role in the mobilization of finances for the Addis Ababa Airport Development Project – a role that was highly appreciated by the GoE.

3.4.9 **Aid coordination:** This was principally effected through the Development Assistance Group (DAG) comprising bilateral and multilateral agencies including the Bank. The DAG was co-chaired by the UNDP and World Bank, and technically serviced by its several Thematic Working Groups (DAG TWGs). The DAG was the main discussion channel among donors, and between donors and government. DAG held regular internal discussion meetings for its members, as well as with the GoE, and proved highly effective in this role. The DAG also helped to align donor strategies with the country's I-PRSP and full PRSP (SDPRP), and the sector programs in education, health, and roads. However, a concern raised by donors was the slow pace of implementation of the GoE's reforms for enhancing private and financial sector development.

3.4.10 Bank participation in the DAG and TWGs improved with the establishment of the country office and subsequent strengthening of its staff resources capacity. The Bank closely collaborated with donors, especially those providing Direct Budget Support (DBS) to the country. The DBS group, comprising ADB, Canada (CIDA), the European Union, Ireland, Germany, Sweden, United Kingdom (DFID), and the World Bank, used a common framework (conditionalities; performance indicators) and process for delivering, monitoring, and tracking the performance of their assistance, as well as for policy dialogue with the GoE. The Bank also took part in the Joint Budget and Aid Review (JBAR),²⁷ which was part of the DBS process. The use of the DBS common framework was considered by donors and Government as an important milestone in advancing the harmonization agenda in Ethiopia.

3.4.11 Although the Bank was active in aid coordination, its contribution was perceived to be unsatisfactory by some development partners, including the GoE. This was attributable to the relatively scant Bank staff time and financial resources allocated to aid coordination activities, coupled with the limited technical support from HQ and the restricted decision-making authority of ETFO. The Bank also failed to share with the other partners the development experience gained from its operations in other African regional member countries.

3.4.12 The Bank worked closely with the IMF and World Bank in providing adjustment lending, especially during the SAP II, which was jointly financed with IMF, IDA, and

²⁷ The JBAR aimed at enhancing national capacities and ensuring better alignment between the national and PRSP priorities through assessing and monitoring poverty spending and domestic and aid resources.

European Union. The Bank participated in the HIPC consultations, which resulted in a substantial debt relief for Ethiopia.

3.4.13 The *overall outcome of the Bank's lending and nonlending assistance* to Ethiopia during the review period is rated as satisfactory (Box 3.3). The Bank had, within the review period, a relevant strategy with most of its projects producing satisfactory outcomes or likely to do so, though beyond the planned timeframe. However, Bank assistance was inadequately and inefficiently delivered.

Box 3.3: Ethiopia – Summary performance rating of the Bank's lending and nonlending assistance	
Assistance	Outcome Rating
Strategy	Relevant
Lending Assistance	Satisfactory
Non-lending Assistance	Unsatisfactory
Overall Assistance	Satisfactory

4. DEVELOPMENT OUTCOMES

4.1 Macroeconomic Stability and Improved Public Sector Management

4.1.1 The GoE recognized that the restoration of macroeconomic stability was vital for sustainable growth and poverty reduction. To this end, its strategy focused on improving fiscal management – both on the expenditure and revenue sides. Two expected outcomes of this GoE strategy that concern the Bank's assistance were: (i) improved public sector expenditure management and (ii) enhanced public enterprise management.

Improved Public Sector Expenditure Management

4.1.2 **Bank's strategy:** The Bank supported, in partnership with other development partners (IMF, World Bank, and EU), (i) the introduction of a macroeconomic and fiscal framework (MEFF) in order to align spending to budget planning and to ensure a more predictable and timely flow of funds, and (ii) public sector fiduciary improvement (accountability and transparency in public spending) mainly through speeding up the reporting on public audited accounts and improved intergovernmental fiscal relations. The strategy also aimed to reduce spending on defense in favor of critical poverty reduction sectors (education, health, agriculture, and roads).

4.1.3 The SAL-II and PRSL supported the Bank objectives through their conditionalities. The Bank also provided TA grants to improve the human and institutional capacity of the Ministry of Finance and Development, Ministries of Health, Education, Agriculture and Water Resources, the Women's Affairs Office, as well as to promote understanding of gender issues in the country.

4.1.4 **Outcome performance:** Fiscal performance, though on average weak, remained largely supportive of macroeconomic stabilization during the review period. Fiscal deficit, excluding grants, remained below 15 percent of GDP during 1995-2004. The level of the fiscal deficit was principally due to (i) the increase in government spending on the 1998-2000 Ethiopian-Eritrea border war; (ii) critical poverty reduction activities particularly for infrastructure in 1999-2004, and debt servicing, (iii) weak public revenue performance and (iv) the impact of the severe drought in 2001/02. The poverty reduction expenditure, as a percentage of GDP, increased from 8.2 percent in 1999-2000 to 14.5 percent in 2004-2005. Although defense spending increased during the border war with Eritrea, the trend since 2000 has been downward (from 8.7 percent of GDP in 1998-1999 to 5.1 percent in 2001-2002).

Fiscal revenue dropped from 18.8 percent of GDP in 2001 to 16.6 percent in 2004. The fiscal reform measures, however, positively contributed to maintaining single-digit inflation. Overall, the country had a fairly cautious and prudent approach in fiscal management during the review period, which kept public expenditure within the IMF PRGF targets²⁸.

4.1.5 Effectiveness of Bank's contribution: The Bank's support for improving public sector expenditure management was effective, and is rated as satisfactory. Bank assistance yielded positive results though below the targets planned, mainly due to the GoE's cautious approach in improving public expenditure management. SAL-II assisted the GoE in adopting, inter alia, the medium-term fiscal framework, budget calendar and new budget classification system, as well as in improving fiduciary control. The Bank also supported the successful piloting in 1999-2001 of the public expenditure reviews (PERs) in three regions. Monitoring and reporting fiscal performance was, however, weak mainly due to capacity weaknesses especially at the non-federal levels. Although some progress was made in addressing fiduciary issues such as internal control, cash management and procurement, much remained to be done. Notwithstanding the slow pace of Government policy implementation, the SAL II satisfactorily contributed to the enhanced public sector management.

4.1.6 The PRSL was well-designed and became effective in 2005, following the fulfillment of the expenditure management improvement conditions contained in the loan. These helped to advance progress in intergovernmental fiscal relations and public financial management. The PRSL's contribution was, therefore, effective in enhancing public expenditure management.

4.1.7 The Bank's support for human and institutional development had limited results and unsatisfactory performance. By September 2005, it had trained only 11 Ministry staff out of 51 planned; delivered 2 out of 27 planned local seminars and bought only one out of the 31 equipment items. Project implementation was delayed as a result of slow disbursement. During the period 2001-2004, only about 25% of the assistance was disbursed, mainly because of the limited capacity in implementing the project and the lack of appropriate Bank supervision support. In the case of the enhancement of the Women's Affairs Office, the Bank's assistance was approved in 2004 and became effective in 2005. However, owing to capacity constraints, by the end of September 2005, the support had only achieved one disbursement without delivering any of its key outputs.

Public Enterprise Management and Privatization

4.1.8 **Bank assistance strategy:** Bank support for public enterprise (PE) reforms featured in all three CSPs under review. Bank strategy aimed at reducing the size of the PE portfolio in order to redirect scarce public resources toward critical poverty reduction projects and programs. Consequently the Bank provided support, in 1999-2004, through the Ethiopian Privatization Technical Assistance Project (PTAP) and part of the conditionality in the SAL II and PRSL.²⁹

4.1.9 The PTAP focused on (i) improving the capacity of the Ethiopian Privatization Agency (EPA) to implement the second phase of the privatization program, including the sale

²⁸ Macroeconomic performance, however, deteriorated in 2005-2006 following the 2005 general elections: federal and trade deficits and inflation increased, while reserves fell (IMF 2006).

²⁹ Although the 1996-1998 CSP was supportive of public enterprise improvement, this support was not backed by any assistance.

of 123 PEs, and the establishment of systems for post-privatization impact analysis, and (ii) enhancing public and investor awareness of the privatization program and environmental auditing of PEs under privatization. The PTAP was to meet its privatization objectives by the end of 2002. The PEs earmarked for privatization included agro-services, construction, textile, and mining companies.³⁰ With regard to the SAL II conditionality, it included the tendering of 12 state-owned farms and completion of the transactions for another 6 state agro firms, as well as the drafting of the Commercial Code. The PRSL included an action plan to accelerate the privatization process as part of its conditions for disbursement.

4.1.10 *The privatization of PEs gathered momentum between 1994 and 1998, leading to the sale of over 170 PEs.* The privatization process, however, slowed considerably in 1998-2004, and only seven PEs were privatized in 2001-2003, comprising small and medium-size firms. This partly reflects the GoE's cautious approach in dealing with the privatization of large-scale PEs, with their revenue and employment implications. Added to this was the difficulty encountered by the two state organizations in working together on the privatization process – the Public Enterprise Supervisory Authority (PESA) and the Ethiopian Privatization Agency (EPA).³¹

4.1.11 **Effectiveness of Bank's contribution:** The Bank correctly identified the institutional capacity need of the GoE in order to accelerate the privatization program. Bank support for increasing the awareness of the public and investors of the privatization program was also appropriate. The GoE also managed to fulfill the SAL II conditionality and that of the PRSL. However, the Bank's objective to support the privatization of 123 PEs in three years (2001-2003) was unrealistic, given the GoE's cautious approach and weak implementation capacity. The implementation of the PTAP was very slow, and resulted in limited progress in 2001-2004. Only about 4 percent of the total ADF grant of UA 3.0 million was disbursed before the end of 2002 – which was the original completion Date for the project.³² As a result, the closing Date had to be extended three years, from year-end 2002 to year-end 2005. The implementation delay of the PTAP was also partly due to the GoE's approach (see 4.1.10). The Bank's contribution to enhanced public enterprise management through privatization was less effective, and is therefore considered as unsatisfactory.

4.1.12 The **overall outcome performance** of the Bank assistance supporting the objective of macroeconomic stability and improved public sector management is rated as satisfactory, given the relative high importance support for public expenditure management (see Annex B-6a). Bank assistance made positive contribution to the GoE's pursuit of a fairly prudent fiscal policy stance amidst the relatively high pressure for MDG expenditure and for defense spending on the border conflict. Bank assistance also contributed to the progress in tariff reductions and public enterprise privatization.

³⁰ The overall privatization program included monopolies, such as telecoms and Commercial Bank of Ethiopia.

³¹ At the time of the OPEV's field mission to Ethiopia in September 2005, the GoE had already merged the two organizations into the Privatization and Public Enterprises Supervising Authority (PPESA). The pace of privatization picked up in 2006, leading to privatization of 48 PEs by July 2007.

³² And as at end 2004, 13 percent (UA 383,128) of the total grant had been disbursed.

4.2 Sustainable Growth and Rural Development

Transportation and Power Sectors

4.2.1 **Bank strategy:** The GoE's Road Sector Development Program (1997-2002-2007) and Power Sector Development Program (2000/01-2004/05) aimed to improve the infrastructure sector, which is vital for sustainable economic growth and poverty reduction. Bank strategy, in support of the GoE programs, focused on improving access of the poor to socioeconomic and market facilities by reducing costs, expanding the road network, and providing other infrastructure facilities.

4.2.2 **Road sub-sector:** The Bank committed funding for the Alemgena–Butajira Road Upgrading Project (ABRU), the Butajira-Hossaina-Sodo Road Project (BHSRP) and Wachamaji Road Project (WMRP), and completed the delivery of three road projects approved before 1996: the Chida–Sodo Road Project (CSRP), the Road Maintenance and Rehabilitation Project (RMRP). The Bank also provided funding for the technical feasibility and economic viability studies of seven roads, in order to generate viable projects for the Road Sector Program (1997-2007).

4.2.3 As a result of the road program, *road densities (km per sq. km) increased 62% from 21 in 1997 to 34 in 2004*. This indicated improved access in rural areas, as well as to neighboring countries, particularly Djibouti and Kenya. However, the road densities in Ethiopia were below the average for both the East African subregion and SSA. Both federal and regional road networks in Ethiopia registered significant improvements over the review period. The quality of the networks also improved; the GoE estimated 64 percent to be in good condition in 2004/05 compared with 30 percent in 2002/03 and just 18 percent in 1995. Increased volume of road traffic and lower vehicle operating costs during the review period were also reported.

4.2.4 **Air transportation support:** The Bank mainly supported the upgrading of the civil aviation capacity in the country through the Addis Ababa Airport Infrastructure Development Project (AAIDP) and Ethiopia Airlines Infrastructure Development Project (EAIDP). *Air traffic improved* in terms of commercial airline and passenger movements over the review period; the annual average number of passengers rose from 860,063 in 1994-1996 to 1,134,689 in 1997-2004. The annual average cargo traffic, however, decreased from 32,846 to 27,960 over the same period.

4.2.5 **Power sector:** In addition to the Electricity Power Transmission Project (EPTP) and Northern Ethiopia Power Transmission Project (NEPTP) approved prior to 1996, Bank funding went to two projects – the Rural Electrification Project (REP) and the Ethiopia-Djibouti Interconnection Project (EDIP). The objective was to increase the supply of affordable electricity by extending the national grid and electricity trade between Ethiopia and Djibouti, which would help to scale up economic activities and poverty reduction.

4.2.6 *Access to electricity improved* during the review period. Per capita electricity consumption increased from 23 kWh in 2000 to 30 kWh in 2003, but this usage was low compared to Kenya and Tanzania. Power supply was limited by the poor quality of the distribution systems and electric power losses remained at 10 percent of output throughout the review period.

4.2.7 Effectiveness of Bank's contribution: *The Bank's assistance for transportation (roads and air) had a satisfactory overall outcome performance.* In the roads subsector, it was highly supportive of the GoE road sector development program. The assistance, through three investment projects (CSRP, RMRP, and ABRU) resulted in the construction during the period 1996-2006 of 383 km of new roads and 126 km of feeder roads, plus the upgrading and maintenance of 257 km of roads. The three investment projects had satisfactory performance outcomes. The ABRU, in particular, substantially increased vehicular traffic and also decreased travel time and vehicle operating cost in the project zone. The ABRU road also positively contributed to the establishment of a commercial floriculture. However, BHSRP and WMRP, accounting for about 80 percent of the approved amount for roads in 1996-2004, had negligible results principally because of the high incidence of under-disbursements. Loan disbursement as at end September 2005 for the BHSRP stood in the region of 10 percent, while that for the WMRP was insubstantial. The implementation performance of the BHSRP and WMRP was also limited by the delays in loan effectiveness, as well as in forwarding and processing the disbursement requests and in complying with the relatively complex and demanding Bank procedures. On the whole, Bank assistance to the *roads subsector* in 1996-2004 made insufficient progress in achieving its development objectives and so its performance is rated as unsatisfactory.

4.2.8 With regard to air transportation, the Bank's assistance delivered the AAAIDP and completed the delivery of the EAIDP. The PCRs rated the outcome performance of both projects, notwithstanding the substantial implementation delays, as satisfactory. Bank contribution to the improved *air transportation development* is, therefore, considered as satisfactory.

4.2.9 In respect to the power sector, Bank assistance mainly contributed to positive outcomes through the completion of the delivery of the EPTP and MPTP. These projects were rated by OPEV as satisfactory in improving access of households and business entities to electricity supply by extending the power grid and transmission lines. However, Bank assistance approved during the review period (REP and EDIP), though relevant and highly appreciated by the GoE, did not deliver any substantial and useful consumer outputs because of its limited disbursement. As at end 2005, fund disbursement was 16 percent and zero for the REP and EDIP respectively³³. Overall, the Bank's 1996-2004 assistance to the *power sector performance* was therefore unsatisfactory.

Water and Sanitation

4.2.10 **Bank strategy:** The strategy aimed at increasing the access of both rural and urban poor to improved water and sanitation through appropriate production and distribution systems. The increased access is expected to contribute to better health, poverty reduction, and economic growth outcomes. In support of this objective, the Bank only committed funds to one investment lending – Harar Water and Sanitation project (HWSP) – in the 2002-2004 PCSP of the period under review.

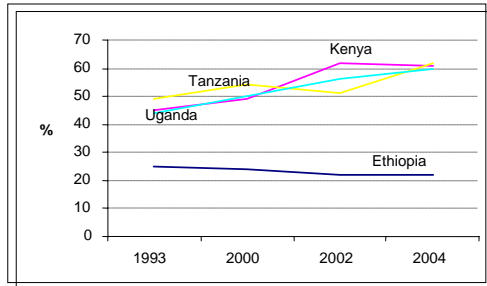
4.2.11 Although the Bank did not commit any new investments during the 1996-1998 and 1991-2001 CSP periods, it had five ongoing operations that had been approved prior to 1996 – three investment projects (water supply project for six centers; another water supply project

³³ The initial closing Date estimated for the REP, accounting for 64 percent of the Bank's assistance to the sector, was 31Dec. 2005.

for eight centers; and Addis Ababa Water Supply Stage III) and two studies (Addis Ababa Wastewater Master Plan and 12 Towns Water Supply and Sanitation).

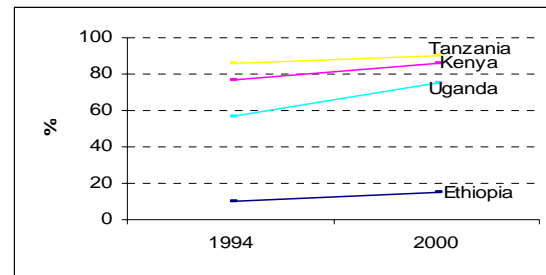
4.2.12 Outcome performance: Some progress was made in increasing the supply of safe water and sanitation to the Ethiopian population, although regional disparities were evident. The proportion of the population with access to improved sanitation increased; however, access to safe water decreased over the period 1996-2002 (see Charts 4.1 and 4.2). This mainly reflected the growth in population and the limited investment in new and water production and distribution systems. However, GoE's estimate, which puts the share of households accessing safe water at 19 percent in 1996 and 36 percent in 2004, is indicative of a significant improvement over the review period (PASDEP 2006). As Charts 4.1 and 4.2 show, Ethiopia compares less favorably in terms of access to safe water and sanitation coverage relative to some neighboring countries.

Chart 4.1: Ethiopia –Relatively low share of population with access to safe water, 1993-2002



Source: African Development Bank Report

Chart 4.2: Ethiopia – Population with access to improved sanitation, 1993-2002



Source: African Development Bank Report

4.2.13 Effectiveness of Bank contribution: The 2002 CSP aimed to increase the percentage of population with access to safe water from 30 percent in 2000 to 39 percent in 2004. Although access to safe water and sanitation improved over the period 2002-2004, the contribution of the HWSP to this increase was negligible, principally because of its low disbursement rate. This mainly resulted from the long delay (in excess of 12 months) in loan effectiveness, as well as in the fulfillment of the conditions for first disbursement.

4.2.14 However, the water and sanitation investment projects approved pre-1996 that were completed in 1996-2004 produced substantial results, as revealed in OPEV's review of Bank assistance to the public utility sector in Ethiopia. The two completed studies were of good quality and were highly appreciated by the Ethiopian authorities. Their recommendations for new investment operations were partially adopted. Taking into account the performance of both completed and ongoing operations, the overall contribution of the Bank's assistance to the *national water and sanitation objectives* over the review period is rated as satisfactory.

Agriculture and Natural Resources

4.2.15 Bank strategy: The strategy sought to improve food security and reduce poverty through enhanced food production and marketing. It focused on increasing the access of smallholders to credit and product markets, and to improved and appropriate technologies (irrigation, fertilizers, afforestation, and pastoral) in order to diversify their products and increase their productivity and incomes. All the three CSPs covering the ADF cycles VII, VIII, and IX supported the agriculture sector.

