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COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR THE PERIOD FY12 TO FY 16

October 17, 2014

**Ethiopia Country Management Unit
Africa Region
IFC
MIGA**

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DATE OF THE LAST COUNTRY PARTNERSHIP STRATEGY
August 29, 2012

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July 8 – July 7

CURRENCY EQUIVALENTS
US\$1.00 = Ethiopia Birr 19.748 (as of October 1, 2014)

ABBREVIATIONS AND ACRONYMS

AAU	Addis Ababa University	IMF	International Monetary Fund
AGP	Agricultural Growth Program	MDG	Millennium Development Goals
CPF	Country Partnership Framework	MDTF	Multi-Donor Trust Fund
CPS	Country Partnership Strategy	MIC	Middle-Income Country
CRGE	Climate Resilient Green Economy	MIGA	Multilateral Investment Guarantee Agency
CSO	Civil Society Organization		
DP	Development Partner	MoFED	Ministry of Finance and Economic Development
EPRDF	Ethiopian People’s Revolutionary Democratic Front	PASET	Partnership in Applied Sciences, Engineering and Technology between Sub-Saharan African countries and the emerging nations
ERA	Ethiopian Roads Authority		
ESMF	Environmental and Social Management Framework	PBS	Promoting Basic Services Program
FDI	Foreign Direct Investment	PFM	Public Financial Management
FY	Fiscal Year	PSNP	Productive Safety Net Program
GDP	Gross Domestic Product	RIMSys	Results Integration and Management System
GEQIP	General Education Quality Improvement Program	SCD	Systematic Country Diagnostic
GNI	Gross National Income	SIP	Small Investment Program of MIGA
GoE	Government of Ethiopia	SME	Small and Medium sized Enterprises
GTP	Growth and Transformation Plan (2011 -2015)	SOE	State-owned Enterprise
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome	ULGDP	Urban Local Government Development Program
IDA	International Development Association	WB	World Bank
IEG	Independent Evaluation Group	WBG	World Bank Group
IFC	International Finance Corporation		

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I. INTRODUCTION

1. The Board of Executive Directors discussed the FY13-16 World Bank Group (WBG) Country Partnership Strategy (CPS) for Ethiopia on September 25, 2012 (Report No. 71884-ET). The CPS supports the Government of Ethiopia (GoE) in implementing its Growth and Transformation Plan (GTP) which covers the period 2011 to 2015. It includes two primary pillars, and seven strategic objectives. Pillar One (Fostering competitiveness and employment) aims to support Ethiopia in achieving the following strategic objectives: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity (a particular focus for IFC); (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two (Enhancing resilience and reducing vulnerabilities) aims to support Ethiopia through (v) improving the delivery of social services and (vi) comprehensive social protection and risk management. The CPS also has a foundation of (vii) good governance and state building. In line with the GTP, gender and climate change have been included as cross-cutting issues in the CPS. This report reviews progress against that CPS, and updates the agenda for the remaining period up to the end of FY16.

2. **The main findings of this progress report are** that (i) progress has been made in implementing the CPS agenda including: a substantial increase in our engagement on knowledge services; new commitments from the International Development Association (IDA) and International Finance Corporation (IFC) in FY13 and FY14 totaling \$3.0 billion, including record new commitments by both IDA and IFC in FY14; and sustained dialogue on country-level development challenges, including those arising from application of WBG policies; and (ii) the current WBG program in Ethiopia is well aligned with WBG's two goals. However, despite this progress Ethiopia remains one of the ten poorest countries in the world, and for FY15 and FY16 WBG will emphasize (in relation to the objectives outlined above):

- **Continuity as regards** sustaining focused and selective WBG engagement to support:
 - Increased and Improved Delivery of Infrastructure;
 - Comprehensive Social Protection and Risk Management;
 - Engagement in the Demand for and Supply of Good Governance.
- **Renewed emphasis on** the following pre-existing areas of the strategy:
 - A Stable Macroeconomic Environment.
 - Increased Competitiveness and Productivity.
 - Regional Integration.
 - The Urbanization Process.

3. Section II of this progress report discusses Ethiopia's country context. Section III lays out progress in implementing the WBG strategy by reference to the WBG two goals, the CPS Results Framework, partnerships developed, and the portfolio of knowledge services and lending currently being supported. This section also identifies key lessons emerging from that experience and, accordingly, presents a revised program. Section IV lays out significant risks to achievement of the planned, revised strategy, and WBG activities to manage for these risks.

II. COUNTRY CONTEXT: CONTINUITY AND CHANGE

4. **Ethiopia remains the ninth poorest country in the world in income per capita terms,** even after over a decade of rapid economic growth.¹ Poverty remains a major challenge and there continues to be a major agenda ahead in reducing vulnerability and enhancing resilience. Although progress has been substantial, Ethiopia was starting from a low base of capital and productivity, and low levels of productivity are still present. With a population of about 90 million², and population growth rate of 2.6 % (2013), making progress on the WBG two goals³ in Ethiopia is important both for global progress and for the country itself.

5. **Ethiopia's recent economic performance has been robust.** Ethiopia has continued to register rapid economic growth driven by services and agriculture. GDP growth is projected by GoE to reach 11.2 % in 2013/14. Inflation has remained in single digits for more than a year on account of tighter monetary policy and lower imported inflation. The overall fiscal policy stance is expansionary although the general government fiscal deficit remains modest. Fiscal policy supports aggregate demand, but makes it challenging to keep inflation in check.

6. **However, the economy faces some significant external challenges.** The risk of external debt distress is rising due to substantial non-concessional borrowing commitments, totaling US\$8.0 billion in FY13 and FY14, primarily to finance growth-enhancing public investments. The most recent Joint DSA prepared in the context of the September 2014 IMF Article IV Consultation found that Ethiopia's risk of external debt distress remains low, but is on the cusp of transition to moderate. Ethiopia has a chronic external current account deficit (7.1 percent of GDP in 2013/14, including official transfers), essentially because its merchandise export to GDP ratio is the lowest among populous developing countries. Foreign exchange reserves are low at about 1.9 months of imports, but relatively stable. Exports are exhibiting their worst performance in a decade on account of lower prices and challenges related to competitiveness. The real effective exchange rate has appreciated by more than 50 % over the past 3½ years, reflecting a policy preference to stem nominal depreciation to keep inflation low.

7. **Critical policy choices will eventually need to be made to realize Ethiopia's long term potential.** GDP growth is expected to continue to be high throughout the rest of the CPS period driven by private consumption and public investment, on the demand side, and services and agriculture, on the supply side. The macroeconomic environment is expected to be stable provided that exogenous shocks can be avoided. However, Ethiopia faces important policy choices associated with its developmental state economic model. The 'big push' public investment strategy has delivered important economic and social returns, but financing remains a key challenge. Low domestic savings, modest foreign direct investment (FDI), and moderate levels of concessional financing relative to the government's investment strategy has led to increased non-concessional borrowing, and to a rising risk of external debt distress. Eventually,

¹ It was the 2nd poorest country in the world in 2000, according to GNI per capita rankings (WB Atlas Method).

² GoE's latest estimate is 88 million; UN estimate is 94.1 million.

³ The two goals are: (i) to end extreme poverty at the global level within a generation, so that the percentage of people living with less than \$1.25 a day to fall to no more than 3 percent globally by 2030; and, (ii) to promote shared prosperity: that is a sustainable increase in the well-being of the poorer segments of society: specifically to foster income growth of the bottom 40 percent of the population in every country.

the consolidated fiscal stance (including activity of State-owned enterprises (SOEs)) will need to be tightened. Current policy aims at crowding-in private sector activity in the long term, but results in short-term crowding-out effects of the same sector owing to credit and foreign exchange rationing. Finally, Ethiopia faces a major challenge in improving competitiveness, especially in improving trade logistics performance and maintaining a competitive real exchange rate. More information on Ethiopia's political and economic context can be found at Annex 10. The rest of this section focuses on what has changed since the CPS was discussed in 2012, including insights from a poverty assessment that was not available when the CPS was prepared.

Poverty Dynamics

8. **Ethiopia has recorded fast and consistent poverty reduction since 2000.** An FY14 poverty assessment, summarized in Annex 12, finds that national poverty rates have fallen from 44 % in 2000 to 29 % in 2011⁴. Life expectancy has increased and there has been good progress towards achieving the Millennium Development Goals (MDGs), particularly in gender parity in primary education, child mortality, HIV/AIDS, and malaria. Ethiopia is one of the most equal countries in the world and low levels of inequality have, by and large, been maintained throughout this period of economic development. Poverty reduction in Ethiopia has been faster in regions and zones where poverty was highest a decade and a half ago.

9. **However, eradicating poverty and achieving shared prosperity remain long term challenges,** with the very poorest having experienced a worsening of consumption since 2005. In an optimistic growth scenario (annual consumption growth of 2.5% for all households), extreme poverty (as measured against the national poverty line) will be substantially reduced to 8 %, but not eradicated, by 2030. Achieving this low level of extreme poverty requires both higher and more equal consumption growth than experienced in the last ten years. Higher growth rates for the poorest households are also essential to ensuring shared prosperity. In the last 5 years incomes of the poorest 40% have, on average, not grown faster than average incomes. Increasing urban demand for agricultural goods is also an effective way of supporting agricultural growth by keeping crop prices high. However, high food prices hurt the poorest and spending that offsets this effect by ensuring the poorest meet their basic needs (through the provision of public services or safety net transfers) increases in importance.

10. **Growth, particularly agricultural growth, has been the main driver of reductions in poverty.** Agricultural growth caused reductions in poverty of 2.2% per year on average post 2005 and 0.1% per year prior to 2005. High food prices in recent years have aided broad-based agricultural growth and spurred poverty reduction, but they have also hurt the very poorest who are more likely to be net buyers. Agricultural growth has only had an impact on poverty reduction when it has occurred close to centers of urban demand underscoring the importance of infrastructure investment and growth in non-agricultural sectors. Growth in manufacturing has significantly contributed to reducing urban poverty since 2005, and poverty reduction among those engaged in the service sector has accounted for a reduction in poverty of 0.2% per year since 2000. However, structural change has been largely from agriculture to services while the share of manufacturing in the economy as a whole remains relatively small. The experience of

⁴ In 2011 the national poverty line approximately equaled the global extreme poverty line of \$1.25 USD PPP a day.

rapid growth in East Asian economies indicates that sustained long term economic growth and poverty reduction require growth in industry, and in particular, in the manufacturing sector.

11. Safety net transfers and improved access to basic services have also directly reduced poverty since 2005. Large scale public investments in the provision of basic services and in the introduction of safety nets in rural areas through the Productive Safety Net Program (PSNP) have contributed to poverty reduction both by contributing to growth and by preferentially increasing the welfare of the poor. In addition improvements in access to basic services have substantially reduced those experiencing deprivations in health, education or access to clean water and improved sanitation. GoE is reducing inequality and poverty through PSNP transfers (which directly reduce the poverty rate by 2 percentage points) and through the education and health services provided to the poorest households.

Development Priorities

12. Ethiopia's poverty challenges remain deep-seated and require sustained efforts, as the above analysis demonstrates. Nevertheless, the GTP goal for Ethiopia is to “extricate itself from poverty to reach the level of a middle-income economy as of 2020-23”, and GoE has made clear that their focus is increasingly on this goal. A successful record of agricultural growth and pro-poor spending, while essential, will not on its own achieve this goal. Manufacturing has not been a major element in Ethiopia's growth progress and Ethiopia also needs to address a substantial infrastructure gap. The GTP has therefore adopted a development model that focuses on large scale public sector investment in infrastructure as necessary for transformation, and as a pre-requisite for take-off of the domestic private sector, enabling increased movement of poor people to more productive sectors in manufacturing. To this end, GoE is managing a large public sector infrastructure program, which aims to stimulate the private sector in the medium to long term, but which in the short term risks constraining it, especially since one effect of the program is credit and foreign exchange rationing. GoE faces a difficult balance, since achieving the desired return on their planned public investments depends on completing the full program, but GoE also needs to avoid accumulating unmanageable levels of external debt. GoE considers Ethiopia's record of high levels of economic growth⁵ to have been satisfactory, but that the agenda of structural transformation remains.

13. A Second GTP (under preparation for 2016 to 2020) is expected to reflect the approach of the existing GTP, with an additional emphasis on structural transformation. Specifically, GoE is keen to promote light manufacturing⁶ as part of its goal of shifting labor from low to high productivity activities. The manufacturing sector remains relatively small, despite efforts to promote it during the first GTP, in terms of both value added and employment at 4 and 3 % of the total, respectively. Moreover, while Ethiopia has observed a structural shift in production away from agriculture and towards services in terms of output, a similar shift in

⁵ WBG staff estimate that reaching middle income status by 2025 requires Ethiopia to achieve an average GDP growth rate of 10.7% a year—the same as in the past decade (World Bank, 2013, 2nd *Ethiopia Economic Update*).

⁶ Ethiopia's potential in light manufacturing is significant (see Dinh, H., Palmade V., Chandra V., and F. Cossar, 2012, *Light Manufacturing in Africa: Targeted Policies to Enhance Private Investment and Create Jobs*). Manufacturing firms have grown over the last decade at an annual average rate of 9.8 percent. These are sectors that can help absorb the 2 and 2.5 million young and semi-skilled people entering the labor market every year.

employment has not taken place. Going forward, GoE is expected to promote structural shifts of production, exports and jobs into the manufacturing sector. Key policy levers would include the creation of industrial zones, discretionary use of credit and foreign exchange, improvement of the regulatory environment and investment climate, as well as skills development and fiscal incentives.

14. This shift is a part of GoE’s plans to expand the role of the private sector going forward. GoE’s current strategy has been heavily dependent on public sector investment in an effort to lay the ground to ‘crowd-in’ a vibrant and diversified private sector subsequently. GoE is also pursuing complementary strategies to strengthen the regulatory and policy environment, improve access to credit for Small and Medium sized Enterprises (SMEs), provision of production and marketing premises, support to the supply of skilled workers and provision of serviced land. But results are mixed, as the export sector’s weaker performance in 2013 illustrates. Severe business environment constraints hamper private sector development, domestic and foreign alike. The WBG Doing Business Report for 2014 ranks Ethiopia 125 out of 189 economies, with the ranking dropping to 166 for “Starting a Business”. The business environment favors incumbent firms and deters new entrants into the export business. Rather than growing from small to large, new entrants to the export market are often relatively well established in other businesses such as trading, which may be because smaller firms lack access to credit, preventing them from growing bigger. This is a challenge because rising and dynamic firms often generate more new jobs than established firms. Other factors such as low entrepreneurship and low regulatory quality in terms of promoting the private sector may also explain this. FDI has been used to transform successful economies in the past, especially in Asia. Indeed inflows to Ethiopia have picked up in recent years – reaching a peak of US\$1.4 billion in 2013/14, but are still relatively low at about 2.7% of GDP. The recently passed Investment Law Amendment (June 2014) expands the mandate of the investment agency as a Commission accountable to a Board, headed by the Prime Minister, which is empowered to open up to foreign investment sectors hitherto restricted to domestic investors. In addition industrial zone development can now be undertaken by private investors.

15. Ethiopia is urbanizing rapidly but from a low base. As Ethiopia urbanizes so too will poverty. In 2000, 11 % of Ethiopia’s poor lived in cities, but this rose to 14 % by 2011. Strategies to address urban poverty will thus become increasingly important. GoE recognizes that if Ethiopia is to reach middle income status, it needs to exploit the opportunities offered by urbanization for generating agglomeration economies, and that implementation of GTP depends crucially on addressing urban issues across a variety of sectors. The urban population in 2012 was estimated to be about 15 million (17 % of the total), and is growing at about 3.6 % per year, placing it among the fastest urbanizing countries in Sub-Saharan Africa.⁷ The share of the population living in urban areas is expected to rise to 30 % by 2030. Global experience shows that for countries to advance to middle income status, sustained economic growth requires a structural transformation where people move from subsistence agriculture to higher productivity activities. New and diverse job opportunities, particularly in urban and peri-urban areas, will draw the excess of unemployed and underemployed population from overpopulated rural settings

⁷ The Ethiopian Central Statistics Agency calculates urban growth at 4.1 percent per year. This document uses the figures from the United Nations to allow for comparison across countries.

to where their skills can be utilized more productively. Thus Ethiopia's rapidly urbanizing cities and towns are key drivers of its economic growth.

III. WORLD BANK GROUP STRATEGY FOR ETHIOPIA

16. **This section identifies ways to adapt the CPS**, so as to maximize its effectiveness during the period up to the end of FY16. It recognizes the WBG's move towards the use of the Systematic Country Diagnostic (SCD), Country Partnership Framework (CPF), and Performance and Learning Reviews. It is therefore a hybrid, being rooted in the old system but aiming where possible to take on aspects of the new. In particular, this report has sought to document progress in a way that facilitates review and learning. It also sets the stage for an SCD, scheduled for FY16, followed by a CPF. Management has discussed this approach with GoE and has agreed on a participative and inclusive approach for taking it forward.

