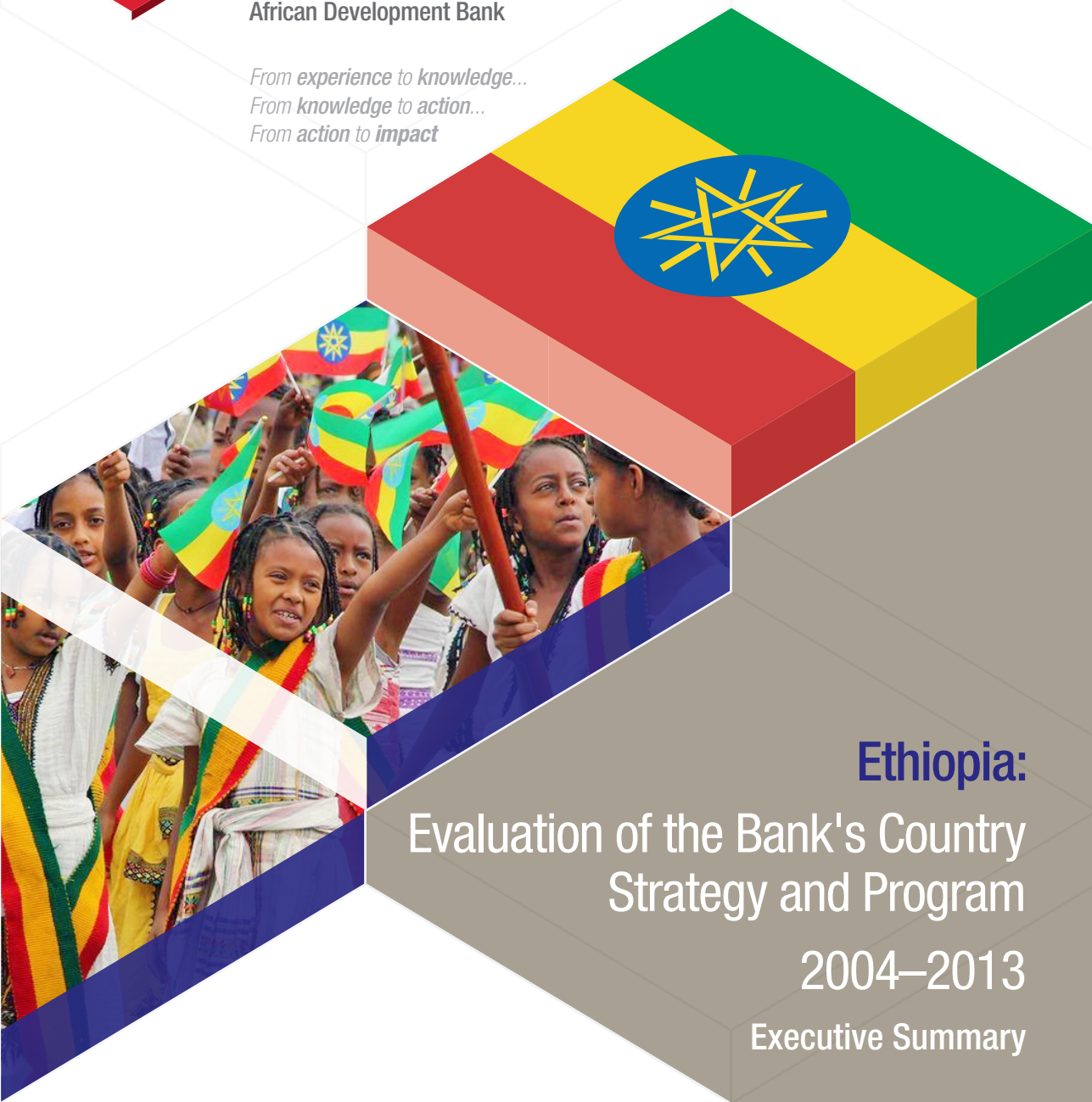




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Ethiopia:

Evaluation of the Bank's Country Strategy and Program

2004–2013

Executive Summary

February 2016



AFRICAN DEVELOPMENT BANK GROUP

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Executive Summary

Background and Context

This Country Strategy and Program Evaluation aims at: (i) assessing the development results achieved through the assistance provided by the African Development Bank Group (“the Bank” or “AfDB”) to Ethiopia, and in particular the extent to which the Bank’s interventions made a difference and how, and (ii) drawing lessons on how the Bank manages its interventions in the country with the aim of suggesting potential improvements to inform the preparation of the new Country Strategy Paper (CSP) for Ethiopia. The reference period (2004–2013) approximately overlaps with three CSP periods, 2002–2004; 2006–2009; and 2011–2015.