4.2.16 The Bank approved five investment projects (see Box 4.1) and six studies.

Box 4.1—Objectives of Bank-supported Agriculture Investment Projects, 1996-2004	
Investment Project	Objective
1. Agriculture Sector Support Project (ASSP)	To improve rural livelihoods and food security among the drought-prone and vulnerable population by promoting small-scale irrigation, rainwater harvesting, crop development and marketing, integrated ecosystem management, and institutional and human capacity development.
2. Rural Finance Intermediation Project (RUFIP)	To improve incomes of rural poor households and entrepreneurs (small and medium-scale) and help them to diversify their income-earning opportunities through increased and sustained access to appropriate financial services.
3. Koga Irrigation and Watershed Management Project (KIWMP)	To improve, in a sustainable manner, agricultural production and productivity in the command and catchments of the Koga River Basin through the delivery of irrigation and drainage system, natural resource conservation scheme, multiple-cropping agricultural production system, and effective agricultural support services.
4. National Fertilizer Project (NFP)	To improve crop production and productivity through sustained and effective supply, distribution, and consumption of chemical fertilizers in the country.
5. National Livestock Development Project (NLDP)	To improve livestock productivity in order to increase small-scale livestock holder income and food security. The project promoted effective artificial and natural insemination service; improved pastures, animal health services and animal disease information system; high quality livestock and livestock products; and institutional capacity development.

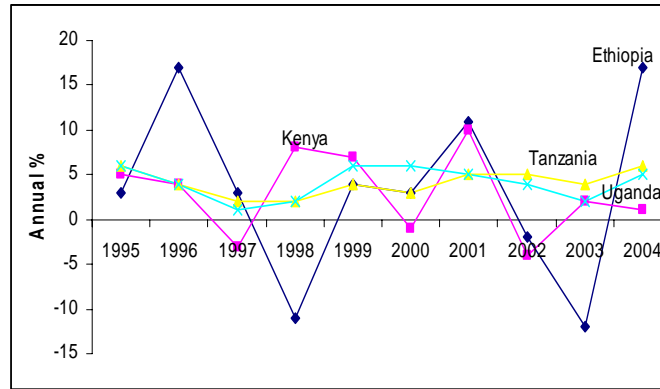
4.2.17 SAL-II and PRSL also indirectly supported the Bank's assistance strategies for the agriculture sector through their conditionalities. Both projects supported the improvement of the Federal Land Use Policy in order to ensure land tenure security, thereby improving long-term agricultural investment and output. SAL-II also aimed at improving the functioning of the fertilizer market, and the capacity of extension workers and farmers through the provision of appropriate training programs.

4.2.18 Some of the projects approved before 1996 also supported the Bank's 1996-2004 objectives for the sector. Their focus was on livestock and rangeland development and management in the Somali region (Southeast Rangelands Development Project) and cash-crop production (Wush Wush Tea II Project; Tepi Coffee Development Project; Finchaa Sugar Project).

4.2.19 The Bank also approved studies for river basin, livestock and pastoral areas, and fisheries development (Pastoral Area Development Study; Genale-Dawa Master Plan Study; Awash River Basin Control; Livestock Development Master Plan; and Fisheries Development Study). In addition, the Bank undertook an Agriculture Sector Review in 2002 in order to provide a basis for its assistance to the sector (see also section 3.4.3).

4.2.20 Outcome performance: Agricultural performance over the review period remained positive notwithstanding its frequent and significant yearly fluctuations. Ethiopia experienced much more volatile agriculture performance than Kenya, Tanzania, and Uganda during 1996-2004. The yearly fluctuations were largely due to the high dependence of the sector on rain-fed agriculture, as well as to external shocks including the Ethiopia-Eritrea border conflict (1998-2000), recurrent drought (2000; 2002), and a fall in global coffee prices. The sector output for 1993-2002, registered an average growth rate of 2.8 percent. The agriculture value added showed impressive annual growth rates at the start and end of the review period (17 percent), but negative rates in 1998, 2002, and 2003 (see Chart 4.3).

Chart 4.3: Ethiopia – Highly Unstable Agriculture Value Added (annual % growth)

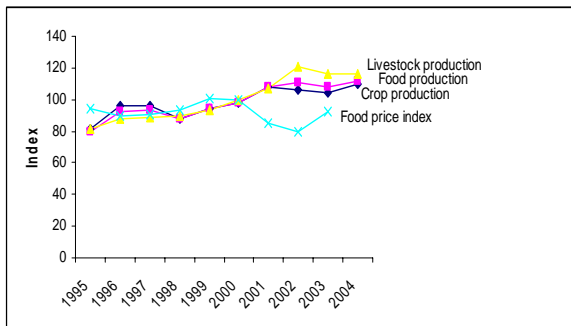


Source: World Bank, World Development Indicators, 2006

4.2.21 Over the review period, arable crop, food and livestock production registered slight improvements (see Chart 4.4), mainly resulting from marginal increases in areas under cultivation and yield. Chart 4.5 shows that the maize yield increased slightly while those of wheat and teff remained unchanged over the period 1992–2005. Cereal yield was generally low in Ethiopia relative to Kenya, Tanzania, and Uganda (see Chart 4.6). The unstable agricultural performance in Ethiopia notwithstanding, substantial improvements were reported in access of farming households to extension services, fertilizer and improved seeds by the end of 2004/2005 (SDPRP Progress Report 2005). The government extension program covered about 7 million farming households.

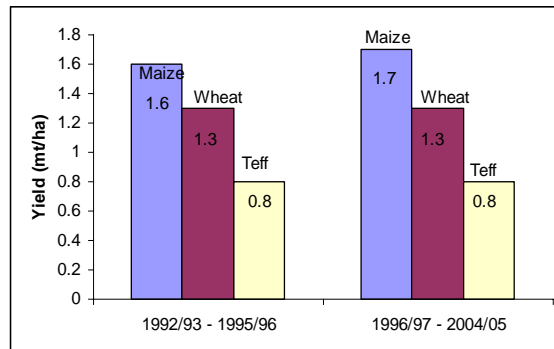
4.2.22 Government agriculture sector and related policies and strategies were relevant to the needs of the rural populations. The GoE was, however, too cautious in its policy implementation, especially in improving security of land tenure, private sector participation in agricultural input (fertilizer, credit) and produce markets. It also failed to address other constraints that farmers face when seeking to adopt new technologies.

Chart 4.4: Ethiopia – Crop, food and livestock production indices (1999-2001 = 100) and food price index (2000 = 100)



Source: World Bank, World Development Indicators, 2006

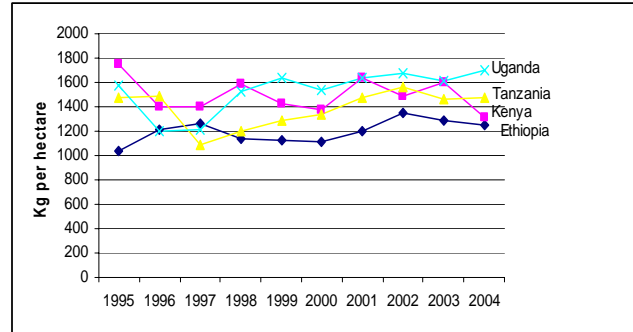
Chart 4.5: Ethiopia – Maize, wheat and Teff yields (mt/ha), unchanged, 1992/93-2004/05



Source: World Bank, World Development Indicators, 2006

4.2.23 In the case of tree crops, the production and sale of tea increased substantially. Compared to the period 1993-1995, tea production almost doubled in 1996-2004 (FAO Database, 2006). As a result, tea was transformed from a negligible import commodity to an important export. Coffee production did not, however, improve over the review period.

Chart 4.6: Ethiopia –Relatively low cereal yields (kg/ha), 1995-2004



Source: World Bank, World Development Indicators, 2006

4.2.24 **Effectiveness of Bank contribution** to improving the productivity of smallholders and of food security within the review period was unsatisfactory because of the mixed performance results of its assistance.

4.2.25 The Bank's strategy in support of the development of the agriculture sector was consistent with its criticality to the Ethiopian economy. The Bank integrated investment lending with TA grants for capacity building in order to improve project implementation performance. Furthermore, the Bank's sector assistance strategy was selective during each of the three programming periods while maintaining continuity and consistency among operations. However, the *overall selectivity* of the Bank over the three programming cycles was less effective, given the relative high number of subsectors which the portfolio covered, (including the large number of operations approved pre-1996). Furthermore, there was no formal and rigorous identification of the Bank's comparative advantage within the sector. Another shortcoming can be found in the Bank's 2002 Agriculture Sector Review, which was somewhat limited in scope, and failed to cover critical poverty issues, such as how to sustain rural growth and enhance private sector participation in agricultural marketing.

4.2.26 Of the pre-1996 investment projects, only the Wush Wush Tea II Project (WWTP) and the Southeast Rangelands Project (SERP) had completed PCRs. OPEV rated the outcome performance of the WWTP as satisfactory but that of SERP as unsatisfactory. The SERP was directly aligned to the objective of improving smallholder productivity and food security, while the WWTP had mainly indirect links with this objective. The WWTP not only achieved its principal objective of saving foreign exchange by reducing tea imports, but it also made the country into a net tea exporter, generated employment, and positively impacted on the local economy. Although the SERP failed to satisfactorily improve livestock productivity and food security, it made some progress in herd and natural resource management, community development, and capacity building. The National Fertilizer Project (NFP, I and II), had a satisfactory outcome rating, given its substantial contribution to the improved supply and use of fertilizer, and to boosting productivity. Nonetheless, lack of access of smallholders to fertilizer remains a key challenge.

4.2.27 The delivery of the Bank's 1996-2004 assistance to the sector, though an improvement on the preceding cycle, was very low and has yet to produce substantial results. Six of the approvals (UA 130.35 million; i.e. 23 percent) were not effective, and nine (UA 65.52 million, i.e. 12 percent) though effective, had no disbursements. Close to one-third of

the assistance approved and effective in 1996-2004 (UA 141.33 million)³⁴ was disbursed in half of the planned implementation period (see Chart 3.1). The limited delivery of the Bank's assistance to the sector was mostly due to procurement and disbursement delays.

Private Sector Development

4.2.28 **Bank strategy:** The three CSPs for the review period (1996-2004) recognized the important role of the private sector in promoting growth and poverty reduction in Ethiopia. The Bank strategy on private sector development was directed to (i) improving private sector investment environment and (ii) enhancing access to investment funds through: the two policy-based operations (SAL II and PRSL), Privatization Technical Assistance Project (PTAP), Rural Financial Intermediation Support Project (RFISP), operations in the transportation and public utility sectors, and participation of the Bank's private sector window.

4.2.29 The SAL II and PRSL were both designed to support private sector development in the country. The private sector-related conditionalities of the SAL II concerned access to land, the fertilizer market, divestiture of state-owned farms, formulation of the Commercial Code, and legal reforms. The PRSL conditionality was to facilitate access to secured urban and rural land rights, deepen the financial sector, and accelerate the privatization process. In support of increased private investment operations, the Bank provided the PTAP (see para. 4.1.9) and RUFIP (see Box 4.1).

4.2.30 The Bank's assistance to the transportation and public utility sectors was also designed to foster private sector development (see para 4.2.1). The Bank's private sector window cofinanced with the ILO the study on support for growth-oriented women entrepreneurs in Ethiopia, Kenya, and Tanzania.

4.2.31 **Outcome performance:** Compared to the early 1990s, the participation and output of the private sector in the economy markedly improved during the review period. In addition to the package of liberalization measures, the GoE revised the investment code to spur foreign and domestic investment. It provided incentive structures, including removing tariffs on selected imports, tax holidays (in some cases of up to five years), removal of export taxes on almost all goods, urban land reforms, allocation of leased industrial premises, and measures to reduce the costs and time involved in setting up a business. Despite some progress in reforming the legal system, this remained weak, especially in providing affordable and equitable services to the poor, as well as in maintaining a reasonable degree of independence from the Executive and the Parliament. The GoE not only reformed the institutional arrangement for privatization (PPESA) but also adopted an action plan for accelerating the privatization of public enterprises. The improvements in the supply of physical and social infrastructures also improved the business enabling environment.

4.2.32 The environment for doing business in Ethiopia (measured in terms of starting and closing a business, labor hiring and firing, registering property, getting credit, and contract enforcement) improved and became comparable to that of Kenya, Tanzania, Uganda and the SSA average (World Bank 2005). However, reducing further the burden of doing business in Ethiopia remains challenging.

³⁴ "Approval" is financing approved by the Bank's Board; "effectiveness" which follows approval, is the approved financing for which an agreement has been made between the Government/borrower and the Bank.

4.2.33 Private investment, as a percentage of GDP, increased from 9.6 percent in 1992-1996 to 31 percent in 1996-2005.³⁵ Foreign direct investment, however, remained fairly low –it decreased from about 1.3 percent of GDP in the early 1990s to less than 1 percent of GDP in 2000-2003. About 70 percent of the 2003/2004 private sector investment projects (45 private and 25 public) were of domestic origin, while the remaining 30 percent were foreign. These projects were able to create substantial employment: 190,995 permanent and 398,696 temporary employment opportunities.³⁶

4.2.34 The openness of the Ethiopian economy to international trade improved during the period review. Exports, imports, and the trade balance averaged respectively about 7, 23 and -17 percent of GDP over the ten-year period 1996-2006. Although both exports and imports increased, the faster growth rate of the latter resulted in a deterioration in the trade balance. The Ethiopian export base, though concentrated in few primary goods, has improved slightly in recent years. Foreign reserves increased from about two months of imports in the early 1990s to about four months of imports in 2000-2004.

4.2.35 **Financial sector performance:** Progress in deepening the financial sector in the review period was limited, mainly because of the GoE's initial reluctance to open the market to foreign competition. The performance of the Commercial Bank of Ethiopia – the largest state-owned bank accounting for more than two-thirds of the banking assets – improved in terms of a fall in the number of non-performing loans. Indigenous private banks slightly increased their share of the banking assets, while the supply of micro-credit also improved. The private sector accounted for slightly more than half of the commercial bank lending (55 percent) in 1996-2005 compared to 37 percent in 1992-1996. However, state-owned banks continued to dominate the financial sector. At the end of 2004, only about one-fifth of the planned privatizations of public enterprises had taken place, none of them banks. Concerned about its limited banking regulatory services, and its capacity to manage the risks associated with opening up the banking sector to foreign capital, the GoE failed to provide an enabling environment for the establishment of foreign banks during the review period. The weak financial intermediation and the commercial banks' excess liquidity also constrained the development of the financial sector. Given the GoE's weak management structure and regulatory capacity, its slow pace in deepening the financial sector is understandable.

4.2.36 **The Bank's overall effectiveness** in improving the enabling environment and access to financial resources for private sector development was satisfactory. On the enabling environment, the GoE satisfactorily implemented the relevant SAL II conditionality (and the operation also had satisfactory outcome), as well as that of the PRSL. In addition, the Bank positively contributed to the enhanced supply of infrastructure facilities. However, the Bank failed to significantly increase access to financial services for the private sector; its contribution in this respect was unsatisfactory. This was because of the negligible disbursement of the RFISP loan and the unsatisfactory performance of the PTAP (see para 4.1.12). The study of the Bank private sector window³⁷, completed and presented to selected stakeholders in 2005, was of high quality and will prove useful in preparing future investment operations.

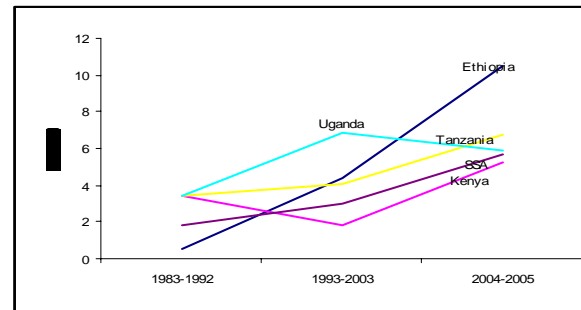
³⁵ Data from the Ethiopian Investment Commission (2005) indicate that in 2003/2004 a total of 1,400 projects with a capital of Birr 23 million (US\$ 2.7 million) were at the implementation stage while total of 2,291 projects with a total capital of Birr 18 million (US\$ 2.1 million) were in operation.

³⁶ Foreign-owned projects tend to be more capital intensive, while domestic projects created more jobs per project.

³⁷ L. Stevensen. A St-Onge (2005), *Support for growth-oriented women entrepreneurs in Ethiopia*, ILO, Geneva

4.2.37 *The Bank's overall contribution to sustainable growth and rural development was unsatisfactory* (see Annex B-6a). Over the review period, economic growth was substantial (Chart 4.7). Private sector activities and outputs substantially improved but the financial sector remained weak. The Bank's assistance was relevant and substantial in transportation, water and sanitation supply, and in improving the business environment. However, its contribution was modest in agriculture and power. Further, the assistance was partially and inefficiently delivered.

Chart 4.7: Ethiopia; average annual real GDP growth rate (%),1983-2005



Source: Based on ADB statistical reports and World Bank development indicators Database

4.3 Health and Education Services Delivery

4.3.1 The Bank provided assistance to the health and education sectors during the review period in order to support the national poverty reduction drive and to make progress toward meeting the MDGs.

4.3.2 **Bank strategy:** Bank assistance strategy for the review period aimed at increasing access of the poor to basic health and education services through the provision of basic facilities and building human capacity. For this, the Bank supported the Education III project and the Primary Health Care Services Project (PHCSP) within the contexts of the GoE's Education Sector Development Program (ESDP-I) and Health Sector Development Program (HSDP), respectively.³⁸ Although the Bank had no stand-alone projects on HIV/AIDS (as other development partners have a greater comparative advantage in this area), its support for the prevention of HIV/AIDS was an integral part of most of the approvals, especially in the transportation and agriculture sectors.

4.3.3 The Education III project was to increase primary school facilities, and to improve the education management information system and program management. In the health subsector, the PHCSP aimed to provide healthcare facilities and build capacity in Amhara, Oromia, and SNNP regions. The Bank's strategy was also supported through (i) the SAL-II conditionality for increasing public allocation to poverty sectors to 14 percent of GDP and (ii) the Basic Education, Technical and Vocational Training Project (BETVTP) of 1993, which provided school and teacher support facilities.

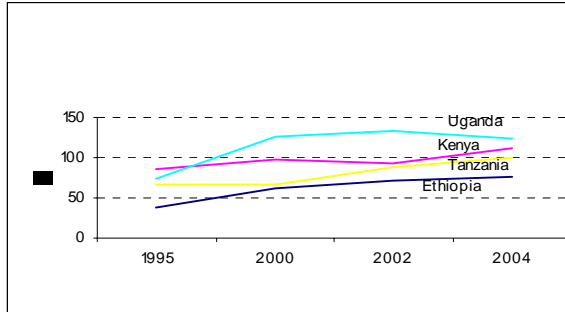
4.3.4 **Outcome performance:** Access of the Ethiopian population to both basic education and health services increased significantly during 1996-2004, though it lagged behind that of Kenya, Tanzania, and Uganda (see Charts 4.8-4.11). Government spending on education and health increased from 3.4 percent of GDP in 1999-2000 to 6.2 percent in 2004-2005 (MoFED 2005).

4.3.5 **Education:** Progress toward achieving universal primary education and gender equality in primary and secondary education was substantial over the review period. As a

³⁸ The Education III Project included a technical assistance grant.

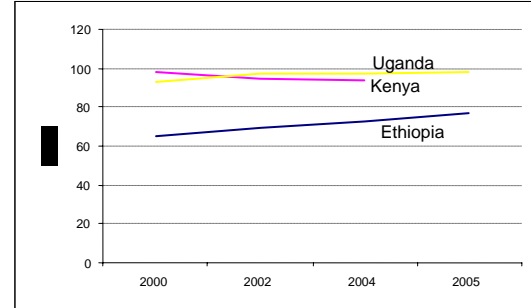
result, the country is on track to attain the education MDG targets by 2015. Gross primary school enrollment, as well as the gender equity in schools, show upward trends (see Charts 4.8, 4.9). Adult literacy also improved. However, the GoE is challenged in improving education outcomes due to (i) poor quality and low delivery efficiency, resulting from the increased class size and pupil-teacher ratio; low textbook ratio, and unchanged dropout rates (ii) low school enrollment relative to some of the neighboring countries, (iii) significantly low post-primary school enrollment, (iv) regional and gender imbalances, especially in tertiary education, and (v) financial gap for the education sector.