Poverty Focus and WBG Goals

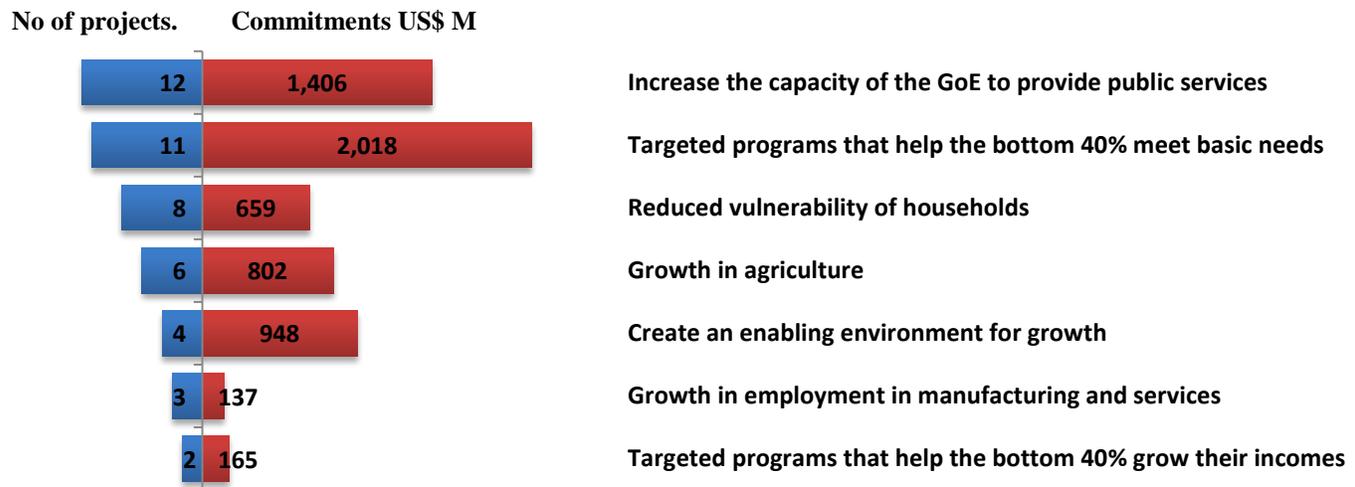
17. **Successive WBG strategies for working with Ethiopia have consistently stressed the challenge of Ethiopia's deep-seated and pervasive poverty, and the need for the WBG program to help GoE tackle it squarely.** Nevertheless the renewed emphasis in the WBG corporate strategy on the two poverty goals provides a good opportunity to reevaluate the focus of WBG's work. To do so this report uses an analytical framework that builds on findings from the recent poverty assessment. Seven dimensions are identified by which each operation's impact can help end extreme poverty and boost shared prosperity in Ethiopia as shown in Chart 1 below. These dimensions reflect the central role that agricultural growth and increased provision of basic services and safety nets to the poorest will continue to play in the medium term, however they also reflect the currently untapped role of structural change in accelerating poverty reduction and boosting shared prosperity in Ethiopia. It recognizes that, for a very poor country like Ethiopia, there is a large measure of overlap between the goals; as the economic and social profile of those living in extreme poverty is similar to that of the bottom 40 percent.

18. **The alignment of the strategy to the WBG poverty goals can be assessed by considering how the current strategy and portfolio support processes that will drive poverty reduction in Ethiopia in coming years, as shown in Chart 1 below.** These processes can in turn be mapped to the two pillars and foundation of the CPS⁸. Each operation is matched to one or more of the seven dimensions, and its budget appropriately allocated across the dimensions. Chart 1 indicates that the WBG country strategy is well aligned with these ongoing drivers of poverty reduction: 46% of commitments (US\$2,820 million) are focused on agricultural growth and helping the poorest meet their basic needs, and a further 38% (US\$2,354 million) in dimensions that make such spending more effective ("increasing the capacity of GoE to provide basic services" and "creating an enabling environment for growth"). This analysis suggests the need for greater attention to competitiveness and employment (since growth in employment and services currently receives only 2% of commitments). It should of course be emphasized that this is primarily a task for the private sector, but as discussed in paragraph 28

⁸ "Increasing the capacity of GoE to provide public services" supports the foundation of good governance, while the second, third and seventh processes primarily support work on resilience and vulnerability, and the remaining three processes primarily support employment and competitiveness.

below, increased competitiveness and productivity will receive particular attention going forward, drawing on the full range of WBG instruments: including lending, but also knowledge, advisory and convening services.

Chart 1: How the WBG Portfolio Contributes to the Two Goals for Ethiopia



Note: 22 projects covered. One project may contribute to the two goals in multiple ways.

Development Partnerships

19. **The CPS noted that WBG would reach out to non-traditional financing partners**, in addition to strengthening good collaboration with traditional donors. One example of the latter has been the ongoing dialogue with GoE on country-level development challenges, such as GoE’s implementation of the Commune Development Program in Ethiopia’s developing regional states. With emerging donors, collaboration includes the Expressway operation on which WBG proposes to work specifically with China EXIM Bank, as part of a broader WBG-China partnership. WBG has also arranged a number of exchanges and conferences for GoE officials to share experiences on key topics, including engaging GoE in PASET (the Partnership in Applied Sciences, Engineering and Technology between Sub-Saharan African countries and the emerging nations). WBG has also promoted dialogue on other topics such as attracting manufacturing investment with a range of emerging donor countries including China, Korea, Turkey and Brazil.

20. **More systematic engagement with non-government partners** has been built around three focal areas. WBG has deepened relations with Addis Ababa University (AAU) to promote a variety of knowledge sharing activities, including collaboration on a thematic development dialogue series in Ethiopia; seminars bringing together experts from both institutions; and establishment of a Development Knowledge and Information Corner at AAU, providing access for over 50,000 students to WBG knowledge. WBG has forged a similar relationship with the Consortium of Christian Relief and Development Associations - an umbrella organization of more than 330 CSOs. In addition to providing access to WBG knowledge, the partnership ensures WBG stays connected to CSOs. The PBS social accountability program is another forum for engagement. WBG has also established a partnership with the Addis Ababa and Ethiopia

Chambers of Commerce and Sectorial Associations, building on the IFC-led, ongoing public private dialogue forum. The partnership with AACCSA encourages dialogue on topics relevant for private sector development, and includes the provision of content and co-production of several radio and TV programs, supporting PPP initiatives; and outreach activities that promote competitiveness, job creation and the removal of constraints affecting the business environment. Partners were also consulted during preparation of this progress report.

Knowledge Services

21. **The Portfolio of Knowledge Services has increased substantially and faster than planned, marking a significant change from previous Bank engagement in Ethiopia.** WBG has introduced programmatic knowledge services in areas such as economic policy, poverty, gender and statistics, public sector and governance, and protecting the services of the bottom 40%. IFC and IDA have collaborated in current dialogues on Access to Finance, the Investment Climate, and skills development. A dialogue has also begun about support to the formulation of a National Financial Inclusion Strategy and its subsequent implementation. IFC's Investment Climate Advisory Program covers Trade Logistics, Business Licensing and Registration, Tax Administration, Investment Policy and Public-Private Dialogue. IFC is also helping GoE on a regulation for financial leasing and the design a strategy for the geothermal sector. MIGA has undertaken specific knowledge sharing and VP-level outreach to identify opportunities for further engagement. Trust building mechanisms have been developed that involve the client at concept and decision stages of preparation before reports are disseminated to the public. Another tool for building this dialogue has been the annual High Level Retreat bringing together senior GoE Ministers and officials, with senior WBG staff and global experts, for off-the-record discussions on a range of topics. These exchanges have helped define and drive forward the analytical work program. Events such as the Ethiopia Country Economics Day and the Urbanization Review workshop have helped share study findings with policy makers. Selected flagship products, such as the Economic Update Report Series, have been disseminated to the public (See Annex 5 for a full list of individual pieces). Major pieces of analytical work that are currently under preparation include a Growth Study, Poverty Assessment, Public Expenditure Review, and an Urbanization Review. While these major studies will be finalized after GoE has completed GTP2, selected background papers have already been shared to enable GoE to use them as inputs in GTP2 design.

22. **Technical assistance studies have also helped GoE in various ways.** Some examples of specific technical assistance that has been provided include: support for GoE's role as a leading voice in discussions on Climate Change; work on social health insurance; banking payment systems and insurance, and potentially supervisory capacity in banking, microfinance, insurance and payment systems. The Women Entrepreneurship Development Project has been supporting dedicated technical assistance to microfinance institutions to specifically serve women entrepreneurs and to the Development Bank of Ethiopia to strengthen its role as a finance wholesaler.

Lending

23. **CPS implementation has been supported through twelve new IDA operations.** This includes US\$1.6 billion in new IDA commitments in FY14. There were 25 operations active at the start of the CPS period, with twelve approved since (Annex 4), while fourteen have closed. The number of operations in the portfolio has therefore declined by two, but the increase in total commitments from US\$4.59 billion to US\$ 5.8 billion (end June 2014) means average project size has grown by 35%, reaching US\$ 252 million. This reflects efforts to move towards selective and transformational interventions. There are in addition two regional IDA projects. IFC lending in FY14 totaled \$244 million (a record), primarily for trade financing. MIGA supported GoE efforts to attract FDI through active guarantee coverage of three projects in the agribusiness and manufacturing sectors. Trust Funds (TFs) administered for Ethiopia are worth US\$ 1.24 billion in total commitments, mainly providing co-financing for large, multi-partner programs (see Annex 7).

24. **In recent years Ethiopia has achieved consistently high IDA disbursement ratios—although challenges remain.** Disbursements in FY13 and FY 14 were \$870 m and \$920 m respectively (the highest amounts in Africa, resulting in disbursement ratios of 39 and 42 %). Nevertheless there continue to be critical implementation challenges, as reflected in the joint WBG:GoE Country Portfolio Performance Review in 2012, which reiterated some long standing issues. Areas for action are set out in Annex 3, together with a note of subsequent steps for each topic. The focus has been particularly on working sector by sector, in order to bring together all relevant actors and reach consensus on a common set of solutions, which are then signed off by the Country Director and Minister of Finance. Since 2012 WBG and GoE have completed sectoral reviews for Roads and Energy and are currently working on reviews for operations in Agriculture and Water. Approval of new IDA commitments totaling US\$ 1.6 bn in FY2014 has significantly increased the size of the portfolio and may lead to a drop in the disbursement ratio given the time lag between project approval and disbursement.

Progress on Results

25. **The Results Framework at Annex 1 records evidence of progress** against the objectives and indicators established in 2012. Progress was also reviewed using the WBG Results Integration and Management System (RIMSys). However, as discussed in Annex 11, while the tool is promising, data limitations prevented reliance on its findings at this stage.

Objective 1: Stable Macroeconomic Environment: Progress under outcome 1.1 is on track, with inflation returned to a satisfactory range. However, outcome 1.2 is more of a challenge, since domestic resource mobilization has yet to match the regional average.

Objective 2: Increased Competitiveness and Productivity: Progress under outcome 2.1 is on track but with revised baseline and target values for indicator 4. Progress under outcome 2.2 is also on track, but is fragile as many of the jobs are currently temporary, and we have yet to see how many will translate into permanent economic gains. Progress under outcome 2.3 is promising, but needs further evidence.

Objective 3: Increased and Improved Delivery of Infrastructure: Indicators 7 and 8 for outcome 3.1 have been reset to refocus them on what WBG aims to accomplish rather than the country as a whole. As restated, there is good progress against all three outcomes.

Objective 4: Enhanced Regional Integration: There is a mixed picture with less progress on outcome 4.1 for energy, with the original indicator replaced, but more on outcome 4.2.

Objective 5: Improved Delivery of Social Services: Outcome 5.1 shows good progress on all three indicators. Outcome 5.2 shows no significant progress and confirms that, despite progress on access, the quality of service provision in Education remains a major challenge.

Objective 6: Comprehensive Social Protection and Risk Management: Outcome 6.1 has already been achieved, so the indicator has been reset, in line with current objectives on food security. Outcome 6.2 shows some progress, with further progress promised. Outcome 6.3 is on track.

Objective 7: Good Governance and State Building: Outcome 7.1 shows good progress on indicator 21, but some deterioration for indicator 22. Outcome 7.2 has a new indicator, so progress remains to be determined. Outcome 7.3 has a mixed picture, with two indicators on track but with indicator 24 possibly being a challenge to meet.

26. **This progress is also reflected in WBG work on cross cutting issues:**

- **As regards gender equality**, the gender parity index in education has improved from 2006/07 to 2012/13, reaching 0.92 for Grades 1-4, 0.98 for Grades 5-8, 0.96 for Grades 9-10 and 0.81 for Grades 11-12. The maternal mortality ratio (per 100,000 live births) has fallen from 676 in 2011 to 420 in 2013. Contraceptive prevalence has almost doubled since 2005. In the current WBG portfolio, 23 of 25 current operations specifically include gender in their results frameworks, and recent operations have devoted more attention to address obstacles to women's participation in social and economic activities. Three operations⁹ have included specific components to promote women's participation in social organizations and decision making, while two others¹⁰ particularly emphasize the roles of women in managing natural resources and finance. The Women Entrepreneurship Development Project has disbursed some US\$16.2 million in FY2014 to provide finance to women entrepreneurs.
- **Resilience to climate change** is being supported through "climate-smart" operations, with climate-relevant projects accounting for almost 60% of the WBG portfolio. WBG is working with other development partners (notably Norway and UK) to support GoE's climate resilient green economy (CRGE) strategy, and has helped establish the Ethiopia Climate Innovation Center, which provides financing and advisory services to local climate technology ventures. WBG is also helping build capacity for environmental management to meet both immediate and long-term climate risks, with a range of interventions around sustainable landscapes to enhance capacity at woreda level to adopt disaster risk management systems and scale up existing safety nets, and to address issues around resilience in specific technical areas.

Lessons Learnt and Adjustments

27. **A significant area for renewed focus in FY15 and FY16 will be a *Stable Macroeconomic Environment*.** This focus will include deepening dialogue around key economic

⁹ PBS, PSNP and ULGDP.

¹⁰ AGP and PCDP.

challenges, through the Economic Update series, the High Level Forum, and the SCD for Ethiopia that WBG will be developing, including knowledge in support of innovation in areas such as management of public investment, debt and SOE debts. WBG works routinely with IMF to support debt sustainability analysis for GoE, and WBG has also provided knowledge through support for a Debt Management Strategy; Debt Management and Performance Assessment; and for strengthening Public Debt Management Capacity. Given the government's ambitious investment plans, some new areas for potential support are being explored, including investigating the potential for IBRD support for enclave financing. These ideas will form part of the continuing dialogue over the next two years.

28. ***Increased Competitiveness and Productivity will also require particular attention.*** The recently approved project for Competitiveness and Job Creation will provide a framework to support GoE's agenda for competitiveness, together with complementary work on Small and Medium Scale Enterprise financing, and continuing a recent series of studies reviewing constraints for the private sector. During the remaining CPS period, IFC and MIGA will continue to seek opportunities to complement this engagement including through support to private investments into Ethiopia, in particular in GTP target areas such as energy, tourism and agribusiness. However, both organizations have found the scope to work with the private sector in Ethiopia is currently constrained, which limits the scope for broader WBG collaboration. Nevertheless, MIGA remains open for business in Ethiopia across all of its Political Risk Insurance product lines, including Transfer Restriction, Expropriation, Breach of Contract and War and Civil Disturbance.

29. ***Over the past few years, IFC has tried many different ways of engaging in Ethiopia,*** although GoE's current regulatory framework significantly constrains the scope for IFC to do so. Currently, a US\$550 million funding program (Package Proposal) is awaiting formal GoE approval. If approved, this Package Proposal would significantly enhance IFC and WBG operations in the country, by addressing key needs of the country's private sector. It would also be an opportunity to overcome some of the constraints to IFC engagement, such as (a) unless exceptions are granted, foreign currency borrowing is only allowed for export oriented companies; (b) local commercial banks are not allowed to borrow in foreign currency; and (c) institutions like IFC cannot access local currency. The Package Proposal would aim at providing urgently needed substantial long term resources (currently not easily available) to the country's young private sector using the most efficient existing delivery channels, while at the same time exploring the possibility for local private commercial banks to be able, for the first time, to access external funding. An additional option to be considered for CBE and the private banks would be risk sharing facilities, whether funded or unfunded. These have the advantage of channeling IFC risk exposure direct to target constituencies such as small and medium size enterprises and the agricultural sector.

30. ***The Results Framework shows that objective 4, Regional Integration, is an area of concern.*** WBG remains convinced of the importance of the Regional agenda for promoting the stability in the Horn of Africa that is essential for wider, sustainable economic progress, and as a means to offer considerable potential economic benefits to Ethiopia. Stronger regional links could help unlock opportunities for economic development and exchange that could benefit, among others, Ethiopia's nascent manufacturing sector. The balance of the CPS period will

provide an opportunity to engage with GoE to identify new areas of common interest, for both knowledge and lending, that can be reflected in the follow on CPF. However, it is also important to recognize that the policy framework for some important, economic sectors is unlikely to change for a number of years. The SCD can help clarify this agenda, building on existing engagements. Currently, there are only two, active IDA-funded, Africa Regional operations benefiting Ethiopia¹¹, and a third is proposed¹². Ethiopia is also a partner in the Nile Basin Initiative (NBI), and has benefitted from WBG funding and knowledge through that process. While recognizing the wider NBI context, Ethiopia has recently agreed to pursue the identification of a new joint investment program with its neighbors, and is participating in consultative activities to this end.

31. **The continuing emergence of the Urbanization Process** is important in itself, but also offers new perspectives on existing priorities under both pillars of the CPS, building on an urban program that had already begun, but also strengthening it as reflected in the forward program. Areas for additional focus will include adequate planning at the municipal level, and the provision of sufficient and effective infrastructure (especially water, transport and energy), housing and other services, such as health and education.