From 2004 to 2014, Ethiopia experienced high economic growth driven by the service and agriculture sectors, with an average annual rate of gross domestic product (GDP) growth amounting to 11 percent. In addition, the pro-poor development strategy adopted by the Government of Ethiopia (GoE) led to a considerable increase in the gross national income (GNI) per capita, rising from US\$ 140 in 2004 to US\$ 550 in 2014, despite a marked growth in population (an average of +2.7 percent per annum over the 10-year period under review). As a result, the percentage of people living below the poverty line declined from 38.7 percent in 2004/2005 to 27.8 percent in 2011/12. Moreover, Ethiopia maintained one of the lowest levels of income inequality among low-income and lower-middle-income countries. Nonetheless, poverty remains a major challenge in the country.

The overarching objectives of all CSPs are to help sustain economic growth and poverty reduction by addressing some of the key development challenges

the country is facing. The resources allocated by the Bank to Ethiopia over the period under review amounted to UA 1.64 billion and included 37 lending operations. Transport, power and multi-sector (that is policy-based) operations accounted for 86 percent of the total support and this gained importance over time. The resources allocated to the remaining sectors – agriculture, water supply and sanitation, and social – were mostly approved in the first CSP period and accounted for between 2 percent and 7 percent of the total support.

The Bank’s Contribution to Development Results in Ethiopia

The **relevance** of the Bank’s strategy and program in Ethiopia is assessed as **satisfactory**. The strategy was allied with the GoE’s priorities, both at country and sector level, and the portfolio was generally well aligned with the strategy. Selectivity has increased over time, and the portfolio examined was highly concentrated on three main sectors (Transport, Energy and Governance mainly through the Promotion of Basic Services programs). Areas for improvement include a more systematic analysis of beneficiaries’ needs and further elaboration on the support to private sector development.

Overall, the **effectiveness** of the support provided by the Bank is assessed as **moderately satisfactory**. Almost all the projects that were completed produced satisfactory outcomes:

- Tangible results were achieved in the transport, energy, and water supply and sanitation sectors, contributing to improving the country’s (trunk) road network and, to a lesser extent, the

power distribution and interconnection system and access to water supply. Nonetheless, several different factors, ranging from the slow development of an affordable transport system to connectivity and technical issues, partly reduced the actual impact of the assistance on economic growth and diversification.

- The support to agriculture decreased over time, due to increased selectivity as well as severe implementation issues. Nonetheless, the interventions supported by the Bank in the agriculture sector were quite effective and contributed to improving the access to rural financial services and increasing irrigated land. The marketing and processing of agricultural products were, however, largely disregarded.
- Via its sizable and growing contribution to the successive Protection/Promotion of Basic Services (PBS) programs, the Bank has supported (together with other donors) better access to basic services in the education, health, and water and sanitation sectors. Through the PBS, the Bank has supported financial transparency and accountability at regional and woreda level achieving positive results. Yet the Bank did not fund more systemic capacity-building initiatives on public sector management and sector governance, thereby limiting its potential impact on governance at the national level.
- With regard to private sector development, the Bank's interventions were effective but very limited in number (only two in 10 years) due to the difficult regulatory framework. The measures the Bank intended to take to address effectively the private sector development were scarcely elaborated in the current CSP. Yet on the positive side the Public Private Partnership (PPP) flagship study has contributed to creating space for dialogue with the GoE and,

furthermore, it has promoted overdue reforms with respect to private sector development.

The **sustainability** of the results achieved after the conclusion of the Bank's support is rated **moderately satisfactory**. The financial resources, and the technical and management capacities of the national utilities responsible for maintaining the infrastructure, especially the rural electric distribution network, remain insufficient. More encouragingly, the GoE is showing a strong commitment to ensuring sustainability issues are managed and considerable efforts have already been made including, for example, the restructuring of the power utility. Although the delivery of basic services will require continued support from development partners in the short term, sustainability prospects remain positive mirroring the strong commitment shown by the GoE in the past.

The **integration of cross-cutting issues** into the Bank's strategies and operations is assessed as **moderately satisfactory**. The Bank gradually came to play a prominent role in regional integration. What is more, the environmental impact of operations is generally well assessed. Yet gender and regional disparities have been insufficiently integrated into the design of the Bank's operations and synergies among projects were not exploited.

The **knowledge and policy advice** dimension of the Bank's interventions was rated **moderately satisfactory**. The Bank has made a growing contribution to policy dialogue over time, especially through the Development Assistance Group (DAG). The investment into analytical work has become more visible towards the end of the period examined: this has reinforced the Bank's role in terms of policy dialogue and its ability to promote reforms, as demonstrated, for example, in the area of PPP.

The Bank's Management of its Interventions in Ethiopia

The **efficiency** of the Bank's assistance is assessed as **moderately unsatisfactory**. In particular, the rigid and heavy procedures imposed by the Bank, combined with the limited development management capacity of local counterparts, resulted in significant delays in the delivery of the assistance.