Chart 4.8: Ethiopia – Improved Primary school enrollment, 1995-2004



Source: AfDB Database & World Development Report

Chart 4.9: Ethiopia – Improved share of girls in primary and secondary education, 2000-2004

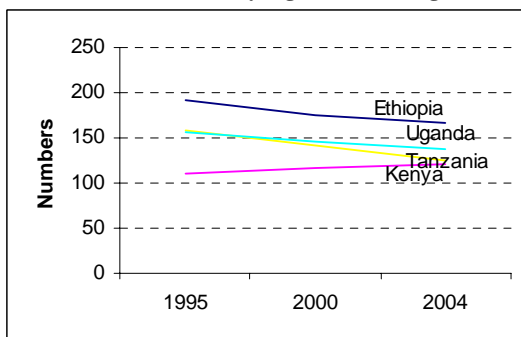


Source: AfDB Database & World Development Report

4.3.6 In the **health sector**, performance gains over the period 1996-2004 were substantial in children immunization but modest in infant mortality and maternal health. Progress was also made in reducing the HIV/AIDS transmission rate. But under-five mortality slightly deteriorated. The health sector outcome performance also compared less favorably to that of the education sector, as well as to that of some of the neighboring countries (see Charts 4.10-4.11). The health MDG targets are therefore unlikely to be attained by 2015.

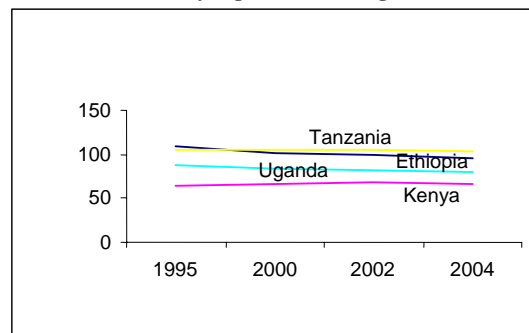
4.3.7 The GoE was committed to improving the education and health outcomes through investing in the country's human development, as reflected in the National Capacity Building Program (NCBP) and increasing public spending on education. The health sector's share of the GoE budgetary allocations remained fairly stable (around 1 percent of GDP) during the review period. Both human and institutional capacity for managing and implementing the health sector program constituted a critical constraint.

Chart 4.10: Ethiopia – Under five mortality rate (per 1,000 live births), relatively high but declining, 1995-2004



Source: World Bank Development Indicators Database 2006

Chart 4.11: Ethiopia: –Infant mortality rate (per 1,000 live births), relatively high but declining, 1995-2004.



Source: ADB. Selected Statistics on African Countries 2006

4.3.8 Effectiveness of Bank's contribution: The Bank contribution to increasing access to basic education and health services and narrowing the education gender gap was unsatisfactory mainly because it was insubstantial.³⁹ The BETVTP and the SAL II produced satisfactory education outcomes. The BETVTP delivered additional classroom space (32,000 and 7,280 for primary and secondary schools, respectively) and appropriate facilities, and the SAL II contributed to the increased government investment in reducing poverty. However, the outcomes of the Education III Project and Primary Health Care Project – the key investments for the Bank's objectives in education and health – were unsatisfactory. Although by the end of 2004, these projects had already far overrun their expected closing Dates, they were only a third disbursed (see Chart 3.1). Their implementation performance was undermined by the (i) generic problems of the Bank's portfolio (see 3.2.6), ineffectiveness of the Bank country team in addition to the slow and unpredictable responses from the Bank's HQ⁴⁰, and (ii) insufficient staff capacity and lack of decision-making power of ETFO. Further, the project performance-improving measures adopted, apart from the delegation of authority to ETFO in 2006 to manage the education and health projects, were not effective⁴¹. The project grant resources to address the implementation capacity constraint also suffered severely from an under-delivery problem. The suspension of project disbursements to force compliance with Bank rules also failed to produce the desired results. Instead, it led some regional/district administrations to develop a negative attitude toward Bank assistance.

4.3.9 The Bank's assistance strategy for the education and health sectors also suffered from other deficiencies with respect to (i) its delivery instrument; design and compatibility with the framework of the GoE decentralization policy,⁴² and (ii) implementation support. Although the Bank strategy was aligned to the priorities defined in the sector development programs for education (ESDP) and health (HSDP), it was project-based and not long-term focused. The ESDP and HSDP were meant to be a sector-wide approach (SWAp), but they accommodated the Bank-funded investments in education and health together with their unique disbursement, procurement, and progress reporting procedures. The implementation of these projects placed additional strain on the already weak development management and administrative capacity at the federal and non-federal levels of government. This largely contributed to their failure to comply with some of their commitments, including financial and results reporting. The project design was also faulty because of its failure, inter alia, to take account of the impact of the devolution of authority to the regional and local governments.⁴³

4.3.10 Bank contribution to enhanced *delivery of education and health services* was insufficient. Ethiopia made substantial progress in improving its education outcomes but less so for health. The Bank's contribution to these education and health outcomes was, however, insubstantial because of the gross and inefficient project under-deliveries during the review period.

³⁹ The Bank's assistance strategy for education and health targeted the improvement of access of the poor to basic education and health services but failed to set any time-bound targets.

⁴⁰ These issues were generic but much more pronounced in the education, health and agriculture sectors where project implementation was devolved to the regional/local level.

⁴¹ The delegation of project management authority to ETFO improved project delivery (see section 5.1.3).

⁴² The Ethiopian Constitution (1995) grants an exceptionally high degree of administrative autonomy to the regional and local governments, and also decrees the complete devolution of service delivery to them

⁴³ The design assumed the absence of decentralization, even though it was part of overall government policy.

4.4 Overall Outcome, Institutional Development, and Sustainability

Overall Outcome

4.4.1 **Macroeconomic stability:** The GoE, with support of the Bank and other development partners, maintained a fairly prudent fiscal stance over the review period. However, the fiscal deficit (before grants) as a percentage of GDP exceeded the CSP target of about 5 percent for the period (see Annex B-1). The fiscal revenue target envisaged in the 1999-2001 CSP (20.4 percent of GDP) was also missed – it was 16.6 percent of GDP in 2004. The consumer price inflation, though highly variable and in excess of that set in the CSP – less than 5 percent – was predominantly single-digit. Bank support through the SAL-II, which had satisfactory outcomes, contributed to the reduction of tariffs and the adoption of the legal codes and notary public law, as well as to the improvements in public service deliveries. Notwithstanding the deterioration of macroeconomic stability in 2005 and non-attainment of the CSP targets, the outcome of Bank assistance, particularly SAL-II, was substantial and therefore rated as satisfactory.

4.4.2 **Economic growth and rural development:** The Bank's assistance for infrastructure, agriculture, and private sector development made a positive but moderate contribution to economic growth and rural development over the review period, and is therefore rated unsatisfactory. Most of this contribution resulted from carryover support from the pre-1996 period, particularly for water and sanitation, power, roads and air transportation. Furthermore, the Bank's contribution was undermined by substantial delivery inefficiencies. However, progress was made toward the economic growth objective. The annual real GDP growth rate target of 5-7 percent of the Bank's 1996-2004 assistance strategy was either met or exceeded during half of the review period (Annex B-1). Real growth rate averaged 4.6 percent over the review period, but it was highly unstable, largely reflecting the agricultural growth instability.

4.4.3 Bank assistance contributed to the increased supply and use of infrastructure facilities, as well as to livelihoods in the country. It improved terrestrial and air traffic, and provision of safe water and electricity. Its support for labor-intensive physical infrastructure development and agriculture boosted employment. Agriculture remained the main source of livelihood for most Ethiopians during the review period. The Bank assistance effectively expanded tea production for the domestic and export markets, but was weak in improving agricultural yields and natural resource management. It was also effective in contributing to the improved private sector enabling environment, thus to the surge in private sector activities, but was ineffective in accelerating the pace of privatization. Over the review period, the Bank was unable to satisfactorily influence the GoE's privatization approach, which was cautious and focused on small- and medium-scale enterprises.

4.4.4 Poverty Reduction: The Bank, together with the other development partners, supported the GoE's effort to reduce both income and non-income poverty over the review period. All the Bank's three CSPs included deliverables for reducing poverty. The performance of the poverty indicators over the review period was, however, mixed (Annex B-1). The 2002-2004 CSP aimed to reduce the proportion of population living below the national poverty line from 44 percent in 2000 to 38 percent in 2004. This target was surpassed, as the incidence of poverty, declined from 45.5 percent to 36 percent in 2004 (2004/2005 Household, Consumption and Expenditure Surveys). Food poverty also slightly decreased; the food poverty headcount dropped from 45 percent in 1996 to 42 percent in 2004. During the 1996-2000 period, the incidence of rural poverty declined by 4 percent whilst urban poverty increased by 11 percent. With estimated Gini coefficients in the region of 0.28-0.30 during the period 1996-2004, income inequality in Ethiopia was quite low relative to SSA and some of the neighboring countries. However, land inequality was relatively high, as the Gini coefficient was 0.47 in 2004. Per capita income and per capita private final consumption also showed an upward trend, which augurs well for the country meeting the MDG of halving national poverty by 2015. Although the income poverty objective envisaged in the Bank assistance strategy for the period 1996-2004 was exceeded, the Bank assistance program only made a modest contribution to this because its support to sustainable growth and rural development had an overall unsatisfactory outcome.

4.4.5 Progress in the *human development* dimension of poverty was also mixed (Annex B-1). The trend in Ethiopia's Human Development Index (HDI), though upward, was marginal; it increased from 0.322 in 1995 to 0.371 in 2004 (UNDP 2006, Human Development Report 2006). The country is likely to achieve universal primary education and to close the gender gap in both primary and secondary schooling by 2015, but is unlikely to meet some of the health targets (MOFED/UNDP 2004; MDG country Report). The overall performance of the health indicators was weak – while infant mortality improved moderately, under-five mortality deteriorated slightly. The contribution of the Bank assistance to education and health outcomes was, however, insubstantial mainly because only about a third of the planned facilities and training were delivered during the review period. As a result, the Bank's assistance outcome is considered as unsatisfactory.

Box 4.2: Rating of Bank program outcomes	
Program Objective	Outcome Rating
<i>Overall Objective: Poverty Reduction</i>	<i>Unsatisfactory</i>
1. Macroeconomic stability and improved public sector management	Satisfactory
1.1. Improved public sector expenditure management	Satisfactory
1.2. Enhanced public enterprise management	Unsatisfactory
2. Sustainable growth and rural development	Unsatisfactory
2.1. Transport development	Satisfactory
2.2. Power development	Unsatisfactory
2.3. Water and sanitation improvement	Satisfactory
2.4. Agriculture and natural resources development	Unsatisfactory
2.5. Private sector development	Satisfactory
3. Enhanced delivery of education and health services	Unsatisfactory
3.1. Improved access to education services	Unsatisfactory
3.2. Improved access to health services	Unsatisfactory
4. Institutional development impact	Modest
5. Sustainability	Likely

4.4.6 The overarching objective of the Bank assistance program during the review period was to contribute to poverty reduction in Ethiopia through macroeconomic stability and reforms, sustained growth and rural development, and improved access to education and health services. The program outcome was satisfactory in macroeconomic stabilization, but unsatisfactory in promoting sustainable growth and rural development and in enhancing

access to education and health services (Box 4.2). In sum, Bank assistance programs in 1996-2004 were relevant and produced modest development results, but were inadequately and inefficiently delivered within the review period, and thus their overall outcome is rated as unsatisfactory. This rating largely results from the combined shortcomings of the Bank and the GoE. The country's economic management approach was undermined by limited capacity, and by the decentralization of authority to the regions/districts. The design of the Bank's assistance strategy was unrealistic in respect to: (i) its tight capacity and resource constraints to support project implementation; (ii) difficult conditions for loan effectiveness and for procurement and disbursement; (iii) government's weak implementation capacity; (iv) high dependence on project financing instrument.

Institutional Development Impact

4.4.7 The overall institutional development impact of Bank assistance is rated as modest, mainly because the technical assistance delivered only a small part of the planned human and institutional capacities and structures during the period under review. Only about 12 percent of the Bank's assistance for stand-alone capacity building projects approved during the review period had been disbursed by the end of 2004. Even in investment projects, the disbursement of capacity building assistance on average lagged behind that of direct development activities.

4.4.8 The technical assistance in stand-alone operations and integrated in investment projects and policy-based lending, was important in the Bank assistance program. The TA program produced its most significant institutional development impact in the air transportation sector, where it supported the establishment of an autonomous management unit – the Addis Ababa Bole International Airport – within the Ethiopian Civilian Aviation Authority (ECAA). TA was also effective in improving government expenditure management through its support to appropriate macroeconomic and expenditure frameworks. In private sector development, Bank assistance enhanced the business climate by supporting the GoE's reform of pertinent legal codes, regulations and procedures, as well as policies (urban land lease; competition policy). It also contributed to the establishment of the Privatization and Public Enterprise Supervising Authority (PPESA) through the merger of the Ethiopian Privatization Agency (EPA) and the Public Enterprises Supervising Authority (PESA). However, the PPESA had not proved fully effective by September 2005 (the time of the OPEV's field mission to Ethiopia) in accelerating the privatization of public enterprises.

4.4.9 The institutional development impact on private sector development was limited by the partial delivery of the Bank's technical assistance. In the *judicial and legal system*, the institutional development impact was modest. Although the GoE modified the judicial and legal codes to make them compatible with the provisions of the Constitution, it was less effective in putting them into practice. In the *agriculture and rural development sector*, the institutional development impact was also modest. It succeeded in: (i) supporting the GoE's program for training agricultural extension workers and for developing farming skills; (ii) providing useful knowledge through the sector review and other studies, especially on irrigation; (iii) improving agricultural administration and development management. With regard to the Bank's support for agricultural development management, this proved particularly effective in the Somali Region, where it delivered substantial capacity and functional organizations such as local/Degaan councils, contact farmers' groups, and women's development groups. These organizations facilitated the enhanced participation of local stakeholders like women in local development management. The technical assistance to

the agricultural sector was, however, only partially delivered. The weakest institutional development impacts were registered in the *roads, water and sanitation, health and education subsectors*, where the delivery of the Bank's technical assistance outputs was negligible.

Sustainability

4.4.10 The risk of macroeconomic policy reversal is low, given the demonstrated support and commitment of the GoE for prudent fiscal management and the national poverty reduction agenda. However, the recent deterioration in macroeconomic management is putting the GoE's fiscal stance beyond prudent limits. According to the IMF 2006 Article IV Consultations, the fiscal deficit, inflation, and trade deficit were all issues of concern. The delivery of the social and physical infrastructures and agricultural outputs, as well as the privatization of the small and medium enterprises will continue. The GoE will continue its cautious approach towards the privatization of public enterprises, some of which it considers as strategic monopolies. Another obstacle is that the GoE is not yet in a position to effectively manage the post-privatization period and provide an effective regulatory environment. Other risks to the sustainability of the benefits of the Bank's assistance program include: (i) unpredictability of rains, given the high dependence of the economy on rain-fed agriculture, (ii) weak development management capacity, (iii) slippage in road maintenance, (iv) low export and high aid dependency, (v) managing relations with the neighboring countries in the Horn of Africa, especially Eritrea and the Republic of Somalia.

4.4.11 The GoE has put in place appropriate policies and measures to help mitigate these risks. In the agriculture sector, the risk of drought is being mitigated through a program of irrigation, which is slowly being implemented. In order to scale up its weak management capacity, the GoE has established the Ministry of Capacity Building. It has also established the autonomous Ethiopian Roads Authority and Road Fund in order to ensure the sustainability of the transportation sector benefits. In diversifying the economy, the GoE has been successfully promoting, inter alia, the horticulture industry and tea cultivation. It has also made progress toward joining the WTO. Regarding relations with its development partners and neighbors, the GoE is improving its performance here too. During the review period, the country was a member of the Inter-Governmental Authority on Development (IGAD), the Common Market of Eastern and Southern Africa (COMESA), the Nile Basin Initiative, and the New Partnership for Africa (NEPAD). From the above, the overall risk to the sustainability of the benefits of the Bank assistance program is considered to be low, and sustainability is therefore rated likely.

5. PERFORMANCE OF BANK, GOVERNMENT, AND OTHER PARTNERS

5.1 Bank Performance

5.1.1 The Bank, the third largest multilateral partner of GoE over the review period, provided, through a mix of policy-based and project investment lending, substantial financial development assistance to Ethiopia. Its assistance strategies were coherent, and aligned to the national priorities for poverty reduction, and to those of the other key development partners. The assistance successfully supported the GoE's efforts to improve public expenditure management and access to infrastructure facilities, and to diversify the economy into tea production for exports. This success largely reflected the GoE's high commitment and

ownership of the assistance, as well as some improvements on the part of the Bank in designing and delivering the assistance.

5.1.2 Over the 1996-2007 period, the Bank made progress in improving the relevance and effectiveness of its assistance to Ethiopia. However, its delivery was slow, and consequently a substantial part of the assistance approved during the 1996-2004 programming period had still not been delivered by the end of 2007. The Bank showed an understanding of the government's cautious approach in dealing with land ownership issues and the privatization of strategic public enterprises. It established its field office in Ethiopia (ETFO) in 2001, but took about six years to devolve some project management authority to the field office. As a result, the ETFO had only a moderate value added. The Bank was also slow in learning from analytical works and its development processes and results and in sharing its experiences with other partners.

5.1.3 **The Country Field Office (ETFO):** The establishment of ETFO enabled the Bank to improve dialogue with the GoE and to engage more fully in partnership activities. It also increased (i) the Bank's access to country economic and sector information for informed decision-making; (ii) portfolio supervision and availability of information on Bank disbursement and procurement procedures to project implementing agencies; (iii) the Bank's participation in national policy development processes and interactions with the African Union, UNECA, and multilateral and bilateral agencies. ETFO's effectiveness, however, was limited by (i) its lack of decision-making authority in portfolio management, including procurement and disbursement; (ii) its inadequate staffing level relative to assigned responsibilities; (iii) low HQ support, in part, due to the lack of an effective country focus at HQ and the high workload of task managers; and (iv) relatively inflexible Bank disbursement and procurement procedures. Furthermore, other development partners in Ethiopia assessed the Bank's contribution in partnership activities as unsatisfactory.

Box 5.1: Delegated education and health project management and procurement authority was:
--

- | |
|--|
| <ul style="list-style-type: none"> • Effective in contributing to: <ul style="list-style-type: none"> ○ The increase in cumulative disbursement rate of the education and health projects from 34% in 2005 to 46% in 2007 |
| <ul style="list-style-type: none"> • But limited by: <ul style="list-style-type: none"> ○ Inadequate HQ technical and financial support ○ Weak HQ-FO communication and coordination links |

5.1.4 The Bank was slow in empowering ETFO, and in supporting the implementation of the delegated management authority. The Bank delegated in 2006 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 (see Annex D). The resulting increased disbursement of the education and health project assistance, though limited by the inadequate HQ technical support and weak HQ-ETFO communication links, indicates that *devolving project management authority to ETFO can improve the delivery of Bank assistance* (see box 5.1).

5.1.5 **The Bank's learning culture:** Over the review period, the Bank improved the quality of its services in support of its assistance programs. This was facilitated by periodically updating its guidelines (to reflect good practice standards), especially for the preparation of country strategies and projects. This is reflected in the relatively high quality of the design of the 2005-2009 CSP, and most of the Bank-approved projects/programs in 2002-2007. However, the Bank was slow in learning from its development experiences and analytical works, and thereby in improving the quality of its services. The Bank's analytical works were

inadequate to inform the design of the assistance, or to enable the Bank to develop a strong voice in dialogue with GoE and in partnership activities. The substantial weakness in performance monitoring and evaluating of the Bank's assistance in 1996-2004 (see para. 3.2.6) also limited the Bank's capacity to improve the design and management of its assistance. Although the 2005-2007 CSP addressed most of the monitoring and evaluation shortcomings in the previous CSPs, it failed to adequately treat the issue of selectivity and comparative advantage, or to substantially add value to the national development planning process.