32. **Responding to experience since 2012 and the changes discussed above, the Results Framework has been updated** as shown in Annex 2. While all the strategic outcomes remain valid, the opportunity has been taken to replace two indicators that were considered no longer relevant. Two other indicators were adjusted to make sure they focused on what WBG aims to accomplish rather than the country as a whole, while a number of other indicators have been revised to reflect new data.

33. **A planned SCD in FY16 will drive forward the knowledge agenda, building on the existing, rich analytical base to identify country priorities and knowledge gaps.** The SCD will be too late to inform GTP2 but can help support implementation of that plan, building on some substantial pieces of analytical work that have been prepared in recent years, and others in the pipeline such as the Country Environmental Analysis. This will enable the diagnostic to improve the focus on issues that have not yet been covered in the analytical work program. In so doing this will provide a complement to the existing primarily demand-driven approach, and allow some re-balancing for analytical areas that are of relevance for reducing extreme poverty and promoting shared prosperity in Ethiopia, but which would involve policy choices that have been, in the view of GoE, inconsistent with the current policy stance. Examples include liberalization of services sectors and efforts to consolidate fiscal policy, including SOE activities. This, in turn, would give rise to an improved mapping of the knowledge gaps in Ethiopia.

34. **In terms of future IDA lending,** a program for FY15 and FY16, consistent with the above priorities, has been discussed with GoE. For FY15 the IDA proposals are set out in Table 1 below. For FY16, new IDA lending is expected to focus on continued support for service delivery, infrastructure, and job creation, and these priorities will increasingly be viewed through the perspective of Ethiopia's emerging urban challenges. As foreseen in the CPS, a Development

¹¹ Eastern Electricity Highway and Eastern Africa Agricultural Productivity Projects.

¹² Regional Pastoral Livelihoods Resilience Additional Financing for Ethiopia.

Policy Operation also remains a possibility if a suitable agenda is agreed. Lending for FY17 and beyond will be discussed in the new CPF which will be due at the end of FY16.

Table 1: Proposed IDA Lending Program FY 15

	<i>Operation:</i>	<i>Instrument</i>	<i>US\$ M</i>
FY 15			
1	Productive Safety Nets Program Phase IV	IPF	600
2	Regional Pastoral Livelihoods Resilience Add. Fin. for Ethiopia	IPF	25
3	Agricultural Growth Program Phase II	IPF	350
4	Public Financial Management	IPF	50
5	Expressway Development	IPF	300
6	Urban Transport and Land Use	IPF	100

Note: This includes some frontloading of IDA resources from Ethiopia's FY16 allocation.

IV. MANAGING RISKS TO STRATEGY

35. Ethiopia's country context is reasonably stable—especially as compared with many of its neighbors, and the CPS is based on well-developed analyses of Ethiopia's development challenges, as discussed in paragraph 21 above. Nevertheless, there will always be risks to strategy implementation, as discussed below along with ways for WBG to manage for them. In 2012, the CPS identified five main areas of risk. Of these, Ethiopia has been largely spared the impact of 2008-09 global financial crisis, but the concern about external debt management has been realized as discussed above. The other risks then raised are covered in the discussion below.

36. **Good governance and consultation are taken very seriously by GoE.** Through its Public Sector Capacity Building Program, in particular, GoE has pursued improvements in accountability, including efforts to manage corruption. In some respects governance requirements for shared growth are stronger in Ethiopia than in many other countries at a similar stage of development. However, there remain significant challenges, as also discussed in 2012. Historically Ethiopia has had weak demand-side pressure and lack of accountability to citizens for delivery of public services. In this environment the challenge is how WBG can ensure interventions are well targeted and beneficiaries correctly identified. In addition to supporting supply improvements, WBG will therefore continue to support voluntary citizen's participation and enhanced accountability through the establishment of systems, awareness raising and training for citizens, and surveys that monitor the impact of WBG's interventions in these aspects. This will include (under PBS) the Financial Transparency and Accountability Perception Surveys that monitor the impact of the interventions and inform the different operations that are supporting these efforts. For more detail on specific interventions WBG is currently supporting see Annex 13.

37. **Managing for fiduciary risks has been a significant feature of our program in recent years.** On the financial side these risks have included: internal controls, financial reporting, unaccounted advances, bank reconciliations, cash balances and follow up on audit findings. For procurement the risks have related to: delays in awards of contracts; process delays in tender management by both Bank and government agencies; weak contract management resulting in

contract variations and delays in delivery; low capacity and high staff turnover in procurement; and weak compliance with procurement rules and procedures; particularly for infrastructure projects. However, over the last two years there have been significant improvements due to systems strengthening—see Annex 13—and this effort will continue, including through the planned Public Financial Management project. A related risk is that noted in paragraph 21 regarding slow disbursements. The causes are primarily the same (fiduciary and procurement issues; limited capacity), so the recent progress made and future efforts are expected to yield results in more timely disbursement of WBG finance also.

38. In recent years there has been high profile discussion of risks relating to Safeguards.

There has been widespread concern about the application in particular of OP4.10 and OP4.12 both to WBG operations, and in contexts where WBG operations are co-located with other national GoE programs. This concern was reflected in the complaint submitted to the Inspection Panel in 2012 regarding PBS. Management's approach to handling safeguard risks has focused on three particular areas, as set out below. It is worth noting that since July 2013 OP4.10 has been routinely triggered for all projects for which it is applicable. For more details see Annex 13:

- Good quality Environmental and Social Impact Assessments and Environmental and Social Management Frameworks (ESMF) are prepared by implementing agencies for WBG, as required. However implementation of ESMFs can be weak for three main reasons: i) poor capacity of the clients, ii) conflicting priorities between the urgency to implement activities and the timetable and costs of implementing ESMFs, and iii) similarly conflicting priorities for many GoE-funded contractors. WBG aims to address client capacity through technical assistance under a number of operations, including both PSNP4 and the expected successor to PBS.
- Insufficient mainstreaming of environmental and social concerns at the design stage in infrastructure projects has also hindered the identification of adverse impacts at an early stage and complicated the implementation of environmental safeguards.
- WBG is currently supporting a study on the interface between WBG funded and nationally funded programs to ensure coherence in their implementation.

39. There are also broader, country-level risks which may affect WBG programs, but which WBG cannot manage directly. These include:

- **Macroeconomic risks on both the domestic and external fronts**, as discussed in paragraphs 4 to 7 above. The Bank will continue to engage on these topics with GoE, particularly through knowledge products, as a way to manage for this risk, as discussed in paragraph 27;
- **Natural disasters**, of which droughts have been the most frequent occurrence in Ethiopia, remain a potential source of serious setbacks both for progress towards the WBG two goals in Ethiopia, and for the sustainability of many WBG interventions, and climate change is likely to increase the impact of such events, as discussed in the CPS. In the last two years this risk has not been prominent, but it remains ever present. WBG can best manage for this risk by supporting GoE's CRGE, which seeks to address these risks, amongst other things. In addition, WBG interventions under pillar two – around sustainable landscapes – will help to increase resilience and decrease the vulnerability of Ethiopians.

- **Political transition risk.** The political transition following the sudden death of Prime Minister Meles was also raised as a risk in 2012, but has proven successful. GoE has reaffirmed the continued relevance of the CPS pillars, to the country's development priorities, as well as the likelihood of GTP2 building on GTP rather than being a radical departure, however, risks associated with the national elections taking place 2015 may emerge. WBG will work closely with other development partners active in Ethiopia to respond in a coordinated way to any such emerging risk.
- **Regional security risks.** Besides the possible impacts from external tensions, including a growing population of refugees, instability fed by Islamic fundamentalists in Somalia also presents problems, as the porous borders with Ethiopia's Ogaden result in unrest being transplanted to Ethiopia itself.

ANNEXES

Annex 1. CPS Revised Results Matrix and Progress to Date

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
Overall CPS Theme: Sustainable Growth and Reduced Poverty			
GTP Goals: <ol style="list-style-type: none"> 1. Maintain average GDP Growth rate of 11%. 2. Reduce total poverty headcount from 29.2% in 2010/2011 to 22.2% in 2014/15. 3. Attain MDGs in social sectors (health & education). 4. Create stable democratic and developmental state. 5. Maintain a stable macroeconomic framework. 			
PILLAR 1: FOSTERING COMPETITIVENESS AND EMPLOYMENT			
CPS Strategic Objective 1: Stable Macroeconomic Environment			
GTP Goals: <ol style="list-style-type: none"> 1. Contain inflation. 2. Strengthen revenue generation capacity (tax revenue/GDP increased from 9.7% in 2010/11 to 15.3% in 2014/15). 3. Raise domestic savings (share of gross domestic savings to GDP increased from 5.5% in 2010/11 to 15% in 2014/15). 4. Maintain fiscal deficit at a sustainable level (maintain budget deficit share to GDP at less than 2%). 5. Disclose and maintain off budget public investments (quasi fiscal operations) at a sustainable level. 			
<ul style="list-style-type: none"> • Rapid growth could pose risks to macro stability, in rising inflation and external imbalances. • Inflation has been high and non-subsiding since June 2011 • Need to further strengthen dialogue to develop policy options and discuss emerging issues 	<p>Outcome 1.1 - Structural and macroeconomic policies are conducive to sustain internal and external balance</p> <p><i>Indicator 1: Sound monetary and fiscal policies to control inflation implemented.</i></p> <p><u>Baseline:</u> 21.6 (end of 2011/12)</p> <p><u>Target:</u> < 10%</p> <p>Progress to date:</p> <p>CPI inflation (y/y, eop) stood at 7.0 percent in July 2014 and has been in the single digit range for more than a year.</p>	<ul style="list-style-type: none"> • Timely preparation and monitoring of an integrated and consistent Macro-Economic and Fiscal Framework <p>The macroeconomic and fiscal framework is prepared in a timely manner and monitored on a regular basis.</p> <ul style="list-style-type: none"> • Establishing a system (database) to monitor off budget investments and contingent liabilities in the public enterprises <p>No progress has been made.</p> <ul style="list-style-type: none"> • Establishing a mechanism for discussing macroeconomic issues between the GoE and development partners (IMF, WB) <p>A Macroeconomic Discussion Forum was established in April 2014 and will convene twice yearly.</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> • Ethiopia Statistics for Results Facility <p>Knowledge Services</p> <ul style="list-style-type: none"> • Growth Study • Ethiopia IC: Business Taxation • Public Expenditure Review <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> • DPOs General or Sectoral <p>Knowledge Services</p> <ul style="list-style-type: none"> • Systematic Country Diagnostics • Economic Update Series <p>Completed Knowledge Service</p> <ul style="list-style-type: none"> • Poverty Assessment • Economic Updates Series (I. inflation and competitiveness;

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
			<p>II. savings and trade logistics; III. export performance and competitiveness)</p> <ul style="list-style-type: none"> Debt Management Strategy; Performance Assessment Non-Concessional Borrowing Strengthening Public Debt Management Capacity Fiscal Decentralization <p><i>Partners</i></p> <ul style="list-style-type: none"> IMF
<ul style="list-style-type: none"> Revenue growth has fallen short of GDP growth recently and constrains the fiscal space. Domestic resource mobilization has been weak. Revenue to GDP is low compared to Sub-Saharan Africa's average. 	<p>Outcome 1.2 - Increased domestic resource mobilization</p> <p><i>Indicator 2: Number of urban local governments that achieve an increase of own source municipal revenue of at least 10 percent over the previous year under ULGDP II.</i></p> <p><u>Baseline</u>: Zero (FY14)</p> <p><u>Target</u>: 18 out of 44 participating ULGs (FY16)</p> <p>Indicator changed as the original indicator related to WBG support through PSCAP, which closed December 2012. For the remaining CPS period, ULGDPII will play an important role in increasing revenue.</p>	<ul style="list-style-type: none"> Continued increase of taxpayer registration using biometric systems (1.8 million in 2011) <p>The biometric taxpayer information registration system is implemented across the nation and registered over 2 million taxpayers information from a base line of zero in the last four years.</p> <ul style="list-style-type: none"> Equipping tax collection institutions with adequate enforcement power (information and tax-auditing systems) at federal and regional levels <p>The tax system reform program implemented in all regions and at all levels of government. The program has streamlined manuals for tax assessment, collection, audit and administration across regions.</p> <ul style="list-style-type: none"> Enhancing the capacity of tax collection and administration <p>Between FY05 and FY13, the revenue reform has: overhauled tax laws and manuals; introduced VAT and other taxes; restructured tax bodies; strengthened the IT-assisted systems (0-7 regions), Biometric TIN (0-2 Million, ASYCUDA, Cash register (0-39 K users); reduced average processing time for tax collection (4hr 35mins -15mins).</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> Local Govt Dev Project II Ethiopia Statistics for Results Facility <p>Knowledge Services</p> <ul style="list-style-type: none"> Ethiopia IC: Business Taxation <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> DPOs General or Sectoral <p>Knowledge Services</p> <ul style="list-style-type: none"> Systematic Country Diagnostics Economic Update Series <p>Completed Financing</p> <ul style="list-style-type: none"> Public Sector Capacity Building (PSCAP) <p>Knowledge Service</p> <ul style="list-style-type: none"> Economic Updates Series Debt Management Strategy; Performance Assessment Strengthening Public Debt Management Capacity <p><i>Partners</i></p> <ul style="list-style-type: none"> IMF

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
CPS Strategic Objective 2: Increased Competitiveness & Productivity			
GTP Goals: <ol style="list-style-type: none"> 1. Agriculture: Intensify production of marketable farm products for domestic and export markets by small farm holders and private agricultural investors <ul style="list-style-type: none"> • Increased cereal productivity (qt/ha) from 17 qt/ha in 2010 to 22 qt/ha in 2015 • Increased value of agricultural sector export (in \$US) from 1.55bn in 2010 to 6.58bn in 2015 2. Private Sector and Improved Competitiveness: Raise the efficiency and competitiveness of trade sector and establish a favorable environment for productive investors <ul style="list-style-type: none"> • Total exports as % of GDP increased from 13.6% in 2010 to 22.5% in 2015 • 3mln new jobs created through MSEs; 40,000 jobs in textile and garment; 200,000 jobs in sugar industry 3. Financial sector: Strengthen the financial sector with the aim of establishing an accessible, efficient and competitive financial system <ul style="list-style-type: none"> • Access to finance increased from 20% currently to 75% by the end of the GTP period. 			
<ul style="list-style-type: none"> • Low productivity of crop and livestock in many geographical areas • Weak land and water management practices and institutions • Fragmented and uncoordinated agricultural public services 	<p>Outcome 2.1 – Increased agriculture productivity and marketing in selected areas</p> <p><i>Indicator 3: Average yields of selected crops in targeted woredas (index, see AGP PDO).</i> <u>Baseline:</u> 9.9 qt/ha <u>Target :</u> 11.5 qt/ha</p> <p>Progress to date:</p> <p>The average yield of the selected crops is 10.01 ha, and the growth rate of productivity has been 1.1% over the last two years.</p> <p><i>Indicator 4: Value of marketed agricultural products in targeted woredas.</i> <u>Baseline:</u> 5,790 ETB per household <u>Target:</u> 7,064 ETB per household</p> <p>Progress to date:</p> <p>Baseline and target values were revised by the CSA survey. Value of marketed agriculture products per household has reached 6,523 ETB per household, representing 12.66% increase since 2011.</p>	<ul style="list-style-type: none"> • Land areas with improved technologies in targeted woredas <p>The area with improved land and water management technologies has increased by 224,014 ha since 2009/2010.</p> <ul style="list-style-type: none"> • Additional irrigation areas developed or rehabilitated (ha) <p>The irrigation system which is under construction /design/rehabilitation covers a total of 25,379 ha area.</p> <ul style="list-style-type: none"> • Km of feeder roads constructed or rehabilitated <p>Since 2009/2010, AGP and SLMP have constructed 2029.2 Km feeder roads.</p> <ul style="list-style-type: none"> • Development outcomes of Ethiopian Coffee Project <p>FY14 has been the third year of IFC Ethiopian Coffee Project, and this project continues to perform well with zero non-performing loans, strong farmer outreach and increases in employment. Main development outcomes include: i) 47,000 farmers have</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> • Productive Safety Nets (APL III) • Irrigation & Drainage Project • Tana & Beles Int. Wat Res Dev Project • Agricultural Growth Program • Promoting Basic Services (PBS) Phase III • Pastoral Community Development (PCDP) III • Eastern Africa Agricultural Productivity • Sustainable Land Management Project • Sustainable Land Management Project-II • Ethiopia- Nib Bank Coffee Cooperative Risk Sharing Facility (IFC) <p>Knowledge Services</p> <ul style="list-style-type: none"> • Land Administration • Climate Innovation Center (InfoDev) • Growth Study • Strengthened RED&FS Coordination (Agriculture) • Programmatic Advisory Services to the CRGE Facility (Climate) • Urban Transport Study • Sustainable Groundwater Development and Management • Access to Finance for Producers/Farmers (IFC) <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> • Productive Safety Nets Program Phase IV