The **quality of the strategy and the portfolio** is also rated **moderately unsatisfactory**. Although the quality at entry of CSPs was found adequate, sustainability challenges were not explored in sufficient detail in previous CSPs, both in terms of lessons from past interventions and implementing partners' capacity. However, there was a marked improvement in internal co-ordination between the Bank's projects. This helped optimize outcomes and encouraged innovative approaches to using different instruments over time. This led to better responses to the needs of the country and fuller complete collaboration with other partners.

The **partnership and leverage** dimension of the Bank's interventions is assessed as **moderately satisfactory**. While the Bank has contributed to the co-ordination of partners in Ethiopia, it was not so involved in joint mechanisms for delivering support, with the notable exception of the PBS, thereby limiting opportunities to complement other development partners. The Bank was able to leverage its resources and attract additional financing through its private sector operations, although this was relatively modest in scope.

Finally, the **management for development results** system in place is rated **moderately satisfactory**. Indicators are in place although baseline data is sometimes missing. The supervision process has improved over time and the Ethiopia Office

is responding effectively to local partners. While lessons from past experience are referred to, there is scope for further improvement as far as learning lessons is concerned, particularly given the regular occurrence of the same issues in the period under review.

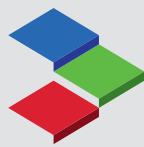
Recommendations

1. **Strengthen the inclusiveness analysis in both strategy and operations.** The Bank's strategic selectivity has increased over time while investments in sectors of strategic importance for inclusiveness, such as agriculture and water supply, have declined. However, gender issues and geographic disparities have not been addressed satisfactorily in the design of operations. The analysis in the CSP and project appraisal reports should be strengthened to clarify how investments in the Bank's priority sectors support inclusiveness. This should include adequate information on possible integration and synergies between the Bank and its other development partners in order to maximize impact.
2. **Further expand the support to private sector development including stronger collaboration with other development partners.** In light of the increasing emphasis placed by the GoE on the promotion of the private sector, appropriate solutions fitting the local environment need to be identified. Given the existing array of initiatives, currently funded by other development partners, aimed at fostering the public-private dialogue and supporting private sector development, the Bank should enhance co-ordination to scale up effects, building on its own privileged position gained around PPP.

3. **Adopt innovative approaches to improve the alignment with other development partners and respond to the country's specific constraints.** The instruments used by the Bank in Ethiopia have remained stable over time while efforts have been made at a corporate level to propose innovative options. Resorting to a diversified range of less traditional approaches, such as program-based approaches and institutional support programs, can help foster alignment and coordination among donors, and support the capacity of local counterparts. In the case of the private sector, the use of less common instruments, such as credit guarantees, could also contribute to overcoming regulatory constraints.
4. **Improve the sustainability analysis in the strategy.** Given that moderate to serious concerns about sustainability are widespread in all sectors, a proper analysis

of sustainability risks is recommended to improve the potential of the Bank's support to achieve long-term sustainable economic and social development, especially considering its focus on infrastructure development.

5. **Support the development of the management capacity of the GoE and its implementing agencies for an effective delivery of the assistance.** Besides internal procedural factors, one major constraint to achieving the Bank's targeted outcomes is Ethiopia's own national implementation capacity. Mainstreaming technical assistance and capacity-building should aim at tackling: (i) the wide range of capacity-building needs at various government levels; and (ii) the high staff turnover observed. Participation to multi-donor trust funds and the implementation of institutional support programs could offer adequate solutions in partnership with other development partners. ■



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About this Evaluation

The purpose of this evaluation is to assess the development results of the Bank's assistance to Ethiopia and in particular the extent to which the Bank's interventions have made a difference in the country and how. Covering the period 2004-2013, this evaluation also identifies lessons and potential improvements for the design and implementation of the new Country Strategy Paper (CSP) 2016-2020.

With respect to findings, this evaluation concludes that the Bank's strategy was aligned with the Government of Ethiopia's priorities, both at country and sector level, and the portfolio was generally well aligned with the strategy. On effectiveness, the support provided by the Bank is assessed as moderately satisfactory while the sustainability of the results achieved after the conclusion of the Bank's support is rated moderately satisfactory. The integration of cross-cutting issues into the Bank's strategies and operations is assessed as moderately satisfactory.

The evaluation also draws relevant lessons and formulates key recommendations to help improve future strategy and operations. Specific recommendations include: (a) to strengthen the inclusiveness analysis in both strategy and operations, (b) to further expand the support to private sector development including stronger collaboration with other development partners, (c) to adopt innovative approaches to improve the alignment with other development partners and respond to the country's specific constraints, (d) to improve the sustainability analysis in the strategy, and (e) to support the development of the management capacity of the Government and its implementing agencies for an effective delivery of the assistance.



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