5.1.6 Notwithstanding the relevance and improvement of the Bank's development assistance and over the review period, the Bank's overall services were slow and weak, with only a moderate value. As a result, *the overall Bank performance is rated as unsatisfactory*.

5.2 Government Performance

5.2.1 The GoE showed strong leadership vis-à-vis the Bank's assistance program, but it was challenged by the deteriorating macroeconomic environment. It provided the broad and sector policy frameworks, as well as the national strategy for poverty reduction (SDPRS), which was endorsed by all donors. It also pursued structural and institutional reforms including decentralization. Although the GoE made substantial progress in deepening the market reforms, it adopted a cautious approach toward free market principles and was relatively slow in improving the environment for private and financial sector development. Further, the decentralization process enabled the states, regions, and *woredas* to assume certain rights and duties in designing and implementing development interventions, but the process suffered from a huge capacity constraint which was being addressed through the NCBP.

5.2.2 The GoE identified all of the Bank-funded projects and programs, which were aligned to national poverty reduction and MDG targets. But stakeholder participation in investment identification and design was narrow and limited. The slow pace of the GoE in complying with the Bank's covenants and regulations contributed to delays in implementing the assistance program. Although the GoE provided the necessary human and financial resources for Bank supervision missions, the effectiveness of its support was limited by the high turnover of project staff and difficulties in implementing Bank procurement guidelines and effective performance and financial monitoring systems. As a result, the Bank's assistance was characterized by substantial implementation delays, as well as weak monitoring and reporting of its performance.

5.2.3 To engage in effective dialogue with the donors, government had a number of aid coordination mechanisms at its disposal, including the Donor High-Level Forum and Harmonization Task Force. The GoE central and sector ministries also held periodic meetings with the DAG-TWGs. Other joint activities between donors and GoE included annual public expenditure reviews, quarterly meetings with individual donors, as well as annual and biannual development reviews. Although almost all the donors supported in principle the GoE's harmonization efforts, only about two-thirds of them were active participants in aid coordination. Effective participation of the non-federal administrations in donor dialogue was also limited. Other challenges include the use of budget support to deliver part of the development assistance, and improving national systems for implementing and monitoring assistance programs.

5.2.4 Government performance proved to be more effective in identifying and designing interventions and in improving the enabling environment (including aid coordination) than in implementing and monitoring the assistance. This was a particular problem in the agriculture, education and health, and water and sanitation sectors.

5.3 Other Development Partners' Performance

5.3.1 A large number of both multilateral and bilateral organizations provided development and relief assistance during the review period. Accounting for more than half of the net external assistance to Ethiopia (US\$ 9,039.74 million) in 1996-2004, the World Bank (IDA) and the European Commission (EC/EU) were the two largest multilateral donors.⁴⁴ The contribution of the IMF to the overall net flows to the country was about 1 percent. Regarding the bilateral assistance to the country, the USA, providing about 18 percent, was the largest donor followed by Germany (5 percent), Japan (4 percent), Netherlands (4 percent), United Kingdom (4 percent), Sweden (3 percent), and Canada (2 percent).⁴⁵ The UN agencies were also important sources of external finances, especially the World Food Program and UNICEF. The multilateral and key bilateral donors also provided technical advisory services.

5.3.2 The external assistance covered multiple areas of interventions, and each of the key donors intervened in more than one sector. The main areas of focus for the ODA comprise economic reforms (IMF, WB, EC, AfDB, UK, Canada, Ireland, Germany, Sweden), food security and agriculture (WB, EU, AfDB, UN Agencies, Germany, UK, Japan, Italy, Sweden), environment conservation and management (UNDP, Germany, Sweden), social sector including water and sanitation (Japan, USA, WB, Germany, UN Agencies, Sweden, Ireland, UK, Netherlands, AfDB), economic infrastructure (WB, AfDB, Japan, France, EIB, Sweden), and capacity building (WB, UNDP, AfDB, UNICEF, Austria, Germany, Japan, Netherlands, Norway). A substantial amount of the ODA was directed to relief and humanitarian activities.

5.3.3 Overall, donor coordination mainly through the DAG was strong (see para. 3.4.9). All the key donors had a field presence. Also, a number of donors (including the WB, EC, IMF, and bilateral agencies) cofinanced a number of adjustment and investment operations with the Bank (see para. 3.4.8). Close to half of the Bank's assistance to Ethiopia in 1996-2004 took the form of cofinanced operations. Donor coordination improved significantly over the review period, especially with the introduction of the thematic/technical working groups. In addition to coordinating the flow of assistance, external donors had mechanisms in place for dialogue with the central government. However, there is still huge room for improvements in harmonizing aid delivery procedures and in enhancing and using country systems.

5.4 Exogenous Factors

5.4.1 **Periodic droughts:** The Ethiopian economy is highly dependent on rain-fed agriculture which accounts for about two-fifths of the GDP. The country is exposed to recurrent droughts (two of a severe nature occurred during the review period). Given this dependence of the economy on agriculture, annual fluctuations of rainfall have been found to substantially impact real GDP. The droughts significantly contributed to the contraction of

⁴⁴ The Bank Group was the third largest multilateral donor during the review period.

⁴⁵ Most of the assistance from the United States was in the form of food aid.

agricultural output and the economy in 2000 and 2001-2002, and also to macroeconomic instability. These climatic changes also negatively affected incomes and contributed to the surges in food aid requests in 2000 and 2003. Overall, the impact of the recurrent droughts on the Bank's assistance program outcome is rated as modest.

5.4.2 Border war with Eritrea and conflict in neighboring Somalia (Republic): These had an overall negative impact, though modest, on the outcome of the Bank's assistance program. The war increased military expenditure and contributed to the contraction of agricultural output, especially in 1998, to the extent that the value added by the sector had a negative growth rate. The frequent conflicts in Somalia led to a substantial influx of refugees, especially in the Somali National Regional State of the country; the zone where the SERP financed by the Bank was implemented. Apart from the decline in stability in the project area, the refugee influx contributed to the failure of the Bank to achieve the SERP objectives.

5.4.3 Political conflict in Côte d'Ivoire: The civil war in 2002 in Côte d'Ivoire, which led the Bank to relocate in Tunis in 2003, also negatively affected its capacity to deliver the assistance program. The civil war had a modest impact on the performance of the Bank's assistance.

5.4.4 Trade shocks: The economy was largely dependent on coffee for export earnings. These earnings were highly influenced by the volatile world price for coffee, which witnessed a downward trend over the review period. Consequently, coffee export earnings declined. However, the coffee price shocks had negligible impact on the performance of the Bank's assistance program.

5.4.5 In an effort to reduce the vulnerability of the Ethiopian economy to droughts, trade shocks, and conflict, the GoE has taken steps to invest in small-scale irrigation, diversify its export base, and seek to reduce conflicts in the region. (See Annex B-6c for summary of exogenous factors.)

6. CONCLUSION, LESSONS, AND RECOMMENDATIONS

Conclusion

6.1 *The Bank assistance strategy was relevant, but delivery of the assistance program was weak and highly inefficient, consequently the development results were limited:* Bank assistance strategies for Ethiopia in 1996-2004 were adequately aligned to the efforts of the GoE to reduce poverty in the country. Government showed strong ownership of the development process and commitment to provide the enabling macroeconomic environment. Although the Bank's assistance had some positive results, it made only a modest contribution to improvement in the lives of the Ethiopian population because of a failure to deliver a substantial part of it within the planned period.

Key Lessons

6.2 *To achieve development results on the ground and contribute effectively to national poverty reduction, the Bank must deliver its assistance effectively. This requires: (i) flexible business processes and effective supervision on the part of the Bank, and (ii) sufficient capacity to manage aid resources effectively on the part of the GoE.* About four-fifths of the

rated bank assistance (with complete deliveries) produced satisfactory development outcomes. However, most of the assistance that the Bank committed during the review period was not delivered, resulting in the modest contribution of Bank assistance to national development outcomes and less country ownership of the assistance. The delivery of Bank assistance was mainly constrained by the Bank's (i) relatively inflexible business processes and procedures; and (ii) ineffective supervisory services, and (iii) by the GoE's weak development management capacity.

6.3 *Requirements for a country field office to be fully effective include portfolio management authority; appropriate and timely technical and resource support from headquarters (HQ); and adequate flexibility and practicality in the relevant Bank rules and procedures.* The presence of the Bank's country office in Ethiopia increased the Bank's efficiency, effectiveness, and visibility, while its delegated authority for education and health project management enhanced its delivery performance. Its effectiveness was, however, limited by the inadequate technical and financial support from the HQ and by weak HQ-FO communication and coordination.

6.4 *Effective results-based management requires, inter alia, robust and comprehensive systems for tracking and evaluating Bank assistance, and for learning from past interventions.* The adoption of the results framework for project design is now scaling up the Bank's effectiveness and results-orientation. However, during the review period, the results-orientation of the Bank was generally weak, and compliance with M&E requirements was also low. Staff incentives were also skewed in favor of loan approvals at the expense of the other activities further down the results chain.

6.5 *Relevant knowledge from economic and sector work (ESW) and evaluation is required to ensure that the Bank's country assistance strategy is of satisfactory quality and also to add value to national development processes and planning.* By providing a sound basis for project formulation, the feasibility studies undertaken by the Bank impacted positively on project design. However, the limited investment by the Bank in broader ESW and in evaluation weakened the analytical basis for the CSP design, Bank participation in partnership activities, and dialogue with the GoE. Broader analytical work would also have enhanced understanding of program contextual factors, such as the federal decentralization process and financing instruments used by development partners in the education and health subsectors.

6.6 *To ensure that the Bank's assistance strategy (CSP) is adequately selective requires CSP guidelines that are appropriate and easily applicable.* CSP selectivity was mainly undermined by the gross under-delivery of Bank assistance; shifts in some of the priority sectors from one programming cycle to the next; and an unrealistic planning horizon. Although the Bank only committed its assistance to about four sectors during each programming period, it had an active portfolio over the review period in at least seven sectors. Further, none of Bank's commitments made within a programming period led to any disbursements within the same period.

6.7 *Deteriorating macroeconomic management, weak implementation capacity exacerbated by frequent staff turnover (for both Borrower and Bank) and unpredictability of the rainfall* constitute the key threats to sustainability of program benefits.

Recommendations

6.8 The evaluation leads to a number of recommendations, some of which are already being addressed in the ongoing process of institutional reforms in the Bank and GoE reforms and capacity improvement measures. This report focuses on six main recommendations, as outlined below.

6.9 *Improve performance of the active portfolio to achieve development results on the ground:* The Bank's 1996-2004 assistance was chronically slow in disbursement, thus limiting its contribution to national development results and undermining country ownership. This was a generic problem across sectors but more severe in education, health, technical assistance, and agriculture. The Bank, together with the GoE, should seek to achieve a better delivery rate through (i) enhanced and timely disbursement of TA to improve management capacity and facilitate compliance with conditionalities; (ii) appropriate Bank procurement and disbursement rules and procedures; (iii) effective and appropriate supervision and dialogue, backed by knowledge generation through relevant ESW. The success of future assistance will also depend upon the realism and quality of project and program design.

6.10 *Improve the effectiveness of EFTO:* The Bank should deepen the ongoing process of empowering its field office. This could greatly improve the Bank's effectiveness in partnerships, aid coordination, policy dialogue, and in project/program design and implementation. This should translate into an effective, efficient, and accountable ETFO with enhanced portfolio management decision-making authority and appropriate HQ support.

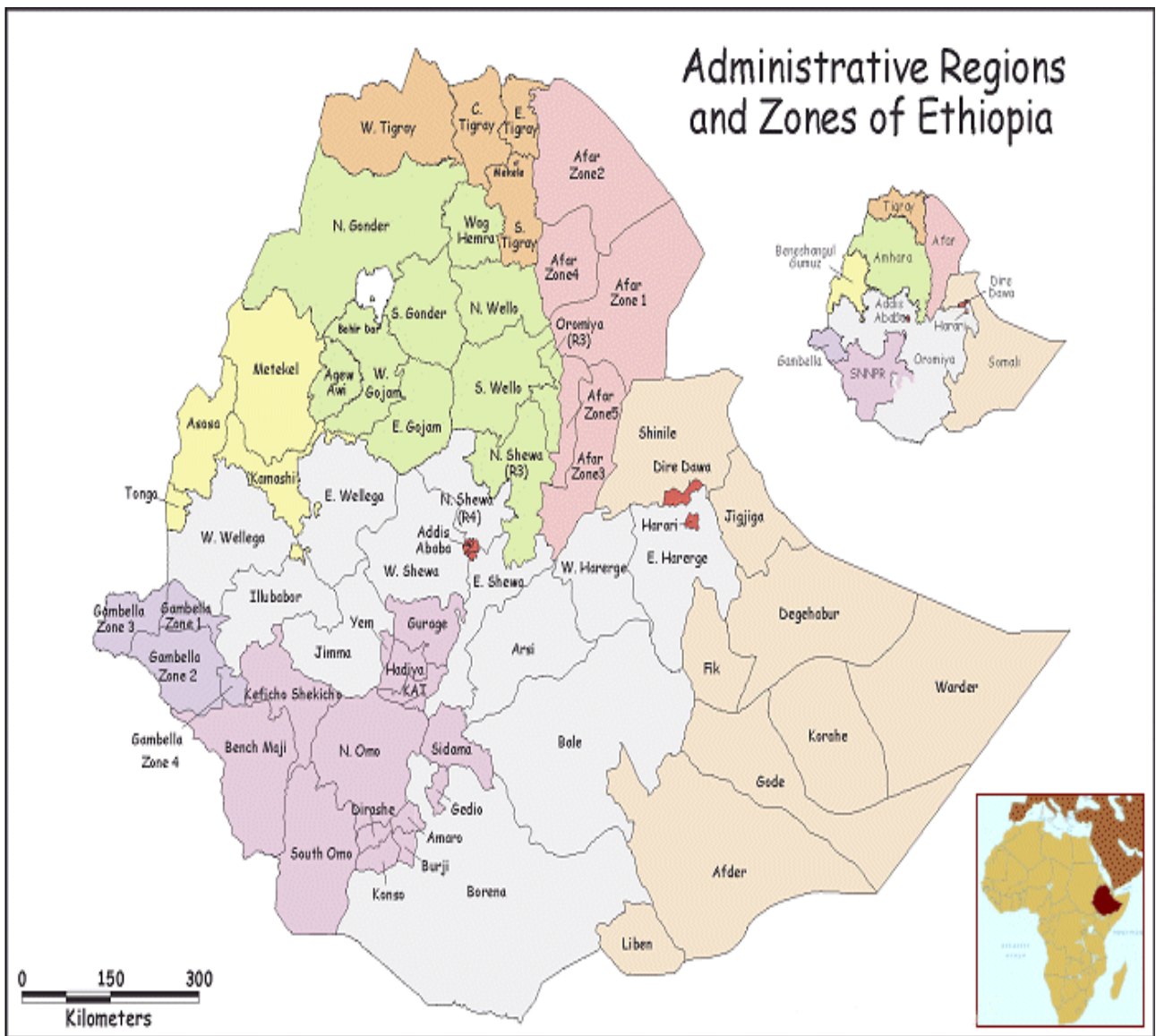
6.11 *Improve the results orientation of Bank processes, projects, and programs:* The Bank should improve its RB-M&E by (i) ensuring that its projects, programs, and implementation processes are RB-M&E compliant, and that the M&E systems are realistic and generate appropriate Data; (ii) clearing the backlog of outstanding PCRs; (iii) continuing to support Government efforts to build its federal and regional M&E capacity.

6.12 *Widen and deepen ESW development knowledge:* While continuing to carry out feasibility studies for project/program formulation, the Bank should also undertake more in-depth ESWs on pertinent development issues. This will underpin its policy dialogue, aid coordination and investment choices, as well as scaling up the replicability of successful project results.

6.13 *Enhance selectivity in lending and nonlending programs:* The limited selectivity of Bank strategy undermined the delivery of Bank assistance, and the effectiveness of Government and Bank implementation. The Bank needs to be selective in both lending and nonlending activities because it cannot afford to engage, on a sustainable basis, in too many sectors. In practicing selectivity, the Bank should take into account (i) its sector comparative advantage; (ii) the Government's and other development partners' expectations of the Bank; (iii) its importance relative to other development partners in specific sectors.

6.14 *Strengthen in-country implementation capacity and stakeholder participation:* The GoE should continue its efforts to build human and institutional capacity, and to broaden and deepening stakeholder participation at all administrative levels. And the Bank should support such Government efforts, as this will improve the portfolio results.

ANNEX A: ETHIOPIA – ADMINISTRATIVE MAP



STATISTICAL ANNEX B

- Annex B-1 Ethiopia – Selected economic and social performance indicators
- Annex B-2a-c Ethiopia – Net receipts of external financial resources
- Annex B-2d Ethiopia – Bank Group approvals in 1996-2004
- Annex B-3a Ethiopia – Bank program’s approvals and disbursements, 1996-2004
- Annex B-3b Ethiopia – List of completed reviews/studies and CSPs, 1996-2004
- Annex B-4a Ethiopia – Bank Assistance Strategies, 1996-2004
- Annex B-4b Ethiopia – Country assistance strategy objectives and selected indicators, 1996-2004
- Annex B-4c Ethiopia – Alignment of project objectives to RMF indicators
- Annex B-4d-f Ethiopia – Performance ratings of projects completed in 1996-2004
- Annex B-4g Ethiopia – Projects and commitments at risk, 2004
- Annex B-5a Ethiopia – Project disbursement–time efficiency of approvals, 1996-2004
- Annex B-5b Ethiopia – ADF approvals and disbursements for Ethiopia and rest of Bank, 1996-2004
- Annex B-6a Ethiopia – Summary rating of Bank assistance program outcomes
- Annex B-6b Ethiopia – Summary rating of Bank performance
- Annex B-6c Ethiopia – Summary rating of selected exogenous factors
- Annex B-7 Ethiopia – National MDGs