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
		<p>been supported in the Ethiopian coffee supply chains and 1,080 jobs have been created; ii) The volume of coffee processed has increased from 1,023 MT to 1,375 MT.</p>	<ul style="list-style-type: none"> Regional Pastoral Livelihoods Resilience Additional Financing for Ethiopia <p>Completed</p> <p>Knowledge Services</p> <ul style="list-style-type: none"> Disaster Risk Management <p>Financing</p> <ul style="list-style-type: none"> Pastoral Community Development Project II Sustainable Land Management Program (FY08) <p>Partners</p> <ul style="list-style-type: none"> USAID, CIDA, Spain, AFO, Netherlands, UNDP
<ul style="list-style-type: none"> Business regulations and policies in need of improvement. Weak public-private dialogue. Shortage of Business development services including skills. Poor trade logistics. 	<p>Outcome 2.2 – Increased competitiveness in manufacturing and services</p> <p><i>Indicator 5a: Number of new jobs created in targeted manufacturing and services firms.</i></p> <p><u>Baseline:</u> zero <u>Target:</u> 15,000</p> <p>Progress to date:</p> <p>6,069 new jobs have been created in targeted firms during the lifetime of PSDCB project and the on-going Tourism Development Project. 570 new jobs have been created through a Cement investment project by IFC.</p> <p>We expect activities linked to supported Bole Lemi Industrial Zone to create a further 8,000 jobs by 2016.</p> <p><i>5b: Export share of total sales value of goods and services generated by firms located in the supported Industrial Zone.</i></p> <p><u>Baseline (2014):</u> zero <u>Target:</u> (2016) US\$28,000,000</p>	<ul style="list-style-type: none"> Regularly convene Public-Private Dialogue Forum (PPDF) with recommendations provided to the government for adoption <p>There have been various dialogue forums aim to support the adoption of 10-15 investment climate improvements, and recommendations have been adopted as a result of PPD on company formation issues and tourism sector challenges, etc.</p> <ul style="list-style-type: none"> Streamlined registration and licensing requirements <p>IFC IC team has worked on inventory, analysis and recommendations on all business licenses and upgraded the existing ICT system for business registration-OTRLS. The upgraded OTRLs has been deployed in 130 sites in Addis Ababa.</p> <ul style="list-style-type: none"> Number of firms supported in selected manufacturing and service sectors through business development services (BDS) <p>PSDCB, together with the ongoing tourism project, has provided support to 191 firms by improving the enabling environment and institutional capacity.</p> <ul style="list-style-type: none"> Average number of trade logistic documents and steps reduced <p>Although no trade logistic document has been removed in the import/export clearance</p>	<p>On-going</p> <p>Financing</p> <ul style="list-style-type: none"> Tourism Develop. Project SIL Competitiveness and Job Creation Project Urban Local Govt Development (ULGDP) Local Govt Dev Project II Women Entrepreneurship Development Project (WEDP) Derba Midroc Cement Company (IFC) GTST Ethiopia II (IFC) CrownPlaza Addis (IFC) Dallol Potash(IFC) africaJUICE (IFC) Tulu Kapi Gold Project (IFC) JSDF: Support to Artisan Miners <p>Knowledge Services</p> <ul style="list-style-type: none"> Finance Leasing Scaling up MSME Finance (knowledge exchange with India) Ethiopia Cheque Standardization Project Regulatory and Supervisory Framework for Microinsurance Improving efficiency of payments system Ethiopia IC: Trade Logistics Project (IFC) Ethiopia IC: Business Regulation (IFC) Ethiopia Business Forum(IFC) Ethiopia IC: Business Taxation Project (IFC) EI-TAF: Improving Extractive Industries Dev

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
		<p>process, ERCA has eliminated the submission of copy of TIN for import and export based on a memo IFC provided.</p> <ul style="list-style-type: none"> “Ethiopian Cities Day” to promote competition conducted on annual basis <p>This event has been conducted annually in Nov/Dec by ULGDP</p>	<p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> SME Finance IC Program (IFC) <p>Completed</p> <p>Financing</p> <ul style="list-style-type: none"> Private Sector Development Capacity Building (PSD CB) Project <p>Knowledge Services</p> <ul style="list-style-type: none"> Chinese FDI in Ethiopia Structural Change in Ethiopia: An employment perspective Investment Climate from a Regional States Perspective I Skills for Competitiveness and Growth in Manufacturing SME Finance in Ethiopia IFC CIC project IFC on Finance Leasing ICT for Transformation Ethiopia Mining Sector Assessment <p>Partners</p> <ul style="list-style-type: none"> DFID, EU, AfDB, GTZ, IMF, IFC, CIDA
<ul style="list-style-type: none"> Lack of medium and long term finance Micro and small enterprises (MSEs) currently having limited access to financial services. 	<p>Outcome 2.3 – Increased MSE access to financial services</p> <p><i>Indicator 6: Volume of bank funding: Lines of credit to MSEs.</i></p> <p><u>Baseline:</u> zero</p> <p><u>Target:</u> US\$28mln</p> <p>Progress to date:</p> <p>WEDP has disbursed US\$21 million to MFIs (as of July 31, 2014) of which US\$11.5 m has been on-lent to women-owned MSEs.</p>	<ul style="list-style-type: none"> Coverage of the Credit Information Center (CIC) increased to include also MFIs’ clients <p>The coverage of lending institutions by the new credit reporting was extended to include all banks and key NBE regulated MFIs. The IFC CIC project provided a short term intervention to support NBE to undertake a technical upgrade of its credit reporting system. It will take at least 2-3 years after project completion to achieve the project target, which is, the total credits in SME leading expand by 10%. It is too early to judge at this stage.</p> <ul style="list-style-type: none"> Line of credit to support MSEs established <p>A line of credit to support MSEs has been established under the Women Entrepreneurship Development Project (WEDP). The line of credit is channeled from MoFED to DBE to MFIs. It combines the provision of liquidity with a package of technical assistance to help MFIs to better serve growth-oriented MSEs on an individual basis and through larger loan sizes.</p>	

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
CPS Strategic Objective 3: Increased and Improved Delivery of Infrastructure			
GTP Goals: <ol style="list-style-type: none"> Power: (i) Electricity coverage increased from 41% in 2010 to 75% in 2015; (ii) Power generating capacity (MW) increased from 2,000 in 2010 to 10,000 in 2015. Transport: (i) Road network increased from 49,000 km in 2010 to 136,000 in 2015; (ii) Roads in fair and good conditions increased from 81% in 2010 to 86 % in 2015. Water and Sanitation: (i) Potable water coverage increased from 68.5% in 2010 to 98.5% in 2015 (ii) Water sanitation coverage increased from 52.4% in 2010 to 84% in 2015 (Source: Sanitation Action Plan) 			
<ul style="list-style-type: none"> Low access rates in areas already connected to the grid. Major network bottlenecks due to rapid growth in demand require reinforcement of transmission network. Low access to off-grid renewable energy Weak implementation and management capacity of Ethiopia Power Cooperation (EPCO) to manage large and complex projects. 	<p>Outcome 3.1 – Increased Access to Electricity</p> <p><i>Indicator 7: Number of people provided with access to electricity in selected areas from WBG-supported operations.</i></p> <p><u>Baseline:</u> On-grid: zero Off-grid :zero</p> <p><u>Target:</u> On-grid: 1.7 million Off-grid: 250,000</p> <p>WBG Progress to date: On-grid: 879,005 Off-grid: 132,615</p> <p>GTP indicator is: <u>Baseline:</u> On-grid: 12 million Off-grid :16.5 million</p> <p><u>Target:</u> On-grid: 24 million Off-grid: 60 million</p> <p>GTP progress since 2011: On-grid: 13.4 million (increase of 1.38 million from Baseline) Off-grid: 17.2 million(increase of 0.73 million from Baseline)</p>	<ul style="list-style-type: none"> Increased household electricity connection in selected areas that are already connected to grids and that are newly connected to grids There has been an increase of 202,324 household connected since FY08, including 175,801 (on-grid) and 26,523 (off-grid). Number of newly electrified towns and villages in selected areas 804 towns have been connected to grid and 21 towns have benefited by off-grid package. Number of EEPCo Staff trained. A total of 3,405 staff have been trained. 	<p>On-going Financing</p> <ul style="list-style-type: none"> Electricity Access Rural II GOPBA Electricity Access Electricity Network Reinforcement & Expansion (ENREP) Ethiopia Geothermal Sector Development Project <p>Knowledge Services</p> <ul style="list-style-type: none"> Geothermal Sector (IFC) <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> Energy Network Reinforcement Phase II <p>Knowledge Services</p> <ul style="list-style-type: none"> Energy Sector Review Renewable Energy Resource mapping <p>Completed Financing</p> <ul style="list-style-type: none"> Nile Basin Initiative: ET/SU Interconnector Electricity Access (Rural) Expansion Energy Access SIL <p>Knowledge Services</p> <ul style="list-style-type: none"> Accountability Issues in Power Sector <p>Partners</p> <ul style="list-style-type: none"> IFC, AfDB, AFD (France), SNV, Japan, Iceland

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
<ul style="list-style-type: none"> • Low road density - only 10% of rural population lives within 2km of an all-weather road. • Low Ethiopia Road Authority (ERA's) capacity for design review assessment, quality assurance, contract management, safety enforcement, and safeguards compliance. ERA needs to be modernized to deliver high quality roads at competitive cost. 	<p>Outcome 3.2 – Improved roads, transport infrastructure</p> <p><i>Indicator 8: Additional km of roads constructed (new or upgraded with asphalt) or rehabilitated to fair and good condition areas from WBG-supported operations.</i></p> <p><u>Baseline:</u> Federal constructed or rehabilitated/upgraded: zero</p> <p>WBG funding is about 10% of total funding for the sector so <u>WBG targets</u> are: Federal Constructed or rehabilitated: 1,008km</p> <p>These are based on GTP Targets of: Federal Constructed: 4,330km Federal Rehabilitated/Upgraded: 5,750km</p> <p>Progress to date: Since 2011, a total of 481 kilometers in federal road construction have been financed by the Bank.</p> <p><i>Indicator 9: Additional km of rural access roads constructed and/or rehabilitated to fair and good condition</i> <u>Baseline:</u> 800km <u>Target:</u> 71,500km</p> <p>Progress to date: Between 2011 and 2014, 15,822 kilometers of rural access roads have been constructed, from operations supported by WBG, and 40,447 kilometers rehabilitated (56,269 km in total).</p>	<ul style="list-style-type: none"> • Ethiopian Roads Authority (ERA) Quality Assurance System implemented • ERA Maintenance Management System improved <p>Both systems are in place and final operational manuals are prepared; Both systems are being enhanced to the maximum efficiency.</p> <ul style="list-style-type: none"> • ERA Cost Monitoring System implemented <p>A first stage study on their Pavement Management System has been completed. A second stage Financial Management review is underway.</p> <ul style="list-style-type: none"> • Increased routine maintenance contracts implemented <p>APL III has provided TA to develop Trial OPRC Maintenance Contract. The consultant has submitted all deliverables to ERA and the service is complete.</p> <ul style="list-style-type: none"> • Urban roads constructed <p>Some 670 kilometers of urban roads have been constructed since FY09 by ULGDP.</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> • Road Sector Development Program APL III • Road Sector Development Program APL IV • Transport Sector Project In Support of RSDP4 • Road Sector Support Project RSSP • Urban Local Government Development (ULGDP) • Local Govt Dev Project II • Productive Safety Nets III (PSNP) • Agricultural Growth Program (AGP) • Promoting Basic Services Phase III • Pastoral Community Development (PCDP) III <p>Knowledge Services</p> <ul style="list-style-type: none"> • Urban & Metropolitan Transport Review • Road Construction Cost Study • Systematic Country Diagnostics • Rural Accessibility to Solve Development Constraints <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> • Rural Infrastructure Support (PforR) • Expressway Development • Urban Transport & Planning <p>Completed Financing</p> <ul style="list-style-type: none"> • Pastoral Community Development Project II • Protection of Basic Service (PBS) II <p>Partners</p> <ul style="list-style-type: none"> • AfDB, EU, JICA, DFID, China, BADEA

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
<ul style="list-style-type: none"> • Low coverage rates, particularly in emerging regions • Utility inefficiencies largely due to underpricing and distribution losses (typically around 40% compared with 33% in other LICs in Africa) and above good practice levels (below 23%) for developing countries (AICD, 2008). • Inadequate assessment, development and management of groundwater potential 	<p>Outcome 3.3 – Increased access to improved water and sanitation services in urban and rural areas</p> <p><i>Indicator 10: Additional people provided with improved water resources in selected urban and rural areas</i> <u>Baseline:</u> zero <u>Target:</u> 4.2 million</p> <p>Progress to date:</p> <p>Since 2010/2011, the total of beneficiaries from the construction or rehabilitation of water utilities has been 8.63 million, surpassing the end-FY16 target by 105%.</p> <p><i>Indicator 11: Additional rural/urban people with improved sanitation (latrines)</i> <u>Baseline:</u> zero <u>Target:</u> 4.5 million</p> <p>Progress to date:</p> <p>More than 3.8 million people have benefited from improved institutional latrines and sanitation in urban and rural areas since 2011.</p>	<ul style="list-style-type: none"> • User groups’ capacities to operate and maintain water sources strengthened <p>WSSP has established the woreda water and sanitation teams in 224 woredas; In addition, the program has established autonomous water boards in 50 town/urban areas. These capacity building approaches have influenced the GOE’s policy on the sector and other Development Partner Programs.</p> <ul style="list-style-type: none"> • Urban water utilities’ capacities to manage and implement business plans strengthened <p>So far, all participating cities (Addis and 5 other secondary cities) have developed their business plans and been implementing them.</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> • Urban Water Supply & Sanitation (UWSS) • Water Supply, Sanitation and Hygiene (WASH) • Local Govt Dev Project II • Urban Local Govt Development (FY08) • Promoting Basic Services Phase III • Pastoral Community Development (PCDP) III <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> • Regional Pastoral Livelihoods Resilience Additional Financing for Ethiopia • Rural Infrastructure Support (PforR) <p>Knowledge Services</p> <ul style="list-style-type: none"> • Water and Sanitation Economic Benefit Analysis <p>Completed: Financing</p> <ul style="list-style-type: none"> • Water Supply and Sanitation Project <p>Partners</p> <ul style="list-style-type: none"> • WSP, Finland, DFID, Italian Cooperation, UNICEF, AfDB, EU, France

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
CPS Strategic Objective 4: Enhance Regional Integration			
GTP Goals: <ol style="list-style-type: none"> Export power to neighboring countries Produce sufficient food crops and high value products for international markets Integrate into the multilateral trading system through, <i>inter alia</i>, completing WTO accession, strengthening regional trade integration with IGAD and COMESA, conclude EPA with EU. 			
<ul style="list-style-type: none"> Limited generation capacity for power export to region 	<p>Outcome 4.1 – Improved Eastern Africa Power Pool Mechanism</p> <p><i>Indicator 12: Total quantity of electricity exported in GWh</i> <u>Baseline:</u> 33 GWh (to Sudan) <u>Target:</u> 1401 GWh (569 to Djibouti + 832 to Sudan)</p> <p>Progress to date: 472 GWh were exported to Sudan (322 GWh) and Djibouti (150 GWh) in 2013.</p>	<ul style="list-style-type: none"> Transmission line from Ethiopia power grid to Kenya designed and under construction by 2016. <p>There is no result yet. This project is in the bidding process. The Ethiopia-Kenya interconnector is expected to begin trading with 7,000 GWh power exported to Kenya at the beginning of the 2017.</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> Eastern Electricity Highway Project <p>Planned for FY15 and FY16</p> <p>Knowledge Services</p> <ul style="list-style-type: none"> Systematic Country Diagnostics <p>Completed Financing</p> <ul style="list-style-type: none"> ET/SU Interconnection <p>Partners</p> <ul style="list-style-type: none"> AfDB, AFD (France)
<ul style="list-style-type: none"> Inefficient dissemination of agricultural technologies across countries Weak regional capacity of the regional centers of excellence High impact of transboundary pests and diseases. 	<p>Outcome 4.2 – Enhanced involvement in regional agriculture technology generation and dissemination</p> <p><i>Indicator 13: Number of existing and new technologies from Ethiopia disseminated in more than one EAAPP country compared to plan</i> <u>Baseline:</u> 37 <u>Target:</u> 82</p> <p>Baseline and target value were revised upwards to reflect the implementation progress. Progress to date: So far, a total of 57 technologies have been disseminated from Ethiopia to other program countries (Kenya, Tanzania and Uganda), including 45 existing and 12 new technologies. In terms of the whole EAAPP, the progress to date (105 in total) is much more than the target value and a good indication of the exchange of improved technologies.</p>	<ul style="list-style-type: none"> Regional Center of Excellence in Wheat established in Ethiopia. <p>WRCoE is established to organize and lead the wheat research and development efforts in the regions. Improved wheat technologies and germplasm of improved wheat varieties are shared with the program countries. In addition, as a regional resource and knowledge hub, it also provides training on wheat production techniques both for technical staff and for beneficiaries in Ethiopia and the region.</p> <ul style="list-style-type: none"> Continued cooperation of Ethiopia agricultural research and extension with regional agricultural institutions (ASARECA). <p>A total of 27 regional agricultural research projects were implemented as of FY13</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> Eastern Africa Agricultural Productivity <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> Regional Pastoral Livelihoods Resilience Additional Financing <p>Knowledge Services</p> <ul style="list-style-type: none"> Systematic Country Diagnostics <p>Partners</p> <ul style="list-style-type: none"> USAID/VOCA (wheat value chain), Japan (rice), CGIAR (wheat, rice and cassava).

