

FAST TRACK BRIEF

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To: Robert Zoellick
From: Vinod Thomas, DGE
cc: MDs, VPs, EDs

Based on the IEG report *Ethiopia Country Assistance Evaluation*, which is scheduled for discussion by the CODE Sub-committee on March 17, 2008.

Ethiopia Country Assistance Evaluation, 1998-2006

- ◆ Ethiopia is among the World Bank's largest IDA-eligible borrowers in Sub-Saharan Africa, with a country portfolio comprising 22 active projects for a total net commitment of US\$2 billion as of end-FY07. The Bank's overarching objective during the period under review (FY98-FY06) was to support the Government in its efforts to reduce poverty by helping to: (i) promote pro-poor growth, (ii) advance private sector development, (iii) enhance human development, (iv) respond to the needs of post-conflict and emergency rehabilitation, and (v) improve governance.
- ◆ The evaluation finds that IDA's country strategy for Ethiopia and the associated program during the period under review were relevant to the country's development needs, which included the need to manage (and over time reduce the country's exposure to) frequent exogenous shocks and a fragile socio-political environment, especially following the post-election violence in 2005. IDA's strategy and program were also aligned with those of other development partners (DPs). The efficacy of the program was somewhat below average when measured against the goals envisaged at the outset. There were positive outcomes *inter alia* in post-conflict rehabilitation, economic growth, roads development, education and health. In contrast, the outcomes were less favorable in the key areas of private sector development and governance, which are crucial to sustaining growth over the longer-term and ensuring that its benefits are widely shared.
- ◆ In hindsight, the efficacy of the program might have been greater had more attention been paid to: (a) developing and sustaining consensus among country team (CT) members around key policy issues and directions, (b) more candidly recognizing differences with the Government on certain key issues of policy and seeking ways to bridge gaps, and (c) ensuring a more comprehensive and occasionally more demanding approach to the governance dialogue, especially during the post-election turmoil in 2005. Finally, the efficiency of the program was not always commensurate with the volume of financial support or the efforts expended. Overall, the outcome of IDA assistance during the review period is rated moderately unsatisfactory.
- ◆ Going forward, IEG recommends that IDA: (i) tighten the link between the quality of the policy dialogue and resource transfers in support of particular reform areas; (ii) take a clear and consistent position on governance, including binding governance-related constraints on private sector development and hence on prospects for sustaining pro-poor economic growth; (iii) improve its knowledge base on how social, political and cultural factors can influence the effectiveness of its support, notably at the local level; and (iv) extend and deepen partnerships with non-traditional in-country stakeholders.

Background

Ethiopia is Sub-Saharan Africa's second most populated country (after Nigeria) with 71.3 million inhabitants, and it

is endowed with a rich and distinctive cultural heritage. The country has experienced a recent history of autocratic rule, characterized by large disparities across status, class, ethnicity and gender lines, as well as two decades of

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military rule and a civil war. Ethiopia's per capita income of US\$160 (Atlas method) is about one-fifth of the average for Sub-Saharan Africa (SSA). A recent poverty assessment by the Bank suggests that the incidence of consumption poverty fell from 45.5 percent in 1996 to about 37 percent of the population in 2006.

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

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

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

The IEG ratings of Ethiopia's closed projects were close to the average for the Africa Region (taking into account

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

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

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

Key Findings of the Evaluation

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

Government could consider enlisting support from a suitable source of statistical expertise to review and certify its data compilation methods.

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

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

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

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

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

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

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

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

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sufficient progress towards meeting the relevant MDGs. The outcome of IDA support for water and sewerage is rated moderately satisfactory. Overall, the outcome of IDA support for human development is rated *moderately satisfactory*.

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

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

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

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

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

Lessons

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

- Achieving pro-poor growth depends in large part on the creation of income-generating opportunities for the poor. In this regard, it would have been advisable to put greater emphasis on improving the policy environment in order to enhance non-farm income-earning opportunities in rural areas, where the majority of Ethiopia's poor live. Similarly, constraints on PSD and therefore on pro-poor growth could have been identified more centrally as governance concerns.
- IDA's effectiveness is hampered in the absence of consensus with the Government on the needed direction and pace of reform. In Ethiopia, the Bank Group would likely have been significantly more effective had it been more candid about major policy differences with the Government and put forward realistic ways of managing these differences (*inter alia* through ESW), rather than making the unrealistic assumption that the Government would proceed to implement reform measures about which it was

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expressing reservations. This could have avoided repeated deferral of key actions, most notably in the key areas of private sector development and governance covered by the PRSC program.

- Where major—and unbridgeable—differences of view constrain broad-based engagement by the Bank Group, it may still be possible to make progress in selected areas if committed counterparts (“champions”) can be found who can sustain momentum and see reform programs through to fruition. In Ethiopia, instances of this arose with the roads program as well as with the framework for fiscal transfers to local governments. Identifying such entry points while remaining realistic about prospects for broader agreement is a key challenge for country programs in weak or difficult governance environments.
- Consensus within the Bank Group’s Country Team, including full engagement of sector and local office staff, is essential for a sound dialogue with the client and for effective design and delivery of needed support. In the Ethiopia program, a shortage of open dialogue within the entire Country Team sometimes limited the ability of the Bank Group to achieve this needed consensus, particularly during the challenging post-election period of 2005.
- In countries with weak administrative capacity, Bank Group projects and programs need to be modest in scale and in breadth and depth of policy content to match the Government’s implementation capacity. This too would help avoid repeated deferrals and “recycling” of reform measures. The design of IDA assistance in Ethiopia was sometimes overly complex and beyond the capacity of the host institutions.
- While adverse shocks (such as droughts) can prolong aid dependence, effective aid coordination can foster rapid recovery following shocks and ensuing crises.

Recommendations

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

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

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

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

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

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