Annex B-1: Ethiopia - Selected Economic and Social Performance Indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average 1996-2004					
										Ethiopia	Africa	ADF Countries	Kenya	Tanzania	Uganda
Growth Indicators															
Real GDP Growth Rate (%)	11.8	3.5	-4.0	6.0	5.9	7.7	1.2	-3.5	13.1	4.6	4.1	4.4	2.6	5.1	5.9
Real per capita GDP growth (%)	8.9	0.8	-6.7	3.5	3.4	5.2	-1.3	-6.0	10.7	2.0	1.8	2.0	0.3	2.9	2.7
GNI per capita, PPP (current international \$)	616.8	639.2	618.2	645.5	674.8	722.6	726.8	690.7	768.7	681.5	2562.7	1631.1	1002.2	531.1	1267.8
GNI per capita, Atlas method (current US\$)	120.0	120.0	110.0	120.0	110.0	110.0	100.0	90.0	110.0	104.3	689.8	513.3	368.9	273.3	271.1
Agriculture value added/GDP (%)	56.7	55.4	50.6	47.4	47.4	45.7	41.9	41.2	43.4	47.8	16.7	27.5	30.9	45.6	37.4
Industry value added/GDP (%)	10.5	11.1	12.5	13.2	12.8	13.5	14.7	14.5	14.3	13.0	34.5	32.2	17.8	15.6	19.4
Manufacture value added/GDP (%)	5.1	5.3	5.1	5.6	5.7	5.9	6.0	6.1	5.7	5.6	13.5	9.4	11.7	7.3	9.2
Services value added/GDP (%)	32.8	33.5	36.9	39.4	39.8	40.8	43.3	44.3	42.3	39.2	48.8	40.3	51.3	38.8	43.2
Macroeconomic Indicators															
Gross capita formation (% GDP)	16.6	12.7	14.4	14.4	13.1	14.7	16.7	16.9	19.1	15.4	19.5	19.6	13.4	17.7	19.3
Gross national savings (% GDP)	17.4	10.5	13.1	7.7	8.9	11.7	12.1	14.7	13.9	12.2	19.4	16.7	14.9	11.6	13.7
Inflation (CPI) (%)	0.9	-6.4	3.9	4.8	6.2	-5.2	-7.2	15.1	8.6	2.5	8.4	..	8.0	9.0	4.3
Real exchange rate index (2000 = 100)	73.9	85.4	88.7	97.4	100.0	113.9	126.3	110.1	105.6			..	94.0	104.7	93.9
Official exchange rate (LCU/US\$, period average)	6.4	6.7	7.1	7.9	8.2	8.5	8.6	8.6	8.6			..	70.6	819.2	1532.9
External Balance Indicators															
Exports of goods and services (% GDP)	9.3	11.8	13.4	12.0	12.5	12.4	13.2	14.2	15.8	12.7	30.4	30.6	23.2	16.3	12.1
Imports of goods and services (%GDP)	16.3	18.6	21.3	24.6	24.8	24.6	27.9	29.2	33.4	24.5	30.1	33.2	28.8	25.5	24.2
Current Account Balance/GDP (%)	0.8	-2.2	-1.3	-6.7	-4.2	-3.0	-4.7	-2.2	-5.3	-3.2	-0.3	-4.6	-1.7	-6.0	-5.6
Total debt service/GDP (%)	5.0	55.2	7.0	6.0	6.3	13.1	2.5	2.5	2.1	11.1	4.8	4.8	3.7	3.6	2.4
External debt/GDP (%)	116.6	59.6	66.5	69.8	69.0	61.7	72.3	70.6	63.7	72.2	56.0	97.9	40.3	85.8	60.1
Debt service/exports of goods & services (%)	53.7	466.5	52.6	50.0	50.7	105.5	18.7	17.5	13.3	92.1	16.2	16.0	16.1	23.6	20.1
External reserves (months of imports)	6.4	3.8	3.7	2.9	1.9	2.7	5.1	4.9	5.7	4.1	5.8	3.6	3.1	5.9	6.9
Net financial flows from ADB Group (million US\$)	114.7	60.3	29.0	17.4	4.3	11.0	57.6	-11.0	40.9	36.0	299.8	194.3	4.0	38.5	28.9
Foreign direct investment inflows (% GDP)	0.3	3.4	3.4	0.9	1.7	4.4	3.4	5.8	5.7	3.2	2.1	3.2	0.3	3.8	2.5
Net official development assistance flows (million US\$)	816	578	660	643	686	1104	1297	1594	1819	1022	19130	15070	479	1199	802
Government Finance Indicators															
Tax Revenue/GDP (%)		12.9	11.7	11.5	10.1	11.3	12.6	12.1	13.0						
Grants and nontax revenue (%GDP)													16.7		37.9
Total revenue and grants (% GDP)	15.0	16.3	17.6	18.1	17.4	19.5	20.2	22.8	21.9	18.8	24.6	21.8	21.4	15.2	17.7
Gross domestic expenditure (% GDP)	109.1	109.4	114.9	115.3	112.4	112.1	114.9	115.2	117.2						
Total expenditure and net lending (% GDP)	19.0	18.0	21.2	26.9	26.7	24.0	27.8	29.7	25.1	24.3	26.6	24.4	22.6	16.6	20.8
Fiscal deficit excluding grants/GDP (%)	-8.5	-6.0	-7.2	-12.9	-14.8	-10.3	-14.0						-1.8		-6.2
Overall deficit/surplus (%GDP)	-4.0	-1.8	-3.7	-8.8	-9.3	-4.5	-7.6	-7.0	-3.2	-5.5	-1.9	-2.6	-1.2	-1.4	-3.1
Public debt (% GDP)	107.4	57.2	59.4	58.6	53.4	60.5	71.1	69.5	62.8	66.7	41.0	79.8	37.0	76.9	59.3

Source: ADB, IMF, World Development Indicators

Annex B-1: Ethiopia – Selected Economic and Social Performance Indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average 1996-2004					
										Ethiopia	Africa	ADF Countries	Kenya	Tanzania	Uganda
Poverty & Social Indicators															
Human development index	...	...	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.5	0.5	0.5	0.4	0.5
Gini Coefficient	0.3	...	...	...	0.3	...	...	...	0.3	0.3	...	...	...	...	...
Urban	0.3	...	...	...	0.4	...	...	...	...	0.4	...	...	...	...	...
Rural	0.3	...	...	...	0.3	...	...	...	...	0.3	...	...	...	...	...
National poverty headcount (% of Population)	46.0	...	...	...	44.0	...	...	...	36.0	42.0	45.0	...	54.4	35.7	39.5
Urban	33.0	...	...	...	37.0	...	...	...	...	35.0	...	...	...	...	...
Rural	47.0	...	...	...	45.0	...	...	...	...	46.0	...	...	...	...	...
National food poverty headcount (% of Population)	45.0	...	...	...	42.0	...	...	...	...	43.5	...	...	...	...	...
Underweight children under-5 (%)	45.4	...	44.9	...	47.2	...	...	46.0	37.1	43.4	27.6	27.6	26.9	34.7	21.6
Total population (million)	61.7	63.5	65.1	66.8	68.5	70.3	72.0	73.8	75.6	68.6	811.9	14.0	30.7	34.7	24.5
Urban population (% of total)	14.1	14.3	14.5	14.7	14.9	15.1	15.4	15.6	15.9	14.9	37.0	38.2	35.9	32.2	12.0
Population growth rate	2.9	2.7	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.6	2.3	2.4	2.3	2.2	3.2
Life expectancy at birth, total (years)	47.3	47.3	47.3	47.4	47.5	47.5	47.6	47.8	48.0	47.5	51.0	51.1	48.9	47.1	45.3
Children immunized, DPT (% ages 12.23 months)	55.0	55.0	37.0	21.0	56.0	65.0	65.0	66.0	80.0	55.6	59.1	66.5	76.3	84.3	64.4
1-year old immunized against measles (%)	54.0	51.0	46.0	27.0	52.0	55.0	57.0	59.0	71.0	52.4	61.9	67.1	75.4	82.4	65.9
Infant mortality (per 000)	107.7	106.1	104.8	103.4	102.1	100.8	99.5	97.8	96.1	102.0	88.7	87.5	66.2	104.5	83.0
Under-5 mortality rate (per 000)	189.0	184.3	181.8	179.3	176.8	174.3	171.8	168.8	165.8	176.8	147.3	145.8	115.1	163.2	144.8
Maternal mortality rate (per 100,000 live births)	...	...	...	...	871.0	...	...	...	673.0	772.0	622.9	415.7	636.0	1039.0	880.0
Births attended by skilled health personnel (% of total births)	...	10.0	8.4	7.9	8.7	9.9	9.7	...	18.3	10.4	43.7	53.8	42.5	38.8	39.0
HIV prevalence rate (% of population aged 15-49 years)	...	...	...	...	...	6.6	...	4.7	...	5.6	4.5	...	...	...	...
Access to safe water (% population)	26.0	...	...	...	24.0	...	22.0	...	22.0	23.6	62.3	60.1	55.3	60.8	54.0
Urban	...	...	...	...	77.0	...	81.0	...	81.0	79.7	80.9	78.6	86.5	81.3	79.5
Rural	...	...	...	...	13.0	...	11.0	...	11.0	11.7	55.5	53.4	38.5	42.3	50.0
Access to improved sanitation (% population)	8.0	...	...	...	15.0	...	6.0	...	13.0	10.5	48.4	46.9	59.0	61.0	53.0
Urban	...	...	...	...	58.0	...	...	...	...	58.0	...	...	...	...	...
Rural	...	...	...	...	...	...	4.0	...	...	4.0	...	...	...	...	...
Adult illiteracy rate, total (% of 15 years and above)	65.3	64.2	63.1	62.0	60.9	59.7	58.5	57.3	56.0	60.8	39.9	40.3	17.8	25.2	33.1
Female	73.8	72.6	71.4	70.2	69.0	67.6	66.2	64.8	63.4	68.8	48.7	48.3	24.2	33.7	43.3
Primary gross enrollment ratio, total (%)	42.9	41.0	49.9	59.0	63.0	69.0	72.0	73.0	77.0	60.8	86.4	86.9	96.0	75.5	124.8
Female	30.5	30.0	38.0	45.0	51.0	58.0	61.0	63.0	69.0	49.5	80.5	81.6	94.5	74.8	120.9
Secondary gross enrollment ratio, total (%)	12.3	13.8	13.0	15.0	17.0	21.0	24.0	25.0	28.0	18.8	37.6	31.3	36.5	11.7	15.2
Girls enrolled in primary and secondary schools (%)	60.0	...	...	...	65.0	...	...	...	...	...	...	...	...	...	...
Primary school completion rate (% of relevant group)	20.0	...	...	...	37.0	...	...	...	47.0	...	...	...	...	...	...

Source: ADB, IMF, World Development Indicators

Annex B-2a: Ethiopia –Net Receipts of External Financial Resources (USD Million)

Donor	1996	1997	1998	1999	2000	2001	2002	2003	2004	1996-2004
AfDB	114.73	60.32	28.96	17.39	4.34	11.02	57.60	-10.98	40.91	324.29
World Bank	128.42	49.46	55.25	137.71	118.69	438.35	469.38	255.24	484.32	2136.82
EC/EU	337.38	289.48	486.31	268.75	252.53	249.15	164.54	487.87	512.21	3048.22
IMF	21.34	–	16.18	-9.69	-13.03	40.32	27.71	0.60	17.99	101.42
World Food Program	16.61	22.31	16.13	19.86	36.02	27.31	23.53	15.23	9.83	186.83
UNICEF	17.96	12.21	12.78	14.36	13.45	19.38	14.01	14.56	18.62	137.33
United States	56.00	65.00	56.23	80.35	134.82	97.42	158.43	616.29	363.30	1627.84
United Kingdom	21.10	22.82	12.24	8.08	10.69	33.08	43.04	62.54	148.69	362.28
Germany	90.61	56.81	67.19	37.46	51.34	34.28	22.54	54.42	44.55	459.20
Netherlands	17.24	56.06	36.84	40.75	14.34	39.69	32.62	75.30	52.89	365.73
Canada	12.41	12.41	10.14	15.95	10.68	12.00	6.36	38.05	59.26	177.26
Japan	50.21	37.33	26.08	40.38	34.03	52.39	50.53	56.53	38.00	385.48
Sweden	39.47	36.11	30.95	18.32	21.14	20.38	19.47	26.43	48.39	260.66
Others	-78.45	-80.91	-63.90	-33.30	-2.16	-14.06	3.32	-98.06	-166.10	-533.62
All Donors, Total	845.03	639.41	791.38	656.37	686.88	1060.71	1093.08	1594.02	1672.86	9039.74
AfDB/All donor total (%)	13.58	9.43	3.66	2.65	0.63	1.04	5.27	-0.69	2.45	3.59
AfDB/Multilateral assistance (%)	18.03	13.91	4.70	3.88	1.05	1.40	7.61	-1.44	3.77	5.46

Source: ADB Compendium of Statistics, 1995, 1998, 2000, 2002, 2004, 2005

Note: Negative amounts signify that repayment(s) exceeded receipts.

Annex B-2b: Ethiopia and Comparators —Net Receipts of External Financial Resources (USD Million)

Comparator	1996	1997	1998	1999	2000	2001	2002	2003	2004	1996-2004
Ethiopia	845.0	639.4	791.4	656.4	686.9	1,060.7	1,093.1	1594.0	1,672.9	9,039.7
Kenya	187.1	372.1	460.8	336.6	860.8	566.15	388.2	560.1	587.21	4,319.0
MaDAGascar	309.7	1,188.0	394.3	355.8	318.7	373.83	369.0	549.7	1,217.1	5,076.0
Tanzania	975.1	976.6	995.3	904.1	1,176.0	1,295.7	1,018.8	1,622.6	1,749.8	10,714.2
Uganda	747.2	763.6	699.3	591.9	804.7	756.8	702.3	991.3	1,142.8	7,199.9

Source: ADB Compendium of Statistics, 1995, 1998, 2000, 2002 , 2004, 2005

Annex B-2c: Bank Group Commitments to Ethiopia and Comparators 1996-2004 (UA Million)

Support Area	1996-1998	1999-2001	2002-2004	1996-2004
Ethiopia	215.03	194.45	248.18	657.66
Kenya	32.65	53.79	180.50	266.95
Tanzania	159.40	163.50	228.60	551.41
Uganda	68.05	160.82	138.47	367.34

Source: ADB Compendium of Statistics, 1995, 1998, 2000, 2002 , 2004, 2005

Annex B-2d: Ethiopia –Bank Group Approvals in 1996-2004

Project	Source	Approval Year	Planned Closing Date (Appraisal)	Loan Amount (UA million)	Status	Latest DO	Latest IP	Risk Rating	Outcome	Sustainability	Institutional Development
Agriculture and Rural Development											
National Fertilizer Sector Project	ADF	Dec. 1997	31/12/2001	28.00	Completed	S	HS	Non P/non PP	S	Negligible	Modest
National Fertilizer Sector Project Phase II	ADF	Nov. 2001	30/12/2002	8.43	Completed				S	Negligible	Modest
National Livestock Development Program	ADF	Sept.. 1998	30/06/2004	27.00	Ongoing	S	S	P			
Pastoral Areas Development Study	ADF	Nov.2000	31/12/2002	0.71	Ongoing	S	S	Non P/non PP			
Koga Irrigation and Watershed Management Project	ADF	Jun. 2001	30/06/2008	32.59	Ongoing	S	S	Non P/non PP			
Koga Irrigation and Watershed Management Project	ADF	Jun. 2001	30/06/2008	1.33	Ongoing	S	S	Non P/non PP			
Genale Dawa River Basin integ. Dev. Mas	ADF	Sept. 2001	31/12/2006	3.93	Ongoing	S	S	Non P/PP			
Rural Finance Interim Support Project	ADF	Jul. 2003	31/12/2009	27.17	Ongoing	S	S	Non P/non PP			
Rural Finance Interim Support Project	ADF	Jul. 2003	31/12/2009	8.00	Ongoing	HS	S	Non P/non PP			
Awash River Flood Control Study	ADF	Jul. 2003	31/12/2008	1.83	Ongoing	S	HS	Non P/PP			
Livestock Development Master Plan Study	ADF	Oct. 2003	31/12/2008	2.34	Ongoing	S	S	Non P/non PP			
Agriculture Sector Support Program	ADF	Nov. 2003	31/12/2010	21.24	Ongoing	HS	S	Non P/PP			
Agriculture Sector Support Program	ADF	Nov. 2003	31/12/2010	17.76	Ongoing	HS	S	Non P/PP			
Fisheries Resources Development Study	ADF	Dec. 2004	31/12/2008	0.92	APVD	S	US	P			
Creation Of Sustainable Tsetse	ADF	Dec. 2004	31/12/2011	9.55	APVD	HS	US	P			
Transportation											
Addis Ababa International Airport Development	ADF	31/10/1996	31/12/1999	19.50	Completed	S	HS	Non P/non PP	Satisfactory	Likely	Substantial
Alemgena–Sodo Road Project	ADF	17/06/1998	31/12/2002	18.50	Ongoing	S	HS	Non P/non PP			
Transportation Sector Studies	ADF	16/12/1998	31/12/2002	3.40	Ongoing	S	HS	Non P/non PP			

Project	Source	Approval Year	Planned Closing Date (Appraisal)	Loan Amount (UA million)	Status	Latest DO	Latest IP	Risk Rating	Outcome	Sustainability	Institutional Development
Butajira–Hossaina–Sodo Road Project	ADF	10/10/2001	31/12/2008	41.31	Ongoing	HS	S	Non P/non PP			
Wacha–Maji Road Upgrading Project	ADF	11/06/2003	31/03/2010	22.71	Ongoing	S	S	Non P/PP			
Wacha–Maji Road Upgrading Project	ADF	11/06/2003	31/03/2010	0.99	Ongoing	S	S	Non P/PP			
Public Utility											
Rural Electrification Project	ADF	Dec. 2001	31/12/2006	37.67	Ongoing	HS	HS	Non P/non PP			
Harar Water Supply & Sanitation Project	ADF	Sept. 2002	31/12/2008	19.89	Ongoing	HS	S	Non P/PP			
Harar Water Supply & Sanitation Project	ADF	Sept. 2002	31/12/2008	1.12	Ongoing	HS	S	Non P/PP			
Ethiopia–Djibouti Interconnection Project	ADF	Dec. 2004	31/12/2008	20.88	Ongoing	HS	HS	Non P/non PP			
Social Sector											
Education III	ADF	Sept. 1998	30/09/2002	32.00	Ongoing	S	S	Non P/PP			
Education III	ADF	Sept. 1998	30/09/2002	0.30	Ongoing	S	S	Non P/PP			
Rural Health Services Project I	ADF	Nov. 1998	31/12/2004	29.67	Ongoing	S	S	P			
Institutional Support to OSSREA	ADF	May 2002	30/09/2003	0.30	Completed						
Multisector											
Privatization Technical Assistance Project	ADF	Nov. 2000	31/12/2003	3.00	Ongoing	S	S	Non P/non PP			
Structural Adjustment Loan II	ADF	Oct. 2001	31/12/2004	60.00	Completed	S	HS	Non P/non PP	Satisfactory	Likely	Modest
Capacity Building Of MoFED	ADF	Dec. 2001	31/12/2005	0.52	Ongoing	S	S	Non P/non PP			
Institutional Support For Women’s Affairs Office	ADF	May 2004	31/12/2008	1.06	Ongoing	S	S	Non P/non PP			
Poverty Reduction Support Loan	ADF	Oct. 2004	31/12/2005	60.00	Ongoing						

Source: AfDB Database

Annex B-3: Ethiopia –Bank Program’s Approvals and Disbursements, 1996-2004 (UA Million)

Program Lending	1996- 1998	1999-2001	2002-2004	1996-2004		
	Approval ⁴⁶			Approval	Disbursement Amount	% ¹⁶
Investment	158	132	154	444	96	22
Policy-Based	0	60	60	120	60	50
Total	158	192	214	564	156	28

Source: ADB Database

⁴⁶ No disbursement for any of the approvals during the CSP programming period in which they were approved.