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
PILLAR 2: ENHANCED RESILIENCE AND REDUCED VULNERABILITIES			
CPS Strategic Objective 5: Improved Delivery of Social Services			
GTP Goals: <ol style="list-style-type: none"> 1. Improve access to and quality of health services: <ul style="list-style-type: none"> • Maternal mortality rate (per 100,000) decreased from 590 in 2010 to 267 in 2015 • Under five mortality rate (per 1000) decreased from 101 in 2010 to 67 in 2015 2. Improving access and quality of education: <ul style="list-style-type: none"> • Secondary gross enrollment ratio increased from 38.1 % in 2010 to 75% in 2015 			
<p>Despite some good progress in reducing child mortality, Ethiopia is facing significant challenges in scaling up evidence based interventions to reduce maternal deaths. The gains made in child mortality reduction also need to be sustained and further enhanced.</p> <ul style="list-style-type: none"> • Lack of 24/7 delivery services in most health facilities, especially, health centers • Shortage, high turnover and insufficient skills of midwives and delivery attendants • High unmet need for family planning 	<p>Outcome 5.1 – Increased Access to Quality Health Services</p> <p><i>Indicator 14: Penta 3 vaccination coverage</i> <u>Baseline (2013): 65.7 %</u> <u>Target(2016/2017): 75.7%</u></p> <p>Progress to date: Baseline and target in CPS were updated to 65.7% in 2012 cluster survey, 75.7% accordingly at end of FY16. Next survey is scheduled to be conducted in 2015.</p> <p><i>Indicator 15: Proportion of births attended by skilled health personnel</i> <u>Baseline (2014): 10%</u> <u>Target (2015/2016): 18%</u></p> <p>Progress to date: Data from the 2014 Mini DHS Preliminary Report demonstrates that the proportion of births delivered in a health facility is 15% in 2014.</p> <p><i>Indicator 16: Contraceptive Prevalence Rate among currently married women:</i> <u>Baseline: 29%;</u> <u>Target : 35%</u></p> <p>Contraceptive prevalence among currently married women has increased from 29% in 2011 to 42% in 2014 (2014 Mini DHS Report.).</p>	<ul style="list-style-type: none"> • Increase in Health centers having functional cold chain equipment (%) • Increase in Health Centers providing round the clock delivery services (%) • Reduced stock out of long acting contraceptives at health facilities (%) <p>The on-going Health Facility Survey is going to establish the baseline data on above milestones and help monitor the progress. The results are expected by end 2014.</p> <ul style="list-style-type: none"> • Growth, monitoring, promotion (GMP) and community conversations conducted regularly <p>As of 2014, 46% of children (0-23 months) have been participating in monthly GMP sessions.</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> • Health MDG Support (PforR) • Promoting Basic Services (PBS) Phase III <p>Knowledge Services</p> <ul style="list-style-type: none"> • Social Health Insurance • Case Study for Universal Health Care <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> • Health Sector Additional Financing <p>Knowledge Services</p> <ul style="list-style-type: none"> • Health Finance Programmatic Work • Health and Education Service Delivery Quality <p>Completed Financing</p> <ul style="list-style-type: none"> • Protection of Basic Services (PBS) Phase II • Nutrition SIL <p>Knowledge Services</p> <ul style="list-style-type: none"> • PSIA of the PBS • Health Results Innovation • IE of the health facility performance incentives • China/Ethiopia/WB HealthCollab. (FY12) • International Health Partnerships Program • ICT for Transformation

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
			<p>Partners</p> <ul style="list-style-type: none"> All partners supporting the Health Sector Development Program IV and in particular those financing the MDG performance fund (DFID, Spanish Corporation, Italian Corporation, Irish Aid, UNFPA, UNICEF and WHO).
<ul style="list-style-type: none"> Low quality of education resulting from, inter alia, inadequate number of teachers, insufficient number of qualified teachers, inadequate number of textbooks. 	<p>Outcome 5.2 – Increased Access to Quality Education</p> <p><i>Indicator 17: Percentage of students attaining basic competency</i></p> <p><u>Baseline (2006/07):</u> Grade 4: Reading in English 48%; Mathematics 46% Grade 8: English 40%; Mathematics 40%</p> <p><u>Target (2015/16):</u> Grade 4: Reading in English 58%; Mathematics 56% Grade 8: English 50%; Mathematics 50%</p> <p>Progress to date:</p> <p>Grade 4 English 40% Math 44%</p> <p>Grade 8 English 45% Math 39%</p> <p>Remains a major challenge: Results from national assessment tests showed that the percentage of students performing at below the Basic Proficiency level has increased in Grade 4 for both English and Math and in Grade 8, for Math from 2006/2007 to 2011/2012.</p> <p>The “Reading in mother tongue” components were revised to “Reading in English” due to the lack of data.</p>	<ul style="list-style-type: none"> Increased primary completion rate Primary completion rates (PCR) have increased consistently particularly for female student. Between 2006/2007 and 2011/2012, the primary school completion rate (grade 8) has increased from 41.7% to 52.7%. Improved primary pupil to textbook ratio <p>The student to textbook ratio is estimated at 1:1.3 on average for core courses in primary education, at 1:1.4 for math and sciences courses in secondary education, at 1:1.2 for other core courses; all exceeding the 1:1 target.</p> <ul style="list-style-type: none"> Increased percent of primary teachers with appropriate qualification and teacher/pupil ratio <p>Percent of qualified primary teachers (i.e. teachers with at least a certificate qualification) has increased from 47.2% in FY12 to 64.7% in FY14.</p> <p>From FY12 to FY14, teacher/pupil ratio (Grade 5-8) has increased from 1:51 to 1:49.</p>	<p>On-going Financing</p> <ul style="list-style-type: none"> ET GEQIP II Promoting Basic Services Phase III <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> Basic Service Delivery <p>Knowledge Services</p> <ul style="list-style-type: none"> Education Sector Financing Education Learning Achievement Health and Education Service Delivery Quality <p>Completed Financing</p> <ul style="list-style-type: none"> Protect. Basic Serv. Phase II (FY09) General Education Quality Improvement Project - APL 1 EFA FTI CF Grant 2 - GEQIP APL 1 <p>Knowledge Services</p> <ul style="list-style-type: none"> Secondary Education ICT for Transformation <p>Partners</p> <ul style="list-style-type: none"> Global Partnership for Education, DFID, Finland, Italian Development Cooperation, USAID, JICA, UNICEF, Russia.

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
CPS Strategic Objective 6: Comprehensive Social Protection and Risk Management			
GTP Goals: <ol style="list-style-type: none"> 1. Reduced number of household participating in productive safety net program from 7.8 million in 2010 to 1.3 million in 2015 2. Reduce stunting prevalence among children from 46% in 2010 to 37% in 2015 3. Improved disaster management and mitigation, enhanced early warning information system, disaster risk profiling introduced at woreda level and improved assessment tools 4. Area under community based natural resource management increased from 3.7 to 7.7 million ha. 5. Food reserve increased to 3 mln metric tons 			
<ul style="list-style-type: none"> • High level of vulnerability for the rural poor, due to repeated climatic shocks, macroeconomic shocks, health and nutrition risks, conflict and environmental degradation coupled with climate change. This has resulted in a large number of people living below the food poverty line. 	<p>Outcome 6.1 – Enhanced resilience of vulnerable households to food insecurity</p> <p><i>Indicator 18: Average net number of months of household food insecurity</i></p> <p><u>Baseline</u> (2014): To be established <u>Target (2016)</u> : PW: 3.2</p> <p>Progress to date: According to 2012 PSNP/HABP Impact Evaluation, average months of food insecure reported by PSNP households has reduced to 2.16 months among beneficiaries participating in public works (PW), and 1.87 in direct support (DS).</p> <p>Replacement Indicator: Average net number of months of household food insecurity when PSNP transfers are excluded. To be assessed through impact evaluation using difference-in-difference methodology to isolate program impacts.</p> <p>Target for PW clients is 3.20 months in 2016, reflecting the addition of new households which will lower the average values.</p>	<p>Increasing number of PSNP clients/households:</p> <ul style="list-style-type: none"> • able to plan ahead on the basis of program transfers A 10% increase from 27% to 37% clients/households; • reporting direct benefit from community assets A 2% increase from 82.2% to 84.1%; • reporting that they have developed an additional income generating activity attributable to the program A 29% increase from 36% to 65%; • Transfers received that have an average value of at least 15 kg of grain per month A 35% increase from 0 to 35%. The original milestone was replaced to better reflect PSNP operation. 	<p>On-going Financing</p> <ul style="list-style-type: none"> • Agricultural Growth Program (AGP) • Pastoral Communities Development Program (PCDP) III • Nutrition Project • Health MDG Support Program • Sustainable Land Management Project • Sustainable Land Management Project-II • Tana and Beles Integrated Water Resources Development Project • Productive Safety Nets (PSNP) III • Promoting Basic Services Phase III • Irrigation & Drainage SIL • Ethiopia Geothermal Sector Development Project • GFDRR Programmatic Support to Ethiopia Disaster Risk Management Country Plan • GFDRR Support of Ethiopia –DRM in Capacity Building for Disaster Preparedness <p>Knowledge Services</p> <ul style="list-style-type: none"> • Public Expenditure Review • Urbanization Review • Programmatic Advisory Services to the CRGE Facility (Climate) • Climate Innovation Center (InfoDev) • Strengthened RED&FS Coordination (Agriculture) • Land Administration

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
<ul style="list-style-type: none"> Persistence of systemic limitations and gaps in the DRM system; Inadequate speed of the flow and exchange of early warning information and its quality Lack of disaster profiles of vulnerable Woredas for a design of relevant program interventions; Limited capacity of the government in the formulation of disaster recovery (rehabilitation and reconstruction) plan. 	<p>Outcome 6.2 – Increased Adoption of Disaster Risk Management Systems</p> <p><i>Indicator 19: Number of woredas with functional connectivity, Disaster Risk Profiles and Contingency Plans</i></p> <p><u>Baseline:</u> zero <u>Target:</u> 100</p> <p>So far, GFDRR Disaster Risk Profiles are ready in 35 woredas and contingency plans are ready in 22 woredas. Moreover, under PCDP II project, the Pastoral Early Warning System has been active in 122 woredas in collecting, analyzing and interpretation early warning data for disaster management purposes.</p> <p>The progress on building up functional connectivity in woredas was stuck in procurement issues and is likely to be completed by end June.</p>	<ul style="list-style-type: none"> WoredaNet service and LANs installed in Woreda, Regional, Strategic Warehouses and DRMFSS and connectivity functionalized; Under progress, likely to be completed by June end. Improved speed of the flow and exchange of EW information; Under progress, likely to be completed by June end. Woreda Disaster Risk Profiles developed, endorsed and posted online; A total of 35 DRPs have been completed and available online. Woreda level contingency plans prepared and endorsed. 22 out of target 35 completed under GFDRR. Number of Government Staffs(Federal and Regional) trained in Post Disaster Needs Assessment Baseline: zero Target: 50 Post Disaster Needs Assessment (PDNA) training completed in June 2012; More than 50 officials were trained. 	<p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> Agricultural Growth Program (AGP) II Regional Drought Response Program Productive Safety Nets Program Phase IV DRM Program/Scalable Safety Nets Regional Pastoral Livelihoods Resilience Additional Financing for Ethiopia Basic Service Delivery <p>Completed Financing</p> <ul style="list-style-type: none"> Pastoral Community Development Project II Protection of Basic Service (PBS) II <p>Knowledge Services</p> <ul style="list-style-type: none"> Poverty Mapping Trends of Well-being Profile of Well-being Social Protection Expanding rural ICT access Decentralized Service Delivery SP HNP ED <p>Partners</p> <ul style="list-style-type: none"> EU, UNDP, WFP, UNDP
<ul style="list-style-type: none"> In many parts of the country the land base has been severely degraded through erosion and unsustainable land use practices. Consequently land productivity has declined and rainfall infiltration has fallen resulting in a significant negative impact on agricultural GDP and food security. 	<p>Outcome 6.3 – Sustainable natural resource management and resilience to climate change</p> <p><i>Indicator 20: Area (ha) under sustainable land and water management practices in selected watersheds (PSNP, SLMP, Tana & Beles, AGP)</i></p> <p><u>Baseline</u> (2010): zero <u>Target:</u> 1,000,000</p> <p>With the Bank's support, the cumulative areas since FY09 with improved natural resources management practices have reached 651,775 ha.</p>	<ul style="list-style-type: none"> Increasing percentage of public works reaching satisfactory standards and sustainability ratings The satisfaction rates with public works and its sustainability has increased by 9% since 2009, reaching at 94%. Increasing percentage of public works with an established management mechanism at completion 93% of public works management mechanism has been established at completion, which has been consistent with previous years' levels. 	

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
FOUNDATION: GOOD GOVERNANCE & STATE BUILDING			
GTP Goals: <ol style="list-style-type: none"> All government institutions improve their institutional setup and working systems (BPR, BSC) to become more effective. All government institutions will fully implement effective and transparent financial systems including, auditing and accounting systems, and standards (program budgeting, IFMIS, standards on accounting and auditing and financial laws related with the reform). The established system for participation and the level of citizens' and community-based organizations' participation in development process at all levels. Clearance rate of courts meets international standards. 			
<ul style="list-style-type: none"> Capacity limitations at all levels of government, particularly at Regional, Woreda and Kebele level, impacting on ability of decentralized jurisdictions to deliver public services Under-developed culture of performance measurement, appraisal and management in the civil service at all levels 	<p>Outcome 7.1 – Improved Public Service Performance Management and Responsiveness</p> <p><i>Indicator 21: Balanced Score Card (BSC) implemented measuring both organizational and individual performance</i></p> <p><u>Baseline:</u> Federal ministries: zero Regions: zero</p> <p><u>Targets:</u> Federal ministries: all Regions: 4 big regions¹³</p> <p>Progress to date: Federal ministries: all Regions: 4 big regions</p> <p><i>Indicator 22: Percent of citizens confident that local government will address their service quality issues in key areas</i></p> <p><u>Baseline:</u> Water: 65% Health: 58%</p> <p><u>Targets:</u> Water: 70% Health: 65%</p> <p>Progress to date: Water: 68% Health: 43% (2013)</p>	<ul style="list-style-type: none"> BSC studies completed for all ministries and regions <u>Baseline:</u> Federal: All ministries Regions: 4 big regions <u>Target:</u> Federal: All ministries Regions: 7 regions <p>The performance management system, known as the Balanced Score Card (BSC), is now being implemented in 145 federal and over 270 regional offices.</p> <ul style="list-style-type: none"> Municipal service standardization in place Municipal service delivery standards have been established in all participating 18 ULGs under ULGDP as of FY14. Strengthening complaint handling focal points Complaint handling focal points at Woreda and regional level have been established. Capacity development programs in basic service delivery for woredas and kebeles implemented The sub-program Urban management capacity building of PSCAP aimed to enhance the capacity of municipalities and 	<p>On-going Financing</p> <ul style="list-style-type: none"> PBS Social Accountability Program II Urban Local Govt Development Local Govt Dev Project II Promoting Basic Services Phase III Ethiopia: Extractive Industries Transparency Initiative (EITI) Implementation <p>Knowledge Services</p> <ul style="list-style-type: none"> Public Expenditure Review Procurement Value Chain Analysis <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> Strengthening Public Expenditure Management Project Public Financial Management <p>Knowledge Services</p> <ul style="list-style-type: none"> Systematic Country Diagnostics Public Sector Analysis EITI CSO Support <p>Completed Financing</p> <ul style="list-style-type: none"> Public Sector Capacity Building – PSCAP

¹³ Four big regions include Oromia, Amhara, Tigray and SNNP.