Annex B-4a – Ethiopia, Bank Assistance Strategies, 1996-2004

Overarching Objective: Poverty Reduction		
1996-1998	1999-2001	2002-2004
<p>Objective: 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.</p>	<p>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 by small-scale crop and livestock farmers (ii) enhancing rural access to infrastructure, and energy facilities, (iii) economic management, and (iv) private sector development.</p>	<p>While continuing to pursue macroeconomic stability, sustainable growth and rural development of the preceding programming period, the strategy also aimed at contributing to a better public sector management. The strategies toward these objectives focused on improving (i) institutional and policy environment, (ii) access of small-scale farmers to better technologies and credit, (iii) access of the poor to socio-economic, marketing, safe water and sanitation facilities.</p>
<p>Assistance program: A normal lending program 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 program was enhanced from UA 141.25 million to UA 189.73 million, about 91% of which was project lending and the rest as TAF. The lending program was to support investments in agriculture, transportation, health, and education.</p>	<p>Assistance program: 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 up to 50% of the country’s indicative allocation, in support of the reforms under the country’s I-PRSP.</p>	<p>Assistance program: The program 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>

Annex B-4b: Ethiopia — Country Strategy Objectives and Selected Indicators

Objective	Projects	Results Indicators	
		Planned	Actual
<p><u>Macroeconomic stability & public sector management</u></p> <ul style="list-style-type: none"> Maintain inflation under control Improve public financial management Enhance trade Improve rule of law 	<p>Structural adjustment loan II (UA 60 m); Privatization Technical Assistance Project (UA 3 m); Capacity Building of MoFED (UA 0.52 m); Institutional Support for Women's Affairs Office (UA 1.06 m); Poverty Reduction Support Loan (UA 60 m)</p>	<p>Maintain annual inflation below 5% Reduce military expenditure; Reduce non-performing CBE debt stock from 24% to 15.4% by 2001; increase fiscal revenue-GDP ratio to 20.4% by 2001; privatize by end 2003 123 PEs; Reduce maximum tariff rates from 40% to 30% and average tariff rate from 19.5% to 17.5% Adopt legal codes & notary public law</p>	<p>Annual inflation maintained below 10% but higher than 5%; fiscal balance before grants ranged 9-12% of GDP; fiscal revenue was 16.6% of GDP in 2004; 6% of PEs privatized; legal codes & notary law adopted</p>
<p><u>Sustainable growth and rural development</u></p> <ul style="list-style-type: none"> Promote broad-based growth Improve food security Improve access to rural areas Improve access to public electricity supply Increase access to safe water and sanitation Promote private sector development 	<p>National Fertilizer Sector Project I & II; National Livestock Development Program; Pastoral Areas Development Study; Koga Irrigation And Watershed Management Project; Genale DPMAwa River Basin integ. Dev. Mas; Rural Finance Interim Support Project; Awash River Flood Control Study; Livestock Development Master Plan Study; Agriculture Sector Support Program; Fisheries Resources Development Study; Creation of Sustainable Tsetse; Rural electrification (UA 37.67m); Harar Water Supply & Sanitation Project (UA 21.01m); Addis Ababa International Airport Development Project; Alemgena Sodo Road Project; Transportation Sector Studies; Butajira–Hossaina–Sodo Road Project; Wacha-Maji Road Upgrading Project</p>	<p>Keep annual average GDP growth at 5-7% Keep annual average GDP growth at 5-7% Increase road density from 21km/1000 sq km to 47 km/sq km Increase access to safe water from 30% in 2000 to 39% in 2004</p>	<p>Annual GDP growth rate averaged about 3.5%; access to safe water increased to 36%; road density increased to 34 km per sq. km; electricity power consumption increased to 30 kWh in 2003 from 23 kWh in 2000</p>
<p><u>Better education and health service delivery</u></p> <ul style="list-style-type: none"> Increase access of the poor to primary education services Increase access of the poor to primary health care 	<p>Education III (UA 32.30 m) Primary healthcare (UA 29.67 m)</p>	<p>Improved gross primary enrollment; Improved girls/boys ratio Improved access to primary healthcare Increased public spending on education & health</p>	<p>Gross primary enrollment increased from 37.4% in 1996 to 77% in 2004, and girls/boys in primary & secondary education increased from 60% in 1996 to 73% in 2004; under-5 child mortality decreased but maternal mortality unchanged; substantial increase in public social spending</p>
<p><u>Contribute to reduction in national poverty & food poverty</u></p>		<p>Reduce national food poverty headcount to 36% in 2004 and national poverty headcount from 44% in 2000 to 38% by 2004</p>	<p>National poverty and food poverty headcounts reduced to 36% and 34% respectively in 2005</p>

Annex B-4c: Ethiopia –Alignment of Project Objectives to ADB RMF Indicators, 1996-2001

MDG-AfDB indicators	Objectives	1996-1998**		1999-2001		Total	
		Nos (*)	Amt	Nos (*)	Amt	Nos (*)	Amt
A. MDG indicators Nos 1-8: Direct Poverty Reduction and Human Development							
1	Direct Poverty Reduction/Proportion of Population below \$ 1 Poverty Line	3	32.96	6	42.47	9	75.43
3	Combat HIV/AIDS Prevalence in Women aged 15-24			1	5.65	1	5.65
5	Promote Gender Equality/Boys to Girls Ratio in Primary/Secondary Schools	1	10.77	1	3.35	2	14.12
6	Achieve Universal Primary Education/Primary Education Completion Rate	1	21.53			1	21.53
7	Ensure Environmental Sustainability/Access to Safe Water	3	40.59	4	15.73	7	56.32
8	Develop Global Partnership	4	38.46	2	30.92	6	69.38
B. MDG indicators Nos 9-10: Infrastructure and Finance/Private Sector Development							
9	Rural & Urban Infra/Access to Rural Roads/Household Electricity	1	20.81	2	7.34	3	28.15
10	Cost and Time of Business Start-ups	1	10.41			1	10.41
C. MDG indicators Nos 12-14: Governance and Regional Integration							
12	Governance: Public Sector Management & Municipal Finance	1	12.71			1	12.71
14	Regional Integration	2	19.00			2	19.00
D. MDG indicators Nos 15-19: Other Indicators Not Included Elsewhere							
15	Economic Management	1	12.71			1	12.71
16	Employment Security/Social Inclusion			1	3.35	1	3.35
17	Financial and Private Sector Development	1	12.71			1	12.71
19	Health	1	9.89			1	9.89
TOTAL		20	242.55	17	108.81	37	351.36

Source: OPEV Database

N.B : (*) each project can be mapped to more than one indicator (the original number of project is 11)

(**) Approval period for project approved after 1996 and completion period for project approved before 1996

Annex B-4d: Ethiopia –Performance Ratings of Projects Completed in 1996-2007

Country	Evaluated		% Satisfactory Outcome		% Substantial Institutional Development Impact		% Likely Sustainability	
	UA M	No.	Amt	No.	Amt	No.	Amt	No.
Ethiopia	478.86	15	95	93	64	53	86	80
Kenya	63.50	5	57	40	57	40	42	40
Tanzania	358.96	14	75	71	33	43	56	43
Uganda	277.43	15	85	87	68	73	71	73
East Region	1278.30	58	77	76	50	54	67	61
ADF Bank-wide	7278.20	273	74	71	64	53	65	57

Annex B-4e: Ethiopia –Performance Ratings of Projects Completed in 1996-1999

Country	Evaluated		% Satisfactory Outcome		% Substantial Institutional Development Impact		% Likely Sustainability	
	UA M	No.	Amt	No.	Amt	No.	Amt	No.
Ethiopia	177.44	5	100	100	84	60	100	100
Kenya	36.87	3	66	33	66	33	0	0
Tanzania	122.62	6	72	67	72	67	66	50
Uganda	30.42	4	100	100	63	75	63	75
East Region	402.52	22	62	63	76	61	68	53
ADF Bank-wide	2509.10	99	51	57	56	46	45	45

Annex B-4f: Ethiopia –Performance Ratings of Projects Completed in 2000-2007

Country	Evaluated		% Satisfactory Outcome		% Substantial Institutional Development Impact		% Likely Sustainability	
	UA M	No.	UA M	No.	UA M	No.	UA M	No.
Ethiopia	301.42	10	92	90	51	50	77	70
Kenya	26.634	2	43	50	43	50	100	100
Tanzania	236.34	8	77	75	13	25	50	38
Uganda	247.01	11	83	82	69	73	72	73
East Africa Region	875.78	36	84	83	39	51	67	66
ADF Bank-wide	4,769.00	174	86	78	68	57	76	64

Source: OPEV Database

Annex B-4g: Ethiopia and Comparators: Projects and Commitments at Risk, 2004

Country	Projects Number	Commitments UA M	Actual Problem Projects(IP/DO) Number	%	Potential Problematic Projects(IP/DO) Number	%	Actual + Potential Projects(IP/DO) Number	%	At Risk Commitments UA M	%
Ethiopia	10	272.1	0	0.0%	2	20.0%	2	20.0%	62.0	22.8%
Kenya	2	28.0	0	0.0%	2	100.0%	2	100.0%	28.0	100.0%
Tanzania	13	241.9	0	0.0%	6	46.2%	6	46.2%	123.2	50.9%
Uganda	8	150.7	0	0.0%	3	37.5%	3	37.5%	57.6	38.2%
East Region	56	958.7	5	8.9%	20	35.7%	25	44.6%	375.6	39.2%
Bank-Wide Total	330	5,573.1	34	10.30%	109	33.0%	143	43.3%	2,077.5	37.3%

Source: ADB, 2004 Annual Portfolio Performance Review Report

Annex B-5a: Ethiopia –Project Disbursement/ Time Efficiency of Approvals in 1996-2004 by Sector

Project	Source	Approval Date	Planned Closing Date (Appraisal)	Loan Amount (UA million)	Amount Disbursed (UA million) Dec. 2004	Disbursement Rate (%) Dec. 2004	Actual Project Age (Months) 2004	Estimated Project Age at Appraisal (Months)	Time spent/ time planned (%)	Slippage on Effectiveness (Months)
Agriculture and Rural Development										
National Fertilizer Sector Project I	ADF	15/12/1997	31/12/2001	28.00	19.05	68.02	48	41	117.1	17
National Fertilizer Sector Project II	ADF	28/11/2001	30/12/2002	8.43	8.09	95.95	6	11	54.5	4
National Livestock Development Program	ADF	10/09/1998	30/06/2004	27.00	10.58	39.17	66	60	110.0	10
Pastoral Areas Development Study	ADF	03/11/2000	31/12/2002	0.71	0.14	20.02	42	18	233.3	22
Koga Irrigation And Watershed Management Project	ADF	28/06/2001	30/06/2008	32.59	1.64	5.03	34	76	44.7	4
Koga Irrigation And Watershed Management Project	ADF	28/06/2001	30/06/2008	1.33	0.26	19.22	34	76	44.7	5
Genale Dawa River Basin integ. Dev. Mas	ADF	27/09/2001	31/12/2006	3.93	0.87	22.02	30	54	55.6	16
Rural Finance Interim Support Project	ADF	16/07/2003	31/12/2009	27.17	0.00	0.00	6	66	9.1	10
Rural Finance Interim Support Project	ADF	16/07/2003	31/12/2009	8.00	0.00	0.00	15	75	20.0	19
Awash River Flood Control Study	ADF	21/07/2003	31/12/2008	1.83	0.00	0.00	4	52	7.7	10
Livestock Development Master Plan Study	ADF	08/10/2003	31/12/2008	2.34	0.00	0.00	10	58	17.2	30
Transportation										
Addis Ababa International Airport Development	ADF	Oct. 1996	31/12/1999	19.50	10.75	55.15	90	30	300.0	31
Alemgena–Sodo Road Project	ADF	Jun. 1998	31/12/2002	18.50	16.58	89.59	59	35	168.6	12
Transportation Sector Studies	ADF	Dec. 1998	31/12/2002	3.40	1.89	55.52	59	35	168.6	15
Butajira–Hossaina–Sodo Road Project	ADF	Oct. 2001	31/12/2008	41.31	4.86	11.77	33	81	40.7	25
Wacha–Maji Road Upgrading Project	ADF	Jun. 2003	31/03/2010	22.71	0.00	0.00	6	69	8.7	17
Wacha-Maji Road Upgrading Project	ADF	Jun. 2003	31/03/2010	0.99	0.00	0.00	15	78	19.2	25
Public Utility										

Project	Source	Approval Date	Planned Closing Date (Appraisal)	Loan Amount (UA million)	Amount Disbursed (UA million) Dec. 2004	Disbursement Rate (%) Dec. 2004	Actual Project Age (Months) 2004	Estimated Project Age at Appraisal (Months)	Time spent/ time planned (%)	Slippage on Effectiveness (Months)
Rural Electrification Project	ADF	17/12/2001	31/12/2006	37.67	0.40	1.06	25	49	51.0	7
Harar Water Supply & Sanitation Project	ADF	04/09/2002	31/12/2008	19.89	0.25	1.26	13	61	21.3	8
Harar Water Supply & Sanitation Project	ADF	04/09/2002	31/12/2008	1.12	0.00	0.00	26	74	35.1	
Social Sector										
Education III	ADF	10/09/1998	30/09/2002	32.00	11.50	35.94	53	26	203.8	5
Education III	ADF	10/09/1998	30/09/2002	0.30	0.00	0.00	53	26	203.8	0
Rural Health Services Project I	ADF	26/11/1998	31/12/2004	29.67	8.85	29.84	63	63	100.0	14
Institutional Support to OSSREA	ADF	15/05/2002	30/09/2003	0.30	0.30	99.96	3	3	100.0	3
Multisector										
Privatization TA Project	ADF	08/11/2000	31/12/2003	3.00	0.38	12.77	46	34	135.3	14
Structural Adjustment Loan (SAL) II	ADF	18/10/2001	31/12/2004	60.00	60.00	100.00	25	34	73.5	2
Capacity Building MoFED	ADF	05/12/2001	31/12/2005	0.52	0.15	27.98	36	48	75.0	7
Institutional Support for Women's Affairs Office	ADF	12/05/2004	31/12/2008	1.06	0.00	0.00	4	52	7.7	8

Annex B-5b: Ethiopia – Bank’s Annual Disbursement Rate (%), 1997-2007

Country	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-2007
Ethiopia	32.07	24.68	12.54	12.09	14.58	24.65	4.58	16.85	35.65	12.43	38.74	20.61
Kenya	40.00	14.65	11.55	5.85	9.42	3.09	1.70	25.04	15.03	5.51	11.13	13.11
Tanzania	28.82	30.68	22.23	16.36	6.81	8.31	16.17	19.73	36.37	19.79	29.98	22.17
Uganda	22.08	23.83	19.11	19.39	28.44	11.74	12.84	20.82	31.63	23.38	42.51	23.24
East Region	33.22	21.94	15.96	14.26	13.14	13.98	9.51	18.94	31.19	16.82	30.83	20.23
Bank-wide	26.08	22.33	21.22	30.11	20.89	22.53	22.66	26.31	27.68	24.78	30.96	25.00

Source: Bank Database 2007

Annex B-6a: Ethiopia CAE: Summary Rating of Bank Assistance Program Outcome

Bank Assistance Program's Objectives	Outcomes	Outcome Ratings
<i>Overarching: Poverty Reduction</i>	<i>Progress in reducing poverty especially in rural areas but urban poverty increased.</i>	<i>Unsatisfactory</i>
1. Macroeconomic stability and improved public sector management	Fairly stable macroeconomic environment with limited privatization results	Satisfactory
1.1. Improved public sector expenditure management	Improved budget planning and execution, and fiduciary control; increased expenditure on poverty; while defense spending declined. But monitoring and reporting of fiscal performance remained weak.	Satisfactory
1.2. Enhanced public enterprise management	Awareness of privatization raised and some progress made in tariff reduction, relatively slow pace and limited privatization results.	Unsatisfactory
2. Sustainable growth and rural development	Modest progress toward attainment of program objectives; growth improved but highly unstable	Unsatisfactory
2.1 Infrastructure development	Improved access of the population to financial and social facilities though at a relatively slow pace	Unsatisfactory
(a) Transportation	Substantial improvements in road density and air transportation services	Satisfactory
(b) Power	Modest increase in power supply but losses barely unchanged	Unsatisfactory
(c) Water and Sanitation	Population with access to safe water and improved sanitation substantially increased.	Satisfactory
2.2 Agriculture and Natural Resources	Positive and highly unstable agricultural output, but value added was negative in one third of the period: Cereal yields remain fairly unchanged. Most bank investments had limited results.	Unsatisfactory
2.3. Private Sector Development	Improved business environment and substantial private investment but minimal deepening of the financial sector dominated by the state banks.	Satisfactory
3. Enhanced health and education service delivery	Limited progress toward achievement of objective.	Unsatisfactory
3.1. Education	Modest in improving access to basic education and gender equality, and increased gaps in quality, regional inequalities, primary/secondary school enrollments and financing.	Unsatisfactory
3.2. Health	Some improvements in children immunization, infant mortality and maternal health but deterioration in child mortality; public health expenditure remains low.	Unsatisfactory

Annex B-6b: Ethiopia CAE: Summary Rating of Bank Performance

Criteria	Multisector	Agriculture	Social	Transport	Water/San.	Power	Overall
1. Bank's Role:	S	S	S	HS	S	S	S
2. Strategy relevance & consistency:	S	S	S	S	S	S	S
Relevance	S	S	HS	S	S	S	S
ESW link	S	S	US	US	US	US	US
Bank's strategic priority focus	S	S	S	S	S	S	S
3. Design adequacy:	S	US	US	S	S	S	S
Quality at entry	S	US	US	S	S	S	S
Environmental assessment	S	HUS	HUS	S	S	S	US
Gender analysis	S	HUS	S	HUS	US	HUS	US
Client fund requirement assessment	S	S	S	S	S	S	S
4. Supervision adequacy:	US	US	US	US	US	US	US
Dialogue with government	S	HUS	US	US	US	US	US
Dialogue with civil society	US	HUS	HUS	HUS	HUS	HUS	HUS
Staff skills mix	US	US	US	US	US	US	US
Bank policy & procedure training	US	US	US	US	US	US	US
Enforcing compliance	US	S	HS	S	US	S	S
Enforcing loan covenant & exercising remedies	US	US	US	S	US	S	US
Exhibiting appropriate flexibility	US	HUS	HUS	US	HUS	US	US
Timely project implementation	HUS	US	US	US	US	US	US
5. Analytical work coverage & quality:	US	US	HUS	US	HUS	US	US
6. Adequacy of Bank's participation:	S	US	US	US	S	US	US
Foster participation	US	HUS	US	HUS	S	HUS	US
Aid resource coordination & mobilization	S	US	US	US	US	US	US
7. Adequacy & timeliness of M & E:	US	US	US	US	HUS	US	US
Lessons learned incorporation	US	HUS	HUS	US	HUS	HUS	HUS
Performance indicators, M&E system	S	US	US	HUS	US	US	US
Timely project completion reports	HUS	US	HUS	HUS	HUS	US	HUS
Reporting of problems & progress	US	S	S	US	US	S	S
Building client's capacity	S	US	US	S	HUS	US	US
Overall rating:	US	US	US	S	S	S	US

Key:

US = Unsatisfactory; S = Satisfactory; HS = Highly Satisfactory; HUS = Highly Unsatisfactory

Annex B-6c: Ethiopia CAE: Summary Rating of Selected Exogenous Factors

Factor	Rating
Terms of trade shocks:	Modest
Weather (drought/rainfall):	Modest
Border conflict:	Modest
Overall:	Modest

Annex B-7: Ethiopia –National MDGs

National MDG	1995	2000	2005
1. Eradicate extreme poverty			
1.1. Proportion of population below national poverty line (%)	48	44	36
1.2. Prevalence of underweight children under five (%)		37	34
2. Achieve universal primary education			
2.1. Gross primary school ratio		0.61	0.79
3. Promote gender equality			
3.1. Ratio of girls to boys in primary and secondary education		0.76	0.84
4. Reduce child mortality			
4.1. Under-5 child mortality ('000' live births)		200	150
5. Improve maternal health			
5.1. Maternal mortality rate ('000' live births)	1400	871	871
6. Combat HIV/AIDS, malaria, and other diseases			
6.1. HIV prevalence rate of pregnant women 15-24 years		6.8	4.4
6.2. Incidence of malaria ('00,000)		7.7	7
7. Ensure environmental sustainability			
7.1. Proportion of land covered by forest (%)		15	n.a
7.2. Proportion of population with access to improved water source (%)	26	27.9	35.9

Source: MDG Report: Vol. 1, MOFED

Annex C: METHODOLOGICAL APPROACH

1.1 Approach to the evaluation

1.1.1 The evaluation was guided by the framework proposed in the OPEV draft guidelines for country assistance evaluation.⁴⁷ The framework was also useful in identifying the evaluation issues and questions. It took the country as the focus of the evaluation and was based on three dimensions: i) products and services; ii) development impact; iii) contributors' performance.

1.1.2 The Bank products and services were the individual Bank assistance inputs: loans and grants; dialogue; analytical works; aid coordination and resources mobilization for Ethiopia during the period 1996-2007⁴⁸. The Evaluation included the projects and programs approved before and completed after 1996, and those approved under the 1996-2004 assistance programs (some were still ongoing in 2007). As for those approved prior to and completed during the review period, the alignment of their objectives to those of the Bank's assistance strategies for the period under review was assessed before including them in the evaluation.⁴⁹ The second dimension concerned the effectiveness of the progress of the Bank assistance program toward its stated higher-order development outcomes. On the third dimension, the performance of the key contributors (Bank, Government, other development partners, and exogenous factors) to the Bank program outcome was assessed.⁵⁰ An additive bottom-up process was used to assess and rate the Bank products and services. Regarding the development impact dimension, a top-down analysis of the key Bank assistance program objective outcomes was carried out to assess their relevance; efficacy; efficiency; sustainability, and institutional development impact.⁵¹ The evaluation framework used the standard OPEV evaluation criteria (relevance; efficacy; efficiency; sustainability; institutional development impact) and the four-point rating scale (see below for their definitions).