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
	<p>Results from WCBS V show that, from 2010 to 2013, there was a significant decline in confidence among citizen respondents that the concerns they raise regarding health service quality will be addressed, from 58% to 43%, while confidence in water service has slightly increased from 65% to 68%.</p>	<p>rural local government in the delivery of services; ULGDP is now building the capacity of municipalities.</p>	<p>Knowledge Services</p> <ul style="list-style-type: none"> • PEFA Update • Public Sector Reform – Building the Developmental State • Staff Turnover Study • Diagnosing Corruption • Woreda and City Benchmarking Survey • Corruption Perception Survey of Foreign Investors in Ethiopia • Fiscal Decentralization: Vertical Share • Open Data Readiness Assessment • PFM Reports (Woreda level) • IGTF Transfers in Ethiopia • Decentralization and Basic Service Delivery • Analysis of Urban Local Government Fiscal Position
<ul style="list-style-type: none"> • Weak implementation of consultation framework on development needs between woreda and kebele administrations and citizens 	<p>Outcome 7.2 – Enhanced space for citizen participation in the development process</p> <p><i>Indicator23: Number of woredas that:</i> <i>i) facilitate the use of Social Accountability tools; ii) have developed joint action plans for service quality improvement</i></p> <p><u>Baseline(FY11):</u> i) 50 ii) NA</p> <p><u>Target(FY16):</u> i) 320 ii) 300</p> <p><u>Progress to date (FY13):</u> i) 223 ii) 80</p> <p>For the remaining CPS period, citizen participation in service delivery needs to be enhanced. With the completion of PSCAP, this outcome is supported by the PBS-ESAP2 and ULGDP. The PBS-ESAP2 aims to ensure the implementation of social accountability (SA) tools for responsive and accountable public basic services delivery, by empowering citizens in the planning, implementation and monitoring of basic services. The main SA tools promoted include: a community scorecard in Health, participatory planning and budgeting in Education, Citizen Report Card in Water and Sanitation, etc.</p>	<ul style="list-style-type: none"> • Regular kebele meetings held on planning and budgeting with citizens’ participation <p>In rural areas, PSCAP supported the following: i) expanding the number of kebele council members to at least 300 in order to ensure wider representation in grassroots assemblies; ii) establishing over 16,663 kebele inspection and supervision teams consisting of kebele level CSOs and council members charged with ensuring participation of citizens in planning as well as monitoring and evaluation through voluntary public meetings; and iii) establishing bi-annual public meetings with communities on a voluntary basis.</p> <p>In urban areas, by 2013, all 18 participating urban local governments had updated their capital investment plans, asset management plans, and revenue enhancement plans.</p> <ul style="list-style-type: none"> • Cities prepare three-year rolling capital investment plans with participation of citizens <p>Citizen participation in local investment planning is now routine across all 18 participating cities; Number of citizen groups taking part in the annual planning process has been doubled from 226 in 2008 to 521 in 2012.</p>	<p>Partners</p> <ul style="list-style-type: none"> • DFID, Italy, EU, AfDB, EU, Irish Aid
<ul style="list-style-type: none"> • Limited public access to government information at all levels 	<p>Outcome 7.3 – Enhanced public financial management, procurement, transparency and accountability</p>	<ul style="list-style-type: none"> • Annual Financial Statement of Government of Ethiopia continues to be produced within six months after the 	

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM (FY15-FY16)
<ul style="list-style-type: none"> • Oversight and Accountability institutions are weak. • External audit coverage is weak at federal and regional levels. • Internal audit is weak across the country and the oversight committees at the Federal Parliament and the Regional Councils have only recently been established and empowered. • Lack of transparency in award of contracts by regions and woredas • Weak procurement system at zonal and woreda levels • Shortage of procurement and contract management capacity • Lack of any formal accountability mechanisms between public institutions and citizens 	<p><i>Indicator 24: Improved PFM performance at Federal & regions</i> <u>Baseline:</u> PEFA Score of 2.83 out of 4 in 2009 for the Federal Government <u>Target:</u> PEFA Score of 3.1 (top 10% of countries in the Africa Region (2011))</p> <p>Progress to date: PEFA score of 2.98 out of 4 in 2014 for the Federal Government.</p> <p><i>Indicator 25: Citizens' Charters in place across public service at all levels of government</i> <u>Baseline:</u> Federal: one (Ministry of Civil Service) Regions: zero <u>Target :</u> Federal : All federal Ministries Regions : 4 big regions</p> <p>Progress to date: Citizens' Charters have been adopted by all federal ministries and in 4 big regions.</p> <p><i>Indicator 26: Percent of regional institutions (auditees) with annual financial audits</i> <u>Baseline:</u> 30% <u>Target:</u> 50% The baseline and target values were updated by the latest PEFA report.</p> <p>Progress to date: Percent of audit coverage at the regional level was 45% in FY13.</p>	<p>end of the FY.</p> <p>There is considerable improvement in the timeliness of draft financial statements to CAG. For 2011, 2012 and 2013, financial statements were submitted to the CAG 3-4 months after the end of the fiscal year.</p> <ul style="list-style-type: none"> • Public Accounts Committees / Budget and Finance Committees are established and functional at the Federal Parliament / Regional Councils / Woreda and City Councils at least in the 4 big regions <p>All 4 big regions have established Public Accounts Committees and Budget and Finance Committees.</p> <ul style="list-style-type: none"> • Ongoing programs for strengthening training institutions to deliver training in IT, PFM, procurement, revenue and taxation. <p>Training programs on IBEX for accounts, accounting reform, internal audit, procurement and budget reform have been provided to 47,012 trainees. Performance was 265% of the original target planned under PBS II PFM component.</p> <ul style="list-style-type: none"> • IBEX system is rolled out to 800 woredas and cities. <p>IBEX system has been rolled out to 873 woredas and cities.</p> <ul style="list-style-type: none"> • Format for citizens charter developed and training provided <p>The Ministry of Civil Service pioneered first ever Citizen's Charter in 2012. Subsequent consultation and training workshops with sectors and regions to roll out the system at all levels. 14 federal ministries have Citizen's Charters and initiated their publication.</p>	

Annex 2: Revisions to Results Framework Compared to 2012 Version

	Outcomes	Indicators	Milestones
1.1	Structural and macroeconomic policies are conducive to sustain internal and external balance	No change	No change
1.2	Increased domestic resource mobilization	Indicator on “Share of tax revenue in GDP” was dropped due to the absence of Bank support in this area. A new indicator was introduced to measure the increase of municipal revenue collected by urban local governments.	No change
2.1	Increased agriculture productivity and marketing in selected areas	Baseline and target values of Indicator 4 were revised by the Central Statistical Agency (CSA) survey. Baseline was adjusted to 5,790 ETB from 7,176 ETB per household; Target was to 7,064 ETB from 8,731 ETB per household.	One milestone on IFC Ethiopian Coffee added to capture the project results
2.2	Increased competitiveness in manufacturing and services.	Indicator 5 was revised to reflect closure of the project from which it was originally drawn, and take account of a new project.	No change
2.3	Increased MSE access to financial services.	No change	No change
3.1	Increased access to electricity.	Baseline and target of Indicator 7 were adjusted downwards to change focus from country level progress to the progress on WBG-supported operations: i. Baseline was reset to zero; ii. Target values of people with access to electricity were adjusted to 1.7 million for on-grid and 250,000 for off-grid connection.	No change
3.2	Improved roads, and transport infrastructure.	Baseline and target values of Indicator 8 were adjusted downwards to change focus from country level progress to the progress on WBG-supported operations: Target on federal road constructed or rehabilitated was reset to 1,008km, approximately 10% of the GTP target. This value is in proportion to the WBG’s funding of the transport sector. Similarly, target on rural road constructed was reset to 1,122 km.	One milestone added to capture the result in urban road construction

	Outcomes	Indicators	Milestones
3.3	Increased access to improved water and sanitation services in urban and rural areas.	The measurement unit of indicator 11 was revised to the realistic level by changing the “households” to “people”.	No change
4.1	Improved Eastern Africa Power Pool mechanism.	The indicator on hydropower generation was replaced by “Total quantity of electricity exported in GWH” due to the changes of WBG programs.	Milestone on Halele-Werabesa HP Project was dropped along with the project
4.2	Enhanced involvement in regional agriculture technology generation and dissemination.	Baseline and target value on indicator 13 were revised upwards to reflect the implementation progress; from “zero” to “37” and “three” to “82” respectively.	No change
5.1	Increased access to quality health services.	Baseline value on “Penta 3 vaccination coverage” was established as 65.7% according to the 2012 cluster survey; accordingly, target was updated to 75.7%.	No change
5.2	Increased access to quality education.	The “Reading in mother tongue” components of indicator 17 on students attaining basic competency were revised to “Reading in English” due to the lack of data.	No change
6.1	Enhanced resilience of vulnerable households to food insecurity.	Indicator on PSNP household food security was refined as “Average net number of months of household food insecurity” to measure the progress that is attributed to PSNP IV in the rest of CPS period. The baseline value is to be assessed through a forthcoming impact evaluation. Target for beneficiaries participating in Public Work is 3.20 months in 2016.	One milestone was replaced by “Transfers received that have an average value of at least 15 kg of grain per month” to better reflect PSNP operation.
6.2	Increased adoption of Disaster Risk Management systems.	No change	No change
6.3	Sustainable natural resource management and resilience to climate change.	No change	No change
7.1	Improved public service performance management and responsiveness.	No change	No change

	Outcomes	Indicators	Milestones
7.2	Enhanced space for citizen participation in the development process.	Indicator on citizen perceptions about consultations by administration officials was replaced and the new indicator has two components measured by number of woredas that: i. facilitate the use of Social Accountability tools; ii. have developed joint action plans for service quality improvement, to reflect the progress on the ongoing operations.	No change
7.3	Enhanced public financial management, procurement, transparency and accountability.	The baseline and target values on Indicator 26: Percent of regional institutions (auditees) with annual financial audits were updated by the latest PEFA report, from 26% to 30% and 35% to 50% respectively.	No change

Annex 3: CPPR 2012: Key Findings and Actions

Finding	Subsequent Action
High and rapid staff turnover endemic, which undermines project implementation capacity, at all levels of government, reflecting difficulties in attracting or retaining adequately skilled staff, especially for FM and procurement.	Solution requires (i) comprehensive civil service reform covering the pay and incentive structure as well as job recognition and promotion; and (ii) Professional associations in accounting and procurement. Actions include: (a) WBG knowledge products supporting on-going GoE-funded civil service reforms, including study on staff turnover. (b) Establishment of Ethiopian Institution of Procurement & Asset Managers launched. (c) Law establishing an accountancy regulator and professional body of certified accountants approved by Parliament May 2014. (d) Ethiopia Management Institute has provided training in procurement to over 500 staff. (e) Training materials have been prepared and FM training delivered at Civil Service university. (f) Continuing recruitment of short term support for FM and procurement.
At Regional Level: slow implementation and follow up	Coordination units at regional level for funding of decentralized operations. GoE/MoFED quarterly portfolio reviews--first scheduled July 2014.
Insufficient sharing of knowledge and experience	Finance managers club (network) has been established. Sectoral meetings started to exchange experience. Meetings on transport and energy sector held. The next sectoral review meeting scheduled is on Agriculture.
Weak project management	Use of readiness filters by GoE for all projects being considered. Ensure clear steps and service standards for preparation and effectiveness process. Avoid effectiveness conditions imposed on projects. Encourage early preparation of key project documents (e.g., procurement and financial manuals; feasibility studies, safeguards documents) and start procurement process during preparation. Use of PPFs encouraged.
Cumbersome Financial Management procedures	Exploring with MoFED ways to simplify procedures in context of PFM reform.
Qualified and delayed audit reports	More frequent field visits and FM or procurement reviews by WBG staff. Outsource some of the audits to private sector. Refine MoFED monitoring systems to identify delayed reports.
At Regional and Woreda level: Significant cash and unsettled advances	Increased use of micro finance institutions as an alternative mechanism to administer cash at woreda level.
Dormant or inactive designated accounts	Training and hands-on assistance in preparing withdrawal applications for line Ministry staff. Regular reviews of project performance across all stakeholders (WBG, MoFED, Ministries).
Ineffective or weak internal audit and control functions	Initial Training on risk based audit given to 80 internal auditors with practical application in selected pilot ministries. Strengthen PFM reform on internal audit including professionalization of internal audit in government.
Different regional procurement standards	Procurement standards are under revision to harmonize between regions and federal authorities.
Disconnect between annual work plans and procurement plans	Not yet addressed.
Delays in procurement actions	Encourage advanced procurement actions, while WBG finance is being prepared. Simple and easy to understand guidelines and standardized manuals, including in the local language, under preparation. Procurement clinics with woredas focused on simple procurement procedures used at the local level. Service delivery standards, document quality assurance systems and accountability systems being developed to, inter alia, reduce delays in WB issuing "no objections."
Weaknesses in using M&E as an effective management tool	Not yet addressed.

Annex 4: Lending, FY 13 -14 (US\$ million)
(compared to program in CPS)

Project Name	Status	Amount US\$ m	Country Strategic Objectives under CPS						
			Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
FY13									
IDA									
Regional Eastern Africa Power Pool Project APL1 – EAPP	✓			X	X	X			
Transport Sector Project for RSDP4	✓	415		X	X				
Health MDG Support (PforR)	✓	100					X		
Promotion of Basic Services Phase III	✓	600	X				X		X
Education MDG Support (follow-up to GEQIP)	FY14	130					X		
Eastern Africa Pastoral Livelihoods Recovery and Resilience	Now FY15	25					X	X	
Pastoral Community Development III	FY14	110					X	X	
IFC									
Velocity		7		X					
FY14									
Water Supply, Sanitation and Hygiene (WASH) II	✓	205			X		X	X	
Roads Sector Project	✓	320		X	X				
Renewable Energy Project (Geothermal Development Project)	✓	178.5		X	X				
Urban Local Government Development (ULGDP) II	✓	380		X	X		X		X
Sustainable Land Management II	✓	50						X	
Competitiveness and Job Creation	✓	250		X	X				
IFC									
africaJUICE		3		X					
GTST Ethiopia		150		X					

Annex 5: Summary of Knowledge Services

	Country Strategic Objectives under CPS							
	Type (AAA or TA)	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Recently Completed:								
Economic Policy and Dialogue (Programmatic):								
Chinese FDI in Ethiopia	AAA		X					
Economic Update 1 (inflation and competitiveness)	AAA	X	X					
Economic Update 2 (savings and trade logistics)	AAA	X	X					
Economic Update 3 (export performance and competitiveness)	AAA	X	X					
Structural Change in Ethiopia: An employment perspective	AAA	X	X					
Non-Concessional Borrowing: First Semi-Annual Report	AAA	X						
Debt Management Strategy	TA	X						
Debt Management and Performance Assessment (DeMPA)	AAA	X						
Strengthening Public Debt Management Capacity	TA	X						
Poverty, Gender and Statistics (Programmatic):								
Poverty Mapping	AAA					X	X	
Trends of Well-being	AAA					X	X	
Profile of Well-being	AAA					X	X	
Decomposition of Gender Differentials in Agriculture	AAA					X	X	
Well-being and Ill-being Dynamics in Ethiopia – Policy Notes	AAA							
Statistics for Result Project	TA	X						
Public Sector and Governance (Programmatic):								
Public Sector Reform – Building the Developmental State	AAA							X
Civil Service Staff Turnover Study	AAA							X
Diagnosing Corruption in Ethiopia	AAA							X
Woreda and City Benchmarking Survey	AAA					X		X
Corruption Perception Survey of Foreign Investors in Ethiopia	AAA					X		X
Fiscal Decentralization: Vertical Share	AAA	X						X
Open Data Readiness Assessment	AAA							X
Public Financial Management								
PEFA Update	AAA							X
PFM Reports (Woreda level)	AAA							
IGTF Transfers in Ethiopia	AAA							
Protecting Services of the Bottom 40% (Programmatic):								
PSIA of the PBS	AAA					X		
FPD Policy Notes (Programmatic):								
SME Finance in Ethiopia	AAA	X	X					
Investment Climate from a Regional States Perspective I	AAA		X					
Skills for Competitiveness and Growth in Manufacturing	AAA		X				X	
IFC								
Warehouse Receipt Financing	TA							
National Business Agenda	AAA							
Social Protection								
Decentralization and Basic Service Delivery	AAA					X		X
Social Protection	TA						X	
Health and Education								
Health Results Innovation	AAA					X		X
IE of the health facility performance incentives	AAA							
Secondary Education in Ethiopia	AAA					X		
Other								
Disaster Risk Management	TA						X	
Analysis of Urban Local Government Fiscal Position	AAA							X

Ongoing:

IDA:								
Growth Study	AAA	X	X					
Poverty Assessment	AAA					X	X	
Public Expenditure Review	AAA	X		X		X	X	
Urbanization Review	AAA							
Social Health Insurance	TA					X		
Case Study for Universal Health Care	AAA					X		
Urban Transport Study	AAA		X	X				
Road Construction Cost Study	AAA		X	X				X
Programmatic Advisory Services to the CRGE Facility (Climate)	TA		X					
Climate Innovation Center (InfoDev)	TA		X					
Land Administration	TA		X					X
Strengthened RED&FS Coordination (Agriculture)	TA		X					
IFC:								
Finance Leasing	TA		X					
Geothermal Sector	TA			X				
Public-Private Dialogue	TA		X					
Trade Logistics	TA		X					
Tax Administration	TA	X	X					
Lighting Africa Ethiopia	TA		X					
Business Regulation	TA		X					
Planned for FY15 and FY16								
Systematic Country Diagnostics	AAA	X	X	X	X	X	X	X
Economic Update Series	AAA	X	X					
Return Migrant Study	AAA					X	X	
High Frequency Poverty Measurement	TA					X	X	
Public Sector Analysis (Programmatic)	AAA							X
Investment Policy	TA		X					
Investment Climate from a Regional States Perspective II	AAA		X					
Innovation Policy Note	AAA		X					
Education Sector Financing	AAA					X		
Education Learning Achievement	AAA					X		
Health Finance Programmatic Work	AAA					X		
Health and Education Service Delivery Quality	AAA					X		
Energy Sector Review	AAA		X	X				
Renewable Energy Resource mapping	AAA		X	X				
Water and Sanitation Economic Benefit Analysis	AAA		X	X				

Annex 6: Current WBG Portfolio for Ethiopia (as at September 9, 2014)

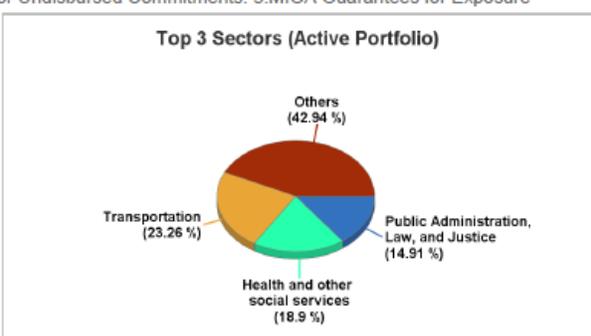
Population (millions) (2013)	94.1	IDA, Blend or IBRD	IDA
GNI (\$billions) (Atlas) (2013)	43.8	IDA 16 allocation(SDR)	
GNI per capita (\$) (2013)	470.0	% Change over IDA15	
GDP growth (%) (2013)	10.4%	Inflation Rate (%) (2013)	8.1%

Ranking in Doing Business Report (2013) 125 * Data as of : Sep 08, 2014 * IBRD/IDA Exposure Data as of : Jan 31, 2014

WBG	Net Commitments/ Committed (\$m) *	Undisbursed (\$m) *	Exposure (total sums disbursed & outstanding)(\$m)
IBRD	0.0 ¹	0.0	0.0 ⁴
IDA	5,357.6 ¹	2,884.3	3,748.0 ⁴
IFC	196.2 ²	8.1	188.1
MIGA			12.9 ³
World Bank Group	5,553.7	2,892.4	3,949.0

1.Net Commitments for active portfolio projects. 2.Outstanding balances or Undisbursed Commitments. 3.MIGA Guarantees for Exposure

IBRD/IDA	
Net Commitments(\$m)	# of projects in portfolio
5,357.6	23
Disbursements in FY15 (\$m)	% Undisbursed
25.6	53.8
# projects in FY15 pipeline	Of which Approved (YTD) (#)
4	
Commitments(\$m) in FY15 pipeline	Of which Approved (YTD) (\$m)
1,350.0	



World Bank Data as of : Sep 08, 2014

Current IFC Committed Portfolio												
IFC's own account (\$m USD)									Syndicated (\$m USD)		IFC AMC (\$m USD)	
Loan		Equity		Quasi Equity (LN & ET)		GT (incl. Trade Fin) and Risk Mgm		IFC Total	B-Loan		Quasi Equity (LN & ET)	
Exposure	Cmtd	Exposure	Cmtd	Exposure	Cmtd	Exposure	Cmtd	Cmtd	Exposure	Cmtd	Exposure	Cmtd
183.0	183.0	3.8	3.8	0.6	3.0	0.7	6.4	196.2	0.0	0.0		

IFC Investment Business - Top 5 Sectors (IFC Committed \$m USD)				IFC Advisory Services - Business lines (\$m USD funds managed)			
1	Chemicals	150.0		Access To Finance	2.1		
2	Nonmetallic Mineral Product Manufacturing	33.0		Investment Climate	0.2		
3	Agriculture and Forestry	6.4					
4	Oil, Gas and Mining	3.8					
5	Food & Beverages	3.0					2.3
6	All others	0.0					
Total		196.2					

IFC Data as of : Aug 31, 2014

MIGA		
	Currently Active	Total
# of Projects Guaranteed for Investment	2	3
Guarantees Gross Exposure (\$m)	12.9	16.8
Guarantees - Top Sectors		
Agribusiness	8.9	4.0
Manufacturing		

MIGA Data as of : Jul 31, 2014

Annex 7: Trust Fund Portfolio

Ethiopia: Trust Fund Approvals and Disbursements FY12-FY14 US\$ million

	FY13	FY14
RETF Commitments	802.5	276.9
RETF Disbursements	349.1	300.0
of which:		
- Co-financing	321.8	261.9
- Stand alone	27.3	38.2
BETF Disbursements	9.8	14.8
Total Disbursements	358.9	314.8

Disbursements (BETF, RETF) by Trust Fund Program

US\$ million

Program Type	Program Name	FY13	FY14
Free Standing	FREE-STANDING TFS FOR PREM		0.00
	FREE-STANDING TFS FOR SDN		0.10
	FREE STANDING - SINGLE PURPOSE TF	0.08	0.02
	FREE-STANDING TFS FOR AFR	0.41	
	FREE-STANDING TFS FOR DEC	0.34	0.54
	AFR POVERTY REDUCATION AND ECONOMIC MANA	0.85	0.28
	FREE STANDING - COFINANCING	9.79	
	AFR SUSTAINABLE DEVELOPMENT	15.07	22.60
	AFR HUMAN DEVELOPMENT	202.90	45.52
Programmatic	PROGRAM-FOR-RESULTS SUPPORT MDTF		0.05
	POVERTY & SOCIAL IMPACT ANALYSIS MDTF		0.01
	EDUCATION FOR ALL SUPERVISING ENTITY		0.07
	GENDER TRUST FUNDS		0.10
	STATISTICS FOR RESULTS TRUST FUND	0.04	0.06
	CITIES ALLIANCE	0.05	0.06
	KOREA GREEN GROWTH TRUST FUND		0.14
	COMPETITIVE INDUSTRIES AND INNOVATION		0.16
	DEBT MANAGEMENT FACILITY FOR LICs	0.09	0.09
	ENVIRONMENTALLY & SOC. SUSTAINABLE DEV.	0.09	0.01
	SCF - IBRD AS IMPLEMENTING AGENCY	0.12	0.02
	SOUTH-SOUTH EXPERIENCE EXCHANGE FACILITY	0.14	0.04
	BIOCARBON TECHNICAL ASSISTANCE TRUST FUN		0.28
	CARBON FUND	0.17	
	EXTRACTIVE INDUSTRIES TRANSPARENCY INITI	0.08	0.18
	ENERGY SECTOR MANAGEMEN ASSISTANCE PROGR	0.21	0.10
	TERRAFRICA LEVERAGING FUND	0.03	0.37
	FINANCIAL SECTOR REFORM & STRENGTH. INIT	0.26	0.13
	INSTITUTIONAL DEVELOPMENT FUND	0.24	
	PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY F	0.05	0.56
RUSSIA EDUCATION AID FOR DEVELOPMENT	0.18	0.41	

FOREST CARBON PARTNERSHIP FACILITY	0.48	0.36
RAPID SOCIAL RESPONSE PROGRAM	0.58	0.08
INFODEV	0.38	0.59
GLOBAL PARTNERSHIP ON OUTPUT-BASED AID	0.46	0.43
GLOBAL FACILITY FOR DISASTER REDUCTION & RECOV	0.56	0.40
ETHIOPIA: ASSESSMENT AND MEASUREMENT OF	0.38	0.45
ITALIAN FUND FOR CHILDREN & YOUTH IN WES	0.52	1.44
WATER AND SANITATION PROGRAM (WSP)	0.73	1.10
JAPANESE SOCIAL DEVELOPMENT FUND	0.57	1.03
GEF-IBRD AS IMPLEMENTING AGENCY	2.69	0.76
HEALTH RESULTS-BASED FINANCING	3.26	3.30
GAfsp SUPERVISING ENTITY	13.07	20.48
EDUCATION FOR ALL-FAST TRACK INITIATIVE	7.02	5.24
ETHIOPIA PROTECTION OF BASIC SERVICES	97.18	206.45

Grand Total	359.08	314.02
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Discrepancies due to rounding errors.

Annex 8: IFC and MIGA Portfolio

IFC Investment Portfolio (Committed and Outstanding as of July 31, 2014 in US\$ million)

Client	Sector	Amount
DMC	Nonmetallic Mineral Product Manufacturing	33.00
Ethiopian Coffee	Agriculture & Forestry	6.40
Allana Potash	Oil, Gas and Mining	3.46
Nyota Minerals	Oil, Gas and Mining	0.33
AfricaJUICE	Agriculture & Forestry	3.00
IPG SAK II	Other Petroleum & Coal Products	150.00
Total		196.19

MIGA Current Total Exposure (As of August 31, 2014 in US\$ million)

Total exposure is US\$16.9 million, covering:

Client	Fruitful Valley	National Cement Share Company	Africa Juice Tibila Share Company
Sector	Agribusiness	Manufacturing	Agribusiness
Investor Country	UK	British Virgin Islands	Netherlands/ South Africa
Gross Exposure	2.9	4	10
Type	Small Investment Program (SIP)	Non-SIP	SIP
Guarantee Holder	UniFruit Ltd	SGI Ethiopia Cement Limited	Industrial Development Corporation, Africa Juice BV

Annex 9: Ethiopia at a Glance

	Ethiopia	Sub-Saharan Africa	Low-income		
POVERTY and SOCIAL					
2012					
Population, mid-year (<i>millions</i>)	91.7	911	846		
GNI per capita (<i>Atlas method, US\$</i>)	380	1,350	590		
GNI (<i>Atlas method, US\$ billions</i>)	34.7	1,230	499		
Average annual growth, 2006-12					
Population (%)	2.6	2.7	2.2		
Labor force (%)	3.3	2.9	2.6		
Most recent estimate (latest year available, 2006-12)					
Poverty (% of population below national poverty line)	30		
Urban population (% of total population)	17	37	28		
Life expectancy at birth (<i>years</i>)	63	56	62		
Infant mortality (<i>per 1,000 live births</i>)	47	64	56		
Child malnutrition (% of children under 5)	29	21	22		
Access to an improved water source (% of population)	52	64	69		
Literacy (% of population age 15+)	39	60	61		
Gross primary enrollment (% of school-age population)	..	100	108		
Male	..	104	111		
Female	..	96	106		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1992	2002	2011	2012	
GDP (<i>US\$ billions</i>)	10.4	7.7	29.9	41.6	
Gross capital formation/GDP	10.7	27.3	27.9	34.6	
Exports of goods and services/GDP	3.2	12.7	17.0	14.0	
Gross domestic savings/GDP	6.3	13.2	12.8	16.4	
Gross national savings/GDP	12.9	22.8	28.0	28.3	
Current account balance/GDP	0.4	-4.5	-0.7	-6.7	
Interest payments/GDP	0.5	0.5	0.3	0.2	
Total debt/GDP	89.8	85.0	28.7	25.1	
Total debt service/exports	23.9	8.5	6.6	7.2	
Present value of debt/GDP	6.3	
Present value of debt/exports	44.0	
	1992-02	2002-12	2011	2012	2012-16
<i>(average annual growth)</i>					
GDP	5.0	9.9	7.3	8.5	..
GDP per capita	1.9	6.9	4.5	5.7	..
Exports of goods and services	17.3	10.1	31.7	-10.5	..

Development diamond*

Legend: — Ethiopia — Low-income group

Economic ratios*

Legend: — Ethiopia — Low-income group

	1992	2002	2011	2012
STRUCTURE of the ECONOMY				
<i>(% of GDP)</i>				
Agriculture	68.9	42.5	45.6	48.8
Industry	7.2	13.9	10.6	10.1
Manufacturing	2.8	6.0	3.9	3.6
Services	23.9	43.6	43.9	41.1
Household final consumption expenditure	86.5	71.0	78.6	76.6
General gov't final consumption expenditure	7.2	15.9	8.6	7.0
Imports of goods and services	7.6	26.9	32.1	32.2
	1992-02	2002-12	2011	2012
<i>(average annual growth)</i>				
Agriculture	2.8	8.0	5.2	4.9
Industry	6.4	10.8	23.8	12.5
Manufacturing	6.4	10.1	18.6	11.1
Services	8.0	12.1	5.4	11.3
Household final consumption expenditure	3.3	10.9	1.2	5.7
General gov't final consumption expenditure	15.2	1.9	0.8	-11.5
Gross capital formation	10.6	11.1	9.4	34.3
Imports of goods and services	16.1	10.9	2.2	8.7

Growth of capital and GDP (%)

Legend: — GCF — GDP

Growth of exports and imports (%)

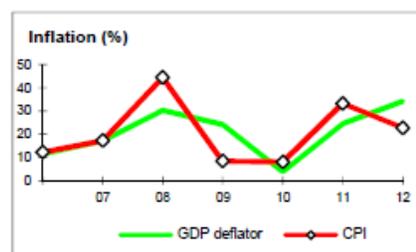
Legend: — Exports — Imports

Note: This table was produced from the Development Economics LDB database.

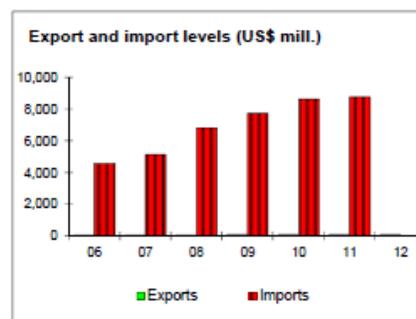
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

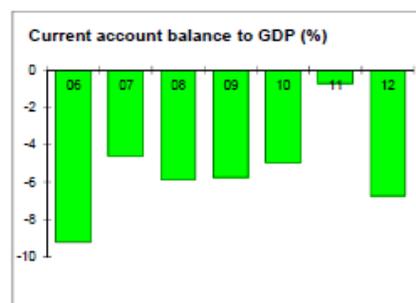
	1992	2002	2011	2012
<i>Domestic prices</i>				
<i>(% change)</i>				
Consumer prices	10.5	1.7	33.2	22.8
Implicit GDP deflator	15.5	-3.6	24.4	34.2
<i>Government finance</i>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	9.0	17.3	13.6	..
Current budget balance	-2.4	0.5	5.8	..
Overall surplus/deficit	-5.7	-9.0	-4.1	..


TRADE

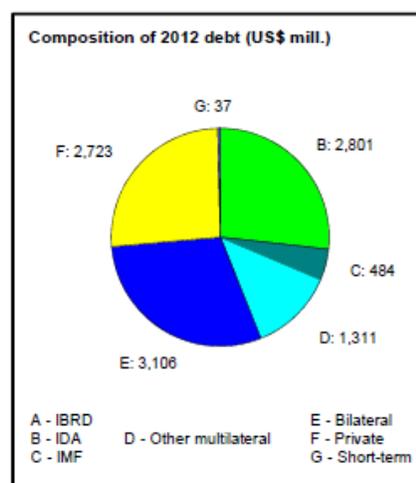
	1992	2002	2011	2012
<i>(US\$ millions)</i>				
Total exports (fob)	154	452	87	89
Coffee	81	163	453	..
Pulses and oil seeds	0	66	450	..
Manufactures	38	67	173	..
Total imports (cif)	875	1,696	8,750	..
Food	131	209	250	..
Fuel and energy	120	268	1,665	..
Capital goods	322	523	3,503	..
Export price index (2000=100)	121	84	140	..
Import price index (2000=100)	81	96	139	..
Terms of trade (2000=100)	148	87	100	..


BALANCE of PAYMENTS

	1992	2002	2011	2012
<i>(US\$ millions)</i>				
Exports of goods and services	453	983	5,333	5,963
Imports of goods and services	1,074	2,073	10,081	13,701
Resource balance	-621	-1,091	-4,749	-7,738
Net income	-86	-40	-70	-96
Net current transfers	747	783	4,607	5,034
Current account balance	40	-347	-211	-2,800
Financing items (net)	39	632	1,275	2,018
Changes in net reserves	-79	-285	-1,065	782
<i>Memo:</i>				
Reserves including gold (US\$ millions)	270	966
Conversion rate (DEC, local/US\$)	2.8	8.5	16.9	17.7


EXTERNAL DEBT and RESOURCE FLOWS

	1992	2002	2011	2012
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	9,356	6,559	8,604	10,462
IBRD	12	0	0	0
IDA	964	2,756	2,208	2,801
Total debt service	110	86	353	431
IBRD	8	0	0	0
IDA	13	17	23	28
<i>Composition of net resource flows</i>				
Official grants	887	566	2,729	2,350
Official creditors	184	594	1,077	1,524
Private creditors	80	-4	358	458
Foreign direct investment (net inflows)	0	255	627	279
Portfolio equity (net inflows)	0	0	0	0
<i>World Bank program</i>				
Commitments	150	369	383	2,028
Disbursements	112	465	430	599
Principal repayments	13	5	8	10
Net flows	99	460	422	589
Interest payments	8	12	15	18
Net transfers	92	447	406	571



Note: This table was produced from the Development Economics LDB database.

3/15/14

Annex 10: Political and Macroeconomic Context

Political Context

1. **Ethiopia marked an important milestone with the appointment of H. E. Hailemariam Desalegn as Prime Minister in August 2012.** His appointment following the death of Meles Zenawi, who had led Ethiopia since 1991, marked the first peaceful and constitutional transition of power in Ethiopia's modern history. Since 2012, the ruling party¹⁴ has continued implementing its five-year succession plan (begun under Meles) for replacing senior figures with a younger generation of leaders. The next national elections are scheduled for May 2015.

2. **External observers of Ethiopia, both among the Ethiopian diaspora and elsewhere, have expressed concern about recent developments.** There have been the continuing issues of Ethiopian legislation on the role of Civil Society Organizations (CSOs) and the media, and GoE's approach to internal security, which some observers consider infringes human rights. GoE regards such criticisms as uninformed or reflecting unthinking opposition to the current government. GoE has allowed opposition parties and civil society groups to stage peaceful protests, calling for the release of political prisoners, an end to government interference in religious affairs, action on unemployment and corruption, and repeal of the anti-terrorism and societies and charities laws. However, in the first half of 2014, GoE has also arrested, and charged with terrorism, members of opposition parties and a number of journalists and bloggers, and there have been disturbances in Oromia, which have further raised international concern.

3. **Ethiopia has continued to play an important role in promoting regional integration and mitigating regional conflicts.** In the Horn of Africa, both Djibouti and Kenya have stable governments and good relations with Ethiopia. Relations with Djibouti are close, with Ethiopia relying on Djibouti for 90 % of its land-based trade, while Djibouti receives power and fresh water from Ethiopia. However, Ethiopia's relations with Eritrea remain very poor, while Sudan, South Sudan and Somalia all continue to be fragile and conflict affected states. Ethiopia has contributed to peace building efforts in Somalia, Sudan and South Sudan by mediating peace talks and hosting more than 500,000 refugees from these countries, as well as from Eritrea. Relations with Egypt are dogged by controversy over the use of the waters in the Blue Nile and the 6,000MW US\$5 bn Grand Ethiopian Renaissance Dam which is currently under construction.