1.1.3 The evaluative evidence was extracted from a triangulation of three main sources: documentation, perceptions, and validation. The documentary evidence was obtained from the desk reviews; reviews of the performance of the Bank assistance to five sectors in Ethiopia; and completed evaluation rating forms of the performance and impact of the Bank assistance to the five sectors.

1.1.4 The desk reviews covered a range of material: (i) relevant and accessible Ethiopian national documents (including poverty reduction strategy and its progress reports; national development programs, agriculture-led industrialization strategy; and economic policy); (ii) Bank documents and studies (including sector policies; sector review studies; Country Strategy Papers (CSP); CSP guidelines, gender profiles,

⁴⁷ This framework is based on that of the Independent Evaluation Group of the World Bank.

⁴⁸ The results produced by the Bank assistance during the period 1996-2007 were considered. In the case of the 2005-2009 CSP, only its design was assessed.

⁴⁹ The Bank operations approved prior to 1996 and completed in 1996-2004, were found to be aligned with the Bank's 1996-2004 assistance strategies, and therefore included in the evaluation.

⁵⁰ The key exogenous factors identified were drought, conflicts, and trade shocks.

⁵¹ The evaluation of the bank assistance program was based on the subjective judgments and ratings of the concerned evaluator. The evaluation framework ensured consistency in making judgments across the three dimensions – Bank products and services; development outcome; Bank's outcome contribution.

portfolio performance reviews, annual portfolio performance reports, project briefs, supervision summary, appraisal and completion reports; evaluation reports; OPEV and Bank Databases); and (iii) accessible documentations and studies on Ethiopia from other development partners and research literature.

1.1.5 A separate review of the Bank assistance to each of the following sectors – agriculture and rural development; public utility (comprising communications, power supply and water and sanitation), social, and multisector – was commissioned by OPEV in 2005 to provide evidence for the CAE. This was deemed to be necessary because of the limited number of available completion reports on the Bank’s assistance already delivered to Ethiopia. None of the three CSPs had completion reports and only about half of the Bank-financed projects already completed had completion reports. Furthermore, more than half of the Bank’s assistance approved during the review was under implementation at the time of the preparation of the CAE’s approach paper in 2005. And the commissioned sector reviews, covering completed and ongoing Bank operations, involved desk reviews and country and project visits. The country field visits enabled the gathering of relevant documents/reports, Data and selected stakeholder perceptions, and site visits to see results on the ground. With regard to the transportation sector, OPEV’s review of the performance of the Bank’s assistance in 2002 provided the key reference document.

1.1.6 On the basis of the five OPEV sector reviews and other information, each of the authors/evaluators of the sector reviews rated the performance and impact of the Bank assistance to the sector using the three dimensions of the evaluation framework: (i) Bank products and services (lending and nonlending assistance); (ii) their development impacts (relevance of the program’s objectives; achievement of objectives including institutional development impact; sustainability of benefits; overall impact); (iii) performance of key contributors to program results.⁵² The results of the sector performance and impact rating exercise provided evaluation ratings, as well as a basis for reconstructing the three key objectives of the Bank assistance strategies during the period 1996-2004: (i) macroeconomic stability and improved public sector management; (ii) sustainable growth and rural development; (iii) better education and health service delivery.⁵³ Once the development objective outcomes had been established, the individual Bank operations were grouped under the appropriate objective outcome(s).

1.1.7 Perceptions of the Bank’s assistance and its performance were generated from interviews with selected stakeholders: the Bank’s country team for Ethiopia (including the field office), Government staff (Ministry of Finance and Economic Development and sector ministries covering transportation, public utilities, education, health, agriculture and rural development, Women’s Affairs), donors, primary beneficiaries, civil society, and NGOs.

1.1.8 The evaluative evidence, findings, and recommendations in the draft CAE report were validated by the authors of the OPEV’s sector reviews of the Bank assistance to Ethiopia.

⁵² The transportation sector performance and impact rating form was completed by one of the authors of the review of the Bank assistance to the public utility sector.

⁵³ The classification of projects into themes undertaken by OPEV in 2005 was also useful for the reconstruction of the development objective outcomes of the Bank assistance program for 1996-2004.

1.1.9 Kenya, Tanzania, and Uganda were selected as comparator countries on the basis of geography (all being in East Africa) and availability of information on program outcome indicators of interest.

1.1.10 The draft CAE report was internally and externally peer-reviewed. Bank staff (in Tunis and Addis Ababa) that worked on the Bank's portfolio during review period provided written and verbal comments on the draft report. The Government also commented on the draft report. All the comments received were reflected in the final report to the extent possible.

1.1.11 The evaluation was mainly constrained by the limited number of available completion reports on the Bank assistance to Ethiopia and weak reporting on development results. On assessing the efficiency, proxies were used because of the lack of data on the cost of delivery of the Bank's products and services –the Bank did not keep data on its expenses on project and CSP preparation, supervision and overall management.

1.2 Evaluation Criteria and Rating Scales

1.2.1 The standard OPEV evaluation framework consists of performance evaluation criteria and a four-point ratings scale. The general OPEV evaluation criteria comprise aggregate outcome, outcome, other impacts, institutional development impact, sustainability, borrower performance, and Bank Group performance, which are defined as follows:

- **Aggregate/overall project/program outcome:** This reflects the extent to which the main development objectives of the ADB assistance were (i) relevant, (ii) efficacious, (iii) efficiently achieved, (iv) produced institutional development impact, and the assistance's net benefits are sustainable. It can be highly satisfactory, satisfactory, unsatisfactory, or highly unsatisfactory.
- **Project/program outcome:** The extent to which the assistance's key development objectives were relevant, achieved or are expected to be achieved, efficiently. It can be highly satisfactory, satisfactory, unsatisfactory, or highly unsatisfactory. Outcome is assessed on three subcriteria, viz. relevance, efficacy, and efficiency.
- **Relevance:** Consistency of the assistance with (i) the country's overall development strategy, and (ii) the Bank Group's assistance strategy for that country (reflected in the CSP) and policy priorities. It can be highly relevant, relevant, irrelevant, or highly irrelevant.
- **Efficacy** (achievement of objectives): Extent to which the assistance achieved the development objectives that had been articulated at approval. It can be highly satisfactory, satisfactory, unsatisfactory, or highly unsatisfactory.
- **Efficiency:** Extent to which the benefits of the assistance, actual or at time of evaluation, are commensurate with the inputs applied. It can be highly efficient, efficient, inefficient, or highly inefficient.
- **Other impacts** of the assistance, intended or unintended (positive/negative), not captured under the outcome of the assistance are also identified and assessed. These impacts could concern poverty reduction, gender, environment, regional integration, and private sector development. They can be high, substantial, modest, or negligible.

- **Institutional Development Impact (IDI):** The extent to which the assistance has contributed to improvements or other changes in norms and practices (institutional capacities, policy framework, etc.) that enable the country to make more effective use of its human, financial, and natural resources, whether these changes were intended or otherwise. IDI can be high, substantial, modest, or negligible.
- **Sustainability of results:** The extent to which an acceptable level of the assistance's net benefits, actual and expected at time of evaluation, are likely to be maintained throughout the intended useful life of the assistance. It can be highly likely, likely, unlikely, or highly unlikely.
- **Borrower performance:** The extent to which the Borrower (government & implementing agency(ies)) ensured quality of preparation and implementation of the assistance, and complied with covenants and agreements (including monitoring and evaluation) toward the achievement of development objectives. It can be highly satisfactory, satisfactory, unsatisfactory, or highly unsatisfactory.
- **Bank Group performance:** The extent to which the services provided by the AfDB ensured quality identification, preparation, and appraisal of the assistance, and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing), toward the achievement of development objectives. It can be highly satisfactory, satisfactory, unsatisfactory, or highly unsatisfactory.

Annex D: EFFECTIVENESS OF THE PILOT DELEGATION OF EDUCATION AND HEALTH PROJECT MANAGEMENT AUTHORITY TO THE ETHIOPIA FIELD OFFICE (ETFO)⁵⁴, 2006-2007

1. Background

1.1 Rationale for delegating project management authority: The education III project (UA 32.00 million including a grant of UA 0.30 million) and the Primary Health Care Service Project (UA 29.67 million), approved in 1998 by the ADF Board, aim at assisting the GoE to improve access of the Ethiopian population to basic education and health services, mainly through the provision of facilities and equipment. Both projects, managed by the then Operations North and South Social Department (ONSD), were to be delivered by the end of December 2004. Because of their poor implementation performance, the completion Dates of both projects had to be revised. Both projects suffered long implementation delays; it took about two years to effect the first disbursement, and as at the end of 2004, cumulative project disbursement stood at 34 percent. To address the project implementation difficulties, resulting from the relatively inflexible Bank procurement and disbursement rules, and weak project implementation capacity and coordination, the Bank Management and Government initiated a sequence of remedial measures.

Box 1: Underperforming project because of:

- Unrealistic project design relative to Bank's rigid business processes
- Weak project implementation and coordination capacity

Resulting in undermining:

- Bank image
- Development results

These included the training of the national and regional project implementers in procurement, disbursement, and accounting procedures in 1999 and 2002; increasing Ethiopia Field Office (ETFO) staff capacity by recruiting a Resident Engineer and Social Sector Expert during 2000-2004; and lowering the procurement threshold for civil works, furniture, and equipment.

1.2 These measures resulted only in limited implementation progress, and they were not effective in substantially increasing the project disbursement rate. This project implementation rate was very low relative to that of the WB-funded project approved in the same year (1998) with an amount of USD 200 million; its disbursement rate reached 94% in 2006. To ensure compliance with Bank rules, Bank Management further suspended project disbursement in early 2005 and refused a Government request for a revision of the last disbursement Dates. These undermined the image of the Bank in the eyes of the GoE and project beneficiaries. The GoE, in turn, refused to clear any Bank mission without authority to take critical decisions on the way forward for the two social projects. As a result, the GoE and Bank agreed on a High Level Field Mission which took place in October 2005. The mission, led by the then Vice President of Operations North and South (ONVP), led to an agreement on the remedial actions to be adopted by the GoE and Bank Management.

1.3 Further remedial measures: The remedial measures, following the 2005 High Level Bank Mission to Ethiopia, were meant to address the key causes of the poor project performance in order to substantially improve the implementation performance of the Education III project (EP) and the Primary Health Care Service Project (PHCSP). In this regard, the GoE resubmitted the audit reports, assigned project focal persons (at all government levels), and recruited project accountants with a view to increasing project management capacity. It also committed to ensuring regular project account audits and

⁵⁴ The note is based on discussions/interviews with Bank staff and review of internal project documents in August-October 2007.

progress reporting. The Bank Management, for its part, lifted the suspension on disbursement; extended the last disbursement Date to December 31, 2007; made replenishments in February 2006; *delegated project management authority from ONSD to ETFO and authorized ETFO to post review procurement documents for works and goods of up to UA 250,000*. It also agreed to provide ETFO with a procurement specialist and an accountant in order to ensure the full utilization of the delegated project management authority.

1.4 The delegated project management authority (DPMA), effective in August 2006, was a product of a process involving the participation of relevant stakeholders in the Bank; including Operations Complex (ONVP/OSVP, ONSD/OSHD), Regional Department (OREB; ETFO), Procurement (PPRU/ORPU), General Counsel and Legal Services (GECL). The DPMA was to be piloted for 12 months, and thereafter it was to be jointly assessed by ONSD/OSHD and PPRU/ORPU. The DPMA comprised all tasks under the authority of the ONSD Division Manager at HQ (project supervision, completion reporting and management, loan administration, and procurement). However, project management decisions had to be signed off by HQ (Director) who also had to approve the staff mix for supervision missions. In undertaking prior and post review of procurement documents, ETFO was to receive assistance from PPRU/ORPU, which had the authority on procurement.

1.5 The DPMA was implemented during the institutional reforms of the new President of the Bank, in the second half of 2005, which changed the Bank Management structure. These changes affected the structure and leadership of the Social Department (ONSD) which managed the EP and PHCSP in Ethiopia. The ONSD was merged with the other Social Department to form a new Department – Human Development (OSHD) – and the Vice Presidency was also restructured. Vice Presidency and Departmental leadership also changed.

2. Effectiveness of the delegated project management authority (DPMA)

2.1 The delivery of the Primary Health Care Project (PHCSP) and especially the Education III Project (EP), improved in terms of disbursement, following the adoption by Government and Bank Management of some of the agreed remedial measures. The average annual project disbursement in 2006-2007 increased by 1.3 times that of the period 2000-2005. And the cumulative disbursement rate for both projects also increased by 15 percent, from 34% in 2005 to 46% in 2007. The EP had a relatively better disbursement performance – its disbursement rate rose by 21 percentage points over 2005-2007 compared to 5 percentage points for the RHSP over the same period⁵⁵. The strong commitment and determination of the GoE and ETFO was a major factor in improving project implementation performance. Government and ETFO improved their communication links, and the latter was able to work closely with the project implementing departments and regions⁵⁶. However, communication between ETFO and Bank HQ remained weak, as links between ETFO and the Social Sector Department (OSHD) became virtually nonexistent. This limited the progress in rebuilding the image of the Bank among the EP and PHCSP implementers and beneficiaries, as well as in improving project implementation capacity.

⁵⁵ When the new measures came into force, the EP had already prepared contracts and detailed budgets for outstanding payments committed prior to the sanctions, whereas it took the PHCSP 6-9 months to have Bank-approved procurement documents.

⁵⁶ ETFO made six supervisory field visits in two years, covering financial and procurement issues, and provided regular procurement briefings to the GoE technical staff. It also delivered a procurement/disbursement workshop to the project implementers.

2.2 The cumulative disbursement rate of both the EP and PHCSP of 49% (37% and 57% for the PHCSP and EP respectively) relative to that expected at the end of 2007 was *unsatisfactory*. A cumulative disbursement rate close to 100% was expected at the end of 2007; the revised Date for the last disbursement of project funds. This weak project delivery performance largely reflected (i) the unrealistic project delivery target over a two-year period, and (ii) the partial compliance of Bank Management/HQ with its commitment to adequately support ETFO to effectively manage the EP and EHSP. The revised deadline of 2007, set for the complete delivery of the two projects, was unrealistic given the constraints stalling project delivery. At end of 2005, both projects were only about one-third disbursed; a disbursement level obtained over a period of six years. It was therefore unrealistic to expect that disbursement of the remaining two-thirds could be achieved in only two years. For the effective implementation of the delegated project management authority, the relatively weak government and ETFO project management capacity had to be enhanced; coordination had to be improved; and a mindset change at Bank HQ was also required.

Box 2: Delegated education and health project management and procurement authority was:
<ul style="list-style-type: none">• Effective in contributing to:<ul style="list-style-type: none">○ The increase in cumulative disbursement rate of the education and health projects from 34% in 2005 to 46% in 2007
<ul style="list-style-type: none">• But limited by:<ul style="list-style-type: none">○ Inadequate HQ technical and financial support○ Weak HQ-FO communication and coordination links

2.3 Bank Management/HQ was not able, over the period 2006-2007, to provide the necessary procurement and financial management capacity, financial resources, and technical backup to ETFO for effective EP and PHCSP management. With the delegation of project management authority to ETFO, ONSD/OSHD virtually ceased technical and financial support for the implementation of the two social projects. ONSD/OSHD gave the project management authority to ETFO without the associated budgetary resources, technical expertise, or authority to update the project implementation performance in the SAP. This tightly constrained ETFO's effective project management including supervision, which was limited in staff mix and frequency. Without the additional capacity and resources, ETFO had to rely on its existing resources and on procurement advice from HQ in addressing the project procurement and financial management challenge. This level of reliance of ETFO on HQ for procurement issues, given the weak communication between ETFO and OSHD, resulted in considerable delays in processing procurement and disbursement requests. It also contributed to the partial fulfillment of replenishment requests in 2007 for the education project, in that only about 31% of the amount request was provided⁵⁷.

2.4 The non-cooperation between ETFO and OSHD reflected a fault in the *design* of the DPMA – a lack of clarity on the explicit role of OSHD and the absence of coordination and monitoring mechanism for ensuring effective implementation. OSHD was expected to fully support ETFO in managing the two projects in terms of financial resources, technical knowledge and back-up, but this was not explicitly set down as a written requirement. The design also implicitly assumed the existing country team–sector coordination mechanisms to be active and effective, but this was not the case. These mechanisms were known to be weak and were further weakened by the then ongoing institutional reforms. Further, the DPMA represented a gain of authority for ETFO and a loss for OSHD. This new way of delivering Bank project assistance required time for an appropriate change in mindset in the Bank. Consequently, it took relatively longer than expected for the DPMA to be effective. As

⁵⁷ The disbursement Division at HQ (FFCO) refused, on two occasions, replenishment requests approved by ETFO. Consequently, the GoE had to raise some funds in order to implement the project workplan.

effective coordination and continuous buy-in by all participants, especially ETFO, OSHD, and the procurement and disbursement Departments were required for successful implementation of the delegated project management authority, an appropriate mechanism should have been put in place to ensure the (i) timely provision of the necessary technical, financial and procurement support to ETFO; and (ii) monitoring of the ETFO performance.

3. Key learning from the pilot delegation of management authority

3.1 *Devolving project management authority to the country field office can make a difference in accelerating the delivery of Bank assistance*

3.2 The DPMA provided an opportunity for ETFO to work closely with the GoE to effectively contribute to the delivery of Bank project assistance. With strong commitment and determination by both ETFO and Government, the progress made in delivering the project funds over the review period, though below target, was commendable given the prevailing constraints.

3.3 *Effectiveness of the delegated project management authority is inter alia determined by the field office's capacity and resources, and level of coordination and communication between ETFO and HQ, and also by the flexibility of Bank procurement procedures*

3.4 The DPMA involved a number of activities with financial and technical resource implications. Devolving such an authority to the country field office should go hand-in-hand with appropriate resource allocations and capacity building. It also implies changes in assigned responsibilities to ETFO and HQ departments. These responsibilities for ETFO and HQ should be clearly defined to minimize any misinterpretations and to facilitate implementation performance. Additionally, effective coordination and communication between ETFO and HQ Departments, in particular OSHD, should be maintained in order to enable the implementation of the DPMA with the desired results.

3.5 Appropriate changes in the Bank's business processes; particularly procurement and disbursement, were important in facilitating the implementation of the delegated project management authority. Without such changes, Bank procurement and disbursement rules will continue to limit the delivery of project assistance.

3.6 The Bank's current decentralization vision and mission adequately address the challenges that emerged during the implementation of the pilot delegation of project management authority to the field office. However, the implementation of the decentralization has to be sustained and maintained in order to minimize relapses. For this, apart from the provision of adequate resources and checks and balances, Management has to ensure effective i) staff buy-in, ii) internal communication and coordination, and iii) monitoring of progress for improving the process and staff learning.

Bank Staff Interviewed

AfDB Head Office (HQ)

Ms. A. Hamer; Resident Representative, MZFO (Former Director, OSHD)

T. B. Illunga, Manager, OSHD

Mr. A. Komenan, Lead, OSHD

Mr. B. Savadougo, Chief Education Analyst, OSHD

Mr. D. Bronselaer, Principal Procurement Officer, OSHD
Mr. J. Mensah-Quainoo, Head (former), ORPU/PPRU
Mr. E. Lomo, Principal Architect/Procurement Specialist, PPRU
Mr. M. Coulibaly, Resident Representative, CDFO

ETFO

Mr. T. Seya, Resident Representative (Former)
Ms N Okagbue, Country Operations Officer (Former)
Mr. G. Woldetsadik, Social Development Specialist

Annex E: MANAGEMENT RESPONSE TO CAE RECOMMENDATIONS

Comments by Quality Assurance and Results Department (ORQR)

1. The Ethiopia Country Assistance Evaluation (E-CAE) follows a standard CAE methodology in which conclusions are triangulated from: i) a top-down review of expected CSP outcomes; ii) a bottom-up review of project outcomes contributing to the CSP; and, iii) a review of Bank and borrower performances. The report reads well and reflects a serious effort at evidenced-based analysis. OPEV is to be commended for the quality of document.
2. Two issues merit comment by ORQR in order to enhance the usefulness of the E-CAE: i) logical consistency of the overall conclusions and ratings; and ii) specificity of the recommendations.

Logical consistency of the overall conclusions

3. The E-CAE comes to the following overall conclusions about the relevance and outcomes of Bank strategies and their implementation:
 - a. The CSPs were relevant for Ethiopia (para. 6)
 - b. On balance, the outcomes of completed operations were satisfactory and the outcomes of on-going operations are likely to be satisfactory (bottom-up analysis, para. 7)
 - c. On balance, the outcomes of the CSP were unsatisfactory (top-down analysis, para. 11)

Generally the top-down and bottom-up analyses should yield a common conclusion, as CSP outcomes derive from the contributions of the operations and analytic work. *Divergent conclusions such as these either reflect weaknesses in the evaluation or serious concerns about the Ethiopia program that are not expressed in the E-CAE.* If the latter, we would need to conclude that the Bank work program (operations, analytic work, etc.) was not aligned with stated CSPs—otherwise the positive outcomes of the work program would drive positive outcomes of the CSP. In other words, the work program would need to be judged as less relevant than the stated CSP—a serious disconnect that the E-CAE should have addressed if it were the case. As this is not addressed in the E-CAE, we might conclude that the logical inconsistency results from weakness of the evaluation rather than a serious disconnect in the country program itself.

Specificity of the recommendations

4. The E-CAE provides very useful analysis of outcomes and Bank performance related to various sectors and topics. Such analysis should give rise to specific recommendations about future strategy and implementation efforts. The main recommendations of the E-CAE are:
 - a. Improve performance of the active portfolio to achieve development results on the ground.
 - b. Improve the effectiveness of (the field office).
 - c. Improve the results orientation of Bank processes, projects and programs.
 - d. Widen and deepen ESW development knowledge
 - e. Enhance selectivity in lending and non-lending programs
 - f. Strengthen in-country implementation capacity and stakeholder participation

These recommendations are appropriate but quite general and, therefore, less useful to the Country Team in improving the relevance of Bank strategy and the effectiveness of its implementation. For example, the E-CAE documents particularly poor outcomes and performance in the agricultural and social sectors, but makes no specific recommendations about future engagement in these sectors,

either in terms of strategic selectivity or in terms of project design/restructuring to achieve better results in these sectors. Given the considerable cost and time of producing Country Assistance Evaluations, their usefulness would be enhanced if the recommendations better reflected the detailed analysis and provided specific guidance on future strategy design and implementation.

Comments by Ethiopia Country Team

The Country Team has reviewed the Ethiopia Country Assistance Evaluation Report. 1996-2007 We welcome the candidness of the report. While our review focused mainly on the recommendations, we have a few issues to raise on the process and content.

1 Process and analysis leading to the conclusion

1.1 The report is thorough and its analysis seems solid. The methods used are relevant. However, the list of Bank staff interviewed appears somewhat short: and not all the fields involved with the Bank-funded operations have been covered, for instance water and sanitation was not included. Only three staff (out of whom two former) of the ETFO had been interviewed. A broader base of staff interviewed would no doubt have led to a more comprehensive analysis. There was no list of the GoE and other staff interviewed. This may explain some of the shortfall of the report. In addition the report has been prepared over a long period and some of the information is out of date.

1.2 The Annex D describing the experience of the pilot delegation of education and health management authority to the ETFO was particularly interesting and illuminating and is a useful learning instrument moving forward.

1.3 Gender issues were only taken up in one context and it is not clear how much gender and socio-economic impact analysis had been done prior to the Bank operations or during them.

1.4 We were somewhat surprised that the possible impacts of poor of resources were not even mentioned in this long report. It would be important to analyze how possible fraudulent practices impact the Bank operations.

1.5 Finally some of the sectoral analysis provided in the report is biased and this could be explained again by the limited number of person consulted in QH as well as in the field that have been directly involved in this operation.

2 Content of the CAE

2.1 With regard to the content, we feel the constraints under which the country assistance was delivered ought to have been more clearly presented and given prominence. As the report in many places mentions the capacity problems in Ethiopia (esp. other than the federal level) it would have been good to include some analysis how other donors tackle these same problems. In particular in those sectors where the Bank under-performed (notably the social sector and agriculture) the experience of other development partners would have been useful in putting the Bank's performance in perspective. In this regard, it is worthwhile noting that the World Bank also encountered difficulty delivering its assistance to the social sector because of weak institutional capacity at the local level, especially in financial management (including procurement). The difference is that the World Bank was able to respond to these challenges in a timely manner. Moreover, the World Bank adopted a flexible pragmatic approach which allowed them to make the necessary adjustment in the delivery of

its assistance for the Education Sector Development and the Health Sector Development Programmes which were co-financed with the Bank.

2.2 We note that the period covered by the evaluation was extended to include the 2005-2009 CSP. The earlier document that we had reviewed did not cover the most recent CSP, which is still under implementation. Consequently some of the information provided for the period 2005-2009 especially regarding sector performance is misleading as discussed in the next section.

3 Assessment of Social Sector Performance

3.1 The report provides detailed information on the social sector and mainly blames the poor performance of these operations on poor design and inflexible business process. The report fails to explain the lengthy process undertaken by the Bank to try and restructure this operation. It also fails to indicate the contribution of the Government to this negative outcome from refusing to have a PSU, to not acknowledging the need for continuous training to be able to implement the operation in a decentralized framework. From 2002 onwards a series of actions showing great flexibility (from changing threshold for disbursement to extending date of last disbursement to allow for the purchase of 28 project vehicles stuck in the Djibouti Port) were undertaken to accelerate disbursement. Project Management was delegated to ETFO only in 2004, and not much progress was made since partly for the reason raised in the report, but also because of the reluctance of the Government to implement corrective measures despite concerted effort by the Bank Group

4 Response to the Recommendations

4.1 The CT agrees with the recommendations, some of which are generic to the extent that they apply to other Bank country operations and are being addressed through the on-going internal reforms, including quality assurance processes, strengthening of country teams, and an enhanced focus on country operations through adoption of KPIs.

4.2 The Bank is still only half way in its decentralization process and experiences from other Agencies that already have delegated such authorities and transferred relevant staff to field offices should be looked into. The Bank has already started taking steps to address the weaknesses in delivery of Bank highlighted in the CAE for Ethiopia. However, we note that not all of them have been reflected. One important step is the strengthening of the Ethiopia Field Office staffing. Enhanced capacity of ETFO will enable the Bank to be more effective and visible in country dialogue and in providing quality implementation support services to the Government. The Country Economist and Agriculture Sector Specialist are now based in Addis Ababa and the Bank has recruited a Public Financial Management Expert and a Procurement Officer and additional sector specialists. There are also plans to delegate Task Management Responsibilities for some of the projects in the portfolio with clear technical supervision from sector colleagues in HQ. These recent initiatives need to be reflected so that the CAE is more forward looking.

4.3 We agree that the Bank needs to be more selective in the choice of areas. Indeed this is also the position of the Government. During the ADFX and ADF XI cycles the Bank's project intervention has been limited to infrastructure where the Bank is considered to enjoy a comparative advantage.

4.4 We agree the Bank has been weak in policy dialogue. Efforts are underway to strengthen this aspect of the Bank's country programme. In fact in some of the sectors such as roads and agriculture, the Bank is already active in working groups. Until recently the Bank chaired the Monitoring &

Evaluation Working Group and is now assuming co-chairmanship of the PBS, currently the largest donor programme in Ethiopia.

4.5 With respect to analytical work, OREB is in the process of developing a medium term programme of studies, some of which will be conducted jointly with other development partners, and will focus on understanding better the drivers of growth.

4.6 The results orientation is also being enhanced. The CSP Mid-Term Review currently under preparation will provide an opportunity to further strengthen the result framework of the assistance strategy to enhance measurability of key indicators (e.g in the area of governance). We have also agreed with the Government that supervision missions and annual country portfolio dialogue will focus more on results. The implementation of these recommendations will be reflected in the CSP Mid-Term Review currently under preparation.

Annex F: PERSONS WITH WHOM DISCUSSIONS WERE HELD

African Development Bank Group Staff, Tunis & Addis Ababa

F. Bakoup, Lead Economist, Operations Policy & Compliance (ORPC)
W. G. Bene-Hoane, Lead Expert, Regional Department North 2 (ORNB)
L. Kiggundu, Senior Transport Engineer, Infrastructure (OINF.2)
U. Laval, Principal Livestock Specialist, Agriculture & Agro-Industry (OSAN.1)
P. Mwanakatwe, Country Economist, Regional Department East 1 (OREB)
Ms. G. Nzau, Chief Socio-Economist, Human Development (OSHD.1)
Ms. A. A. Ojo, Consultant, Human Development (OSHD.3)
S. A. Olanrewaju, Manager, Regional Department South (ORSA)
T. Roberts, Senior Water & Sanitation Expert, Water and Sanitation (OWAS.2)
E. Shaaeldin, Lead Economist, Regional Department North 1 (ORNA)

T. P. Seya, Country Representative, ETFO
G. Namakando, Principal Economist, ETFO
Ms. N. N. Okagbue, Country Operations Officer, ETFO
E. Alemseged, Infrastructure Specialist, ETFO
H. Hailemeskel, Agricultural Economist, ETFO
G. Woldetsadik, Social Development Specialist, ETFO
M. C. Tadesse, Disbursement Assistant, ETFO
S. M. Woldetsay, Procurement Assistant, ETFO

Development Partners (DPs), Addis Ababa

International DPs

Canadian International Development Association (CIDA)

Marc Andre FREDETTE, Director for Ethiopia and Head of Development Cooperation for the Horn of Africa
Xavier FURADO, Economist/First Secretary

Department for International Cooperation (DFID)

Paul ACKROYD, Head
Anthony WAY, Deputy Head of Office (Programme)
Malcolm SMART, Economic Advisor
Paulos SHEMELES, Infrastructure Advisor

German Development Cooperation

Hein WINNUBST, Head/First Secretary
Helmut KNECHTEL, Economist, Kfw

Germany: GTZ Country Office

Ernst-Axel MOMBER, Country Director
Eckart BODE, Deputy Director

Italian Development Cooperation

Andrea SENATORI, Director

JICA

Kimiaki JIN, Deputy Resident Representative

Netherlands Embassy

Antoinette GOSSES, Head Development Cooperation

Swedish International Development Cooperation Agency (SIDA)

Ms. Gisla, Economist
Ms. Ingrid Lofstrom BERG, Counsellor, Dev. Cooperation

United States Agency for International Development (USAID)

B. Hammink, Director
D. Buckle

Delegation of the European Union

Rene van NES, Economic Advisor

International Monetary Fund (IMF)

Muche NETSERE, Economist

United Nations Development Programme (UNDP)

Ms. Vinetta ROBINSON, Economic Advisor
Ms. Susanne DAM-HANSEN, Programme Manager

United Nations Economic Commission for Africa (UNECA)

Josue DIONE, Director, Sustainable Development Division (SDD)
Dr. Stephen Maxell DONKOR, Senior Regional Adviser, Water Resources Dev. & Mgt., SDD
Israel SEMBAJWE, Team Leader, Population & Social Development, SDD
Abdoulaye NIANG, Agriculture and Food Security, SDD
Ousmane LAYE, Senior Human Settlement Officer, SDD
Antonio M. A. PEDRO, Team Leader, Natural Resources Development, SDD
Augustin K. FOSU, Director, Economic and Social Policy Division

World Bank Country Office

Herbert AQUAY, Senior Operation Officer

National DPs

Chamber of Commerce

Andu Alem TEGEGN, Secretary General

Ethiopian Economic Policy Research Institute (EEPRI)

Assefa ADMASSIE, Director

Government of the Federal Democratic Republic of Ethiopia

Ministry of Finance and Economic Development (MoFED)

Fisseha ABERRA, Head, Multilateral Cooperation Department (MCD)
Dejene DEMISSIE, Head, International Finance Division, MCD
Kokeb MISRAK, Senior Expert, MCD
Alemayehun TESSEMA, ADB Desk Officer, MCD
Fantahun BELEW, Head, Macroeconomic Policy and Management Department
Admasu NEBEBE, UN Team Leader
Yared ALAMAYULI, Team Leader, Budget Monitoring and Implementation, Budget Department
Mammo Gittoo FOLI, Head, Treasury Department

National Bank of Ethiopia

Yohannes Ayalem BIRRU, Deputy Director, Research Department

Ministry of Trade and Industry

Fakedu, Head, Policy & Planning Department

Ministry of Revenues

Demirew GETACHEW, Head, Policy & Planning Department

Ministry of Agriculture & Rural Development

Ms. Aster STEPHANOS, Head, Planning & Programming Department

Office of the Prime Minister

Ms. Gifiti ABASIYA, State Minister, Women's Affairs (WAD)

Ms. Zahra ALI, Project Coordinator

Privatization and Public Enterprises Supervising Authority (PPESA)

Ms. Christine SEYFOU, Deputy Director, PPESA

Frekade LAKEW, Project Coordinator

Ian Frazer, ADVISER, PPESA

Ethiopian Roads Authority (ERA)

Bekele NEGUSSIE, Manager, Planning & Programming Department

The review of the sectors (Agriculture, Education, Health, Power, Water and Sanitation) also enabled the interview of selected sector stakeholders (including Bank staff, Government officials and regional beneficiaries), as well as, the visit to some of the sites of the Bank-funded projects. These sector reviews provided the background reports for this Ethiopia CAE report.

REFERENCES

African Development Bank Group (ADB)/Operations Evaluation Department (OPEV) Reports:

African Development Bank Group (2006) *Ethiopia: Evaluation of Bank Group Assistance to the Multi-sector*, OPEV/ADB.

— (2006) *Ethiopia: Evaluation of Bank Group Assistance to the Public Utility Sector*, OPEV/ADB.

— (2006) *Ethiopia: Evaluation of Bank Group Assistance to the Agriculture and Rural Development Sector*, OPEV/ADB.

— (2006) *Ethiopia: Evaluation of Bank Group Assistance to the Education and Health Sectors* (draft), OPEV/ADB.

— (2006) *Synthesis Report on the Review of 2003-2005 Project Completion Reports* (ADF/BD/WP/2007/25), OPEV/ADB.

— (2006) *Ethiopia: Role of the Bank Group in Review of the Harmonization Process in Five Countries*, OPEV/ADB.

— (2005) *Review of 2002-2004 Country Strategy Papers*, ADF/ADB/OPEV/2005/10 June.

— (2005) *Review of 2000-2004 Country Portfolio Review Reports* (ADF/BD/WP/2005/66), OPEV/ADB.

— (2004) *Stepping up to the Future – An Independent Evaluation of the African Development Fund VII, VIII, and IX*, OPEV/ADB.

— (2004) *Ethiopia: Evaluation of Bank Group Assistance to the Transport Sector*, OPEV/ADB

Sharp, K. (2004) *Ethiopia Country Case Study: Independent Evaluation of ADF VII – IX*. Report for OPEV/ADB

Other ADB Reports:

ADB (2006) *Ethiopia: Country Strategy Paper 2006-2009* (ADF/BD/WP/2006/51).

— (2006) *Status Report on the Implementation of the Decentralization as at March 2006 – revised* (ADF/BD/IF/2006/69/Rev.2).— (2006) *2004 Annual Portfolio Performance Review Report* (ADF/BD/WP/2006/23).

— (2006) *Report on the Bank Group Quality at Entry Assessment in 2005* (ADF/BD/IF/2006/02).

— (2006) *Annotated Format for Bank Group Results-based Country Strategy Paper (RBCSP)* (ADF/BD/WP/2004/179/Rev.4/Approval).

– (2004) *Assessment of the Impact of Field Offices – revised version*, (ADF/DB/WP/2004/43/Rev.2).

— (2003) *Ethiopia: Country Strategy Paper 2002-2004*.

— (2003) *Ethiopia: CSP 2002-2004 – Chairman’s summing up*.

- (2003) *Ethiopia: Country Portfolio Review Report (CPRR)*, (ADF/BD-WP/2003/35).
- (2002) *Ethiopia: 1999-2001 CSP, corrigendum*.
- (2002) *Annotated CSP format* (ADF/BD/WP/2001/185/Final).
- (2000) *Ethiopia: 1999-2001 Country Strategy Paper*.
- (1998) *Ethiopia: CPRR* (ADF/BD/WP/1998/131).
- (1998) *Ethiopia: CPRR –corrigendum* (ADF/BD/WP/1998/131/Corr.1.).
- (1996) *Ethiopia: CPRR* (ADF/BD/WP/1996/55).
- (1996) *Ethiopia: 1996-98 Country Strategy Paper*.
- ADB/OECD (2007) *African Economic Outlook -2006/07*.

Other Reports

- Andrew, D. et al. (2005) “Scaling Up: Assessing the Impact of a Dramatic Increase in Aid on one of Africa’s Poorest Countries,” *Finance and Development*, Vol. 42, No. 3.
- DAG (2002) *Joint Partner Review of the Ethiopian Sustainable Development and Poverty Reduction Program*, DAG, Addis Ababa.
- Driscoll, R. et al. (2005) *Progress Review and Performance Assessment in Poverty-Reduction Strategies and Budget Support: a Survey of Current Thinking and Practice*, ODI, London.
- Easterly, W. (2002) *Growth in Ethiopia: Retrospect and Prospect*, Center for Global Development, Institute of International Economics, Washington DC.
- Ethiopian Economic Association (EEA, 2004/05) *Annual Report on the Ethiopian Economy, Vol. IV*, EEA, Addis Ababa.
- (EEA, 2000/01), *Annual Report on the Ethiopian Economy*, Vol. II, EEA, Addis Ababa.
- (EEA, 1999/00) *Annual Report on the Ethiopian Economy*, Vol. I, EEA, Addis Ababa.
- FDRE/DFID/EU (2005) *Ethiopia: Fiduciary Assessment*, Addis Ababa.
- Getachew, A. (2005) *Assessment of Poverty Reduction Strategy in Sub-Saharan Africa: The Case of Ethiopia*, OSSRESA, DPMAr es Salaam.
- IMF (2005) *The Federal Democratic of Ethiopia: Ex-Post Assessment of Long-Term Fund Engagement*, IMF, Washington DC.
- (2004) *The Federal Democratic Republic of Ethiopia – Enhanced Initiative for Heavily Indebted Poor Countries – Completion Point Document*, IMF, Washington DC.
- MoFED (2005) *Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)*, FDRE, Addis Ababa.
- (2002) *Ethiopia: Sustainable Development and Poverty Reduction Program (SDPRP)*, FDRE, Addis Ababa.

— (2000) *Ethiopia: I-PRSP*, FDRE, Addis Ababa.

MOFED/UNDP (2004) *Ethiopia: Millennium Development Goals Report: Challenges and Prospects for Ethiopia, Main Text Report* (Vol. 1), FDRE/UNDP, Addis Ababa.

ODI (2005) *Strategies in Budget Support: A Survey of Current Thinking and Practices*, Overseas Development Institute, London.

Seshamani, V. (2005) *The Same Old Wine in the Same Old Bottle? Content, Process and Donor Conditionality of the PRSP*, University of Zambia.

Taye, H. (2005) *The Arithmetic of Debt Sustainability and Its Fiscal Policy Implications: The Case of Ethiopia*. Paper presented at the International Annual Ethiopian Economic Association Conference and Submitted to the Journal of African Economies.

UNDP (2007, 2005, 1996), *Human Development Reports*.

World Bank (2005) *Ethiopia: Well-Being and Poverty in Ethiopia: The Role of Agriculture and Agency*, Report No. 29468-ET, World Bank, Washington, DC

— (2005) *World Development Report*, World Bank, Washington DC.

— (2005) *Doing Business in 2005 – Obstacles to Growth*, World Bank, Washington DC.

— (2003) *World Development Report*, World Bank, Washington DC.

L. Stevensen. A St-Onge (2005), *Support for growth-oriented women entrepreneurs in Ethiopia*, ILO, Geneva