Macroeconomic Developments

4. **Ethiopia has continued to register rapid economic growth driven by services and agriculture.** GNI per capita reached \$470¹⁵ in 2013. GDP growth increased by 9.7 percent in 2012/13 compared to 8.8 percent in 2011/12 and is projected by GoE to reach 11.2 percent in 2013/14¹⁶. The services sector, which is now the largest in the economy, contributed 4.5

¹⁴ EPRDF or Ethiopian People's Revolutionary Democratic Front.

¹⁵ WB Atlas Method.

¹⁶ The IMF is of the view that GDP growth in Ethiopia is over-estimated by approximately 3 percentage points in recent years. For that reason, the IMF growth projection for 2013/14 is 8.2 percent.

percentage points to growth in 2012/13 while agriculture and industry contributed 3.1 and 2.1 percentage points, respectively. Within industry, the manufacturing sub-sector accounted for just 0.4 percentage points. Private consumption and public investment were the major growth contributors on the demand side.

5. **Inflation has remained in single digits for a year on account of tighter monetary policy and lower international food prices.** Headline inflation fell from 20.0 percent in July 2012 to 7.0 percent in July 2014. Food price inflation stood at 5.8 percent and non-food price inflation at 8.1 percent. Broad money growth declined from 32.9 percent in 2011/12 to 25.1 percent in 2013/14, reflecting tighter monetary policy. Credit growth, mainly to State Owned Enterprises (SOEs), is the major contributor to broad money growth.

6. **The overall fiscal policy stance is expansionary** although the general government fiscal deficit remains modest. The estimated consolidated public sector primary deficit reached 10.0 percent of GDP in 2013/14 and reflecting a growth strategy that relies on substantial public investment executed through SOEs and the general government budget. The general government fiscal deficit (including GoE and regions, excluding SOEs) reached 2.8 percent in 2013/14.

7. **Ethiopia's risk of external debt distress is rising due to substantial non-concessional borrowing commitments** including commitments of US\$5.8 billion in FY13 and US\$2.9 billion in FY14, primarily to finance growth-enhancing public investments. These volumes exceed the annual limit, agreed with IDA, of US\$1 billion set for FY13 and FY14. In response, IDA applied a 5 percent volume cut to Ethiopia's FY15 allocation and converted the grant portion of FY15 IDA volumes into credits.¹⁷ While an April joint DSA found Ethiopia to be at moderate risk of debt distress, the most recent joint DSA prepared in the context of the September 2014 IMF Article IV Consultation assessed Ethiopia's risk of external debt distress as low, but on the cusp of transition to moderate.¹⁸ Although most indicators remain below their indicative thresholds, a breach is observed for the PV of debt to exports ratio in the case of the most extreme shock.

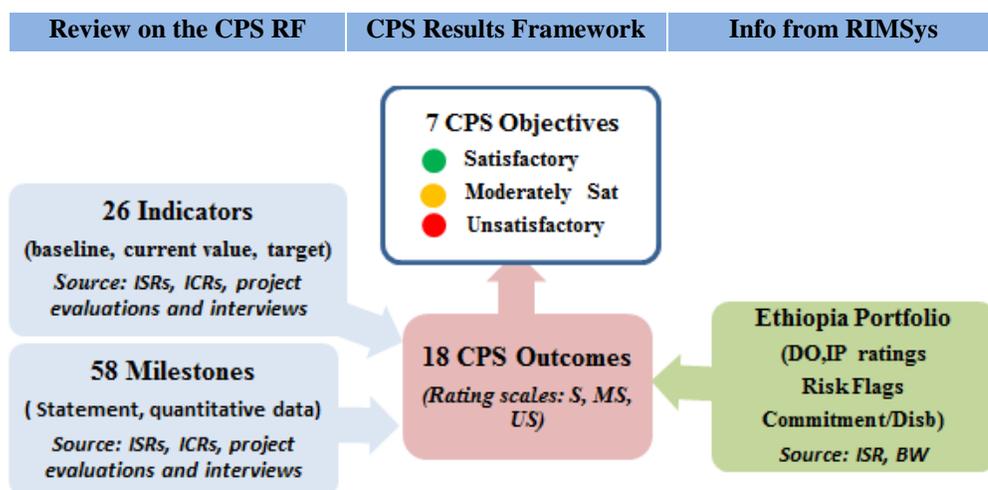
8. **Ethiopia has a chronic external current account deficit owing to an unusually large trade and services deficit.** In 2012/13, the overall deficit after transfers reached 5.2 percent of GDP, while the trade and services deficit amounted to 16.3 percent of GDP. The external current account deficit, in turn, was financed by external borrowing and FDI. Substantial reliance on private and public transfers represents a potential vulnerability. Foreign exchange reserves are low at about 1.9 months of imports, but remain relatively stable. A policy of rationing foreign exchange implies a stable reserve ratio with importers taking the slack, depending of overall forex availability.

¹⁷ See 'IDA's Non-concessional Borrowing Policy: The Case of Ethiopia' distributed to Executive Directors on September 18, 2014.

¹⁸ A joint DSA prepared in April 2014 had classified Ethiopia's risk of external debt distress as 'moderate'. The risk classification improved since then owing to improved growth and export prospects as well as the implementation of a new Debt Sustainability Framework.

Annex 11: WBG Results Integration and Management System (RIMSys).

1. **The Results Integration and Management System (RIMSys) tool has been developed by the World Bank Group, as a tool by which to measure the progress of CPS results by reference to portfolio performance.** This tool provides a systematic platform to link the performance of Bank operations in terms of both project development outcome, and implementation performance, to the achievement of CPS results. It also aims to provide access to data on portfolio, performance, results and budget associated with strategic CPS outcomes. The logic framework for tracking CPS results is as shown immediately below:



2. **The RIMSys results provide one basis for assessing progress in achieving the results in the CPS.** Through RIMSys, data on resources and inputs contributing to a strategic outcome can be aggregated across operations mapped to the corresponding CPS outcomes. In addition, based on the mapping, RIMSys can be used to aggregate data on implementation progress against the program level objectives. It has the potential to strengthen results management at country level. However, RIMSys has current limitations: i) the data aggregated derives from Implementation Status and Results Reports, which currently cover only IBRD, IDA and large trust funded operations. The overall performance rating for each objective does not therefore capture IFC operations or any WBG knowledge or partnership activities, all of which can influence CPS outcomes; ii) indicators in the CPS Results Framework are attributable to reference indicators from multiple projects' ISRs. But data (baseline, current value and targets) are not automatically aggregated from reference indicators.

3. **Nevertheless for the purposes of this CPS PR an assessment on progress in achieving the strategy objectives was prepared based on RIMSys,** and using a traffic-light system, where Green is satisfactory; Red is unsatisfactory; and Yellow is an intermediate classification. Consistent with the RIMSys measurement methodology, progress towards CPS objectives is then rated as "Green" if more than 66%-70% of the entire set of outcomes is achieved; 33% to 66% achievement is rated as "Yellow"; less than 33% is rated as "Red". The table below shows the results.

Table Progress on Results Comparing Results Framework Indicators and RIMSys			
Strategic Objective		Results Indicators	RIMSys
1	Stable Macroeconomic Environment	Green	Green
2	Increased Competitiveness and Productivity	Yellow	Green
3	Increased and Improved Delivery of Infrastructure	Green	Green
4	Enhanced Regional Integration	Yellow	Red
5	Improved Delivery of Social Services	Yellow	Green
6	Comprehensive Social Protection and Risk Management	Green	Green
7	Good Governance and State Building	Yellow	Green

4. **As RIMSys is further developed there seem good prospects to use this tool in Ethiopia to improve WBG understanding of specific portfolio challenges.** Recognizing the data limitations noted in paragraph 2, this note does not attempt a detailed interpretation of these results. However, it is striking that, on this evidence, there are variations in the correlation between implementation performance and results achieved. This result seems reasonable on reflection since, despite the rigor with which WBG operations are prepared and appraised, implementation will often turn up events that are unforeseen. Thus the external conditions of an operation, and the assumptions built into the chain of logic that connects the operational inputs to the results desired, will turn out to be stronger or weaker in individual cases. Consistent use of RIMSys may well therefore be useful in highlighting the characteristics of operations that prove robust during implementation, and thereby identify portfolio challenges specific to Ethiopia and more broadly.

Annex 12: Ethiopia's Recent Progress in Reducing Extreme Poverty and Boosting Shared Prosperity

1. Trends in poverty and shared prosperity

Since 2000 Ethiopian households have experienced a decade of progress in well-being. In 2000 Ethiopia had one of the highest poverty rates in the world, with 44 % of the Ethiopian population living below the national poverty line. In 2011 less than 30 % of the population lives below the national poverty line. Life expectancy increased and progress was made towards the attainment of the Millennium Development Goals (MDGs), particularly in gender parity in primary education, child mortality, HIV/AIDS, and malaria. While in 2000 only 1 in 5 women in rural areas had an antenatal check-up, more than 1 in 3 women attended an antenatal check-up in 2011. At the same time, the prevalence of stunting was reduced from 51% in 2000 to 39% in 2011. The share of population without education was also reduced considerably from 70% to less than 50% and the number of households with improved living standards measured by electricity, piped water and water in residence doubled from 2000 to 2011.

The pace of poverty reduction in Ethiopia has been impressive and particularly so when compared to other African countries. Poverty incidence measured by the population living below \$1.25 PPP fell from 55% in 2000 to 30% in 11 years. This puts Ethiopia on par with Senegal with a GDP per capita (in PPP terms) double the size of Ethiopia. Only Uganda has had a higher annual poverty reduction.

Assessing trends in poverty across time is challenging, particularly during periods of high inflation but Ethiopia's record of fast and consistent poverty reduction from 2000 to 2011 is robust to a number of sensitivity analyses that can be conducted on the 2011 poverty estimates. Price deflators allow comparisons to be made across time, but during periods of high inflation such as experienced in Ethiopia from 2008 to 2011, differences in price deflators estimated by different methods can be quite large. The official numbers of poverty reduction use a relatively high deflator and thus provide conservative estimates about the amount of progress that has been made.

Poverty reduction in Ethiopia has been faster in regions and zones where poverty was highest a decade and a half ago. The proportion of households living in poverty has fallen in both rural and urban areas, with stronger reductions in urban poverty since 2005. In 1996 poverty rates differed greatly between regions and agro-ecological zones.¹⁹ For example, almost 56% of the population in Tigray living in poverty compared to 34% of the population of Oromia. Poverty reduction has been faster in those regions in which poverty was higher and as a result the proportion of the population living beneath the national poverty line has converged to around 1 in 3 in nearly all regions in 2011. It is remoteness rather than regional or agro-climatic location that is now the primary geographic feature of poverty. The changing geography of poverty in Ethiopia is also matched by changes in the nature of vulnerability in Ethiopia. As households in traditionally more vulnerable locales become less poor their vulnerability to future poverty also declines. This change has important implications for the geographical focus of government and

¹⁹ The agro-ecological zones are defined using the Ethiopian Development Research Institute's (EDRI) classifications.

development partner interventions which has traditionally taken different approaches in traditionally food insecure areas.

Ethiopia is one of the most equal countries in the world as a result of a very equal consumption distribution in rural areas and low levels of inequality have, by and large, been maintained throughout this period of economic development. In urban areas, all measures of inequality show a substantial increase in inequality from 1996 to 2005 and a substantial reduction in urban inequality from 2005 to 2011. In rural areas, all measures of inequality suggest there has been little change in inequality over time although inequality fell marginally from 1996 to 2005 and increased from 2005 to 2011. Nationally, these two trends offset each other and many measures suggest inequality has stayed quite stable from 2005 to 2011. However, measures of inequality that give more weight to poorer households show national inequality has steadily increased from 2000 until 2011.

This progress is not without its challenges, in particular the very poorest have not seen improvements—even a worsening—of consumption since 2005, which poses a challenge to achieving shared prosperity in Ethiopia. A small reduction in poverty was recorded from 1996 to 2000 but overall this was a period in which household consumption stagnated. From 2000 to 2005 a period of broad-based growth in household consumption ensued. High levels of broad-based consumption growth were also realized from 2005 to 2011, but the poorest decile did not experience growth in consumption. Growth *was* pro-poor from 2005 to 2011, but some households in Ethiopia today are poorer than any household was in 2005. As a result reductions in poverty rates were not matched by reductions in poverty depth and severity from 2005 to 2011. Prior to 2005 the growth in consumption of the bottom 40 % was higher than the growth in consumption of the top 60 % in Ethiopia, but this trend was reversed in 2005 to 2011 with lower growth rates observed among the bottom 40 %. The negative growth rate of the consumption of the bottom decile is robust to the choice of deflator and is a concerning trend.

2. Drivers of progress

Ethiopia is predominantly rural and poor Ethiopian households even more so. The national poverty profile is driven the characteristics of the rural poor. The poorest are less educated, more remote, more engaged in agriculture and living in households with more people and higher dependency ratios.

On many dimensions poor households in urban areas have similar characteristics to the rural poor, but the urban poor are more often those who are unable to engage in urban labor markets. Households with elderly and disabled members and households with elderly or female heads are much more likely to be poor if they live in an urban area. Households with disabled members and headed by the elderly are also more vulnerable to shocks in urban areas than in rural areas. Unemployment in Ethiopia is an urban, and largely an Addis Ababa, phenomenon and although there are many poor who are not unemployed, rates of poverty are above average among the unemployed: nearly half of all households with an unemployed male in Addis Ababa live in poverty.

Poverty reduction among rural, self-employed and agricultural households has been the major component of poverty reduction from 1996 to 2011. Increasingly, reductions in poverty in urban areas, among those engaged in the service sector and among those who are wage-employed contributed to overall poverty reduction, but structural change has not contributed much to poverty reduction during this time. Whilst a shift to technical and professional occupations has helped increase consumption at all consumption levels, this has mainly contributed to increases in consumption among the richest.

Growth, and particularly agricultural growth, has been the main driver of reductions in poverty over the fifteen year period from 1996 to 2011. Growth has been important, but the average growth elasticity is quite low. Each 1 % of growth resulted in 0.15 % reduction in poverty which, although better than the sub-Saharan African average, is lower than the global average. Growth in agriculture, more than growth in other sectors, has been significantly positively related with poverty reduction. Poverty has fallen fastest in those zones in which agricultural growth has been strongest. For every 1 % of growth in agricultural output, poverty was reduced by 0.9 % which implies that agricultural growth caused reductions in poverty of 2.2% per year on average post 2005 and 0.1% per year prior to 2005.

High food prices have been, and will likely continue to be, an important part of the relationship between agricultural growth and poverty reduction as poor households continue to be predominantly in agriculture and increasingly become net sellers. Increased adoption of modern input use in agriculture, such as fertilizer, has been important in reducing poverty but this has only increased agricultural incomes and reduced poverty when good prices and good weather has been present. Over time an increasing proportion of poor households have become self-sufficient in food or net producers and as a result high crop prices have helped poverty reduction.

However high food prices have hurt households in the poorest decile that produce very little (despite being predominantly engaged in agriculture); high food prices thus offer an explanation for the pattern of broad-based growth with losses in the bottom decile observed in Ethiopia from 2005 to 2011.²⁰ The poorest decile are more likely to report producing less than 3 months of consumption than other poor households, and were more likely to report suffering from food price shocks than any other group. Broad based growth for the poor is aided by high food prices given that many poor households are net-sellers in years of good harvests, but the high food prices that benefit the majority of the agricultural poor in Ethiopia hurt the very poorest decile that continue to purchase much of their food and this group of households needs compensatory interventions.

The dependence of agricultural growth on good weather also highlights the vulnerability of agricultural growth alone as a means to reduce poverty. Agricultural output has been dependent in the weather given the predominance of rainfall-irrigated production and returns to fertilizer (the main yield-increasing technology available to farmers) are rainfall dependent. The rainfall dependency of returns to agricultural technologies means that increasing uncertainty around climate change will need to be managed through increased irrigation, development of

²⁰ The lack of nationally representative panel data does not allow an analysis of which households have lost income, but in this section cross-sectional data is used to profile the characteristics of the poorest households in Ethiopia.

rainfall resistant seed varieties and strengthened insurance markets. Further diversification of the Ethiopian economy out of agriculture is also important.

Non-agricultural growth and growth in urban demand has contributed to reducing urban poverty and ensuring agricultural growth is poverty reducing. Whilst agricultural growth had a strong impact on poverty reduction on average, the positive impact of agricultural growth was only found close to urban centers of 50,000 people or more. This indicates that infrastructure investment and growth in urban demand are essential complements to agricultural output growth to achieve poverty reduction. Although nationally growth in manufacturing or services did not contribute to poverty reduction, in urban Ethiopia, manufacturing growth played a significant role in reducing poverty from 2000 to 2011. Growth in the service sector has been high in recent years, but few poor households are employed in the service sector, and as a result only a tenth of the poverty reduction in recent years took place among those in the service sector. Additionally, service sector growth has been highest when agricultural growth has been highest, so little additional impact on poverty reduction is observed as a result of service sector growth.

Urbanization in Ethiopia implies urbanization of poverty and current rates of poverty in large cities in Ethiopia are higher than expected. In 2000, 11 % of Ethiopia's poor lived in cities, but this rose to 14 % in 2011. In Ethiopia, just as in other countries, poverty rates fall and inequality increases as city size increases. In Ethiopia this relationship is present because larger cities have higher rates of employment and higher rates of employment are associated with lower poverty rates. Although poverty rates are generally lower in larger cities in Ethiopia, there are two important exceptions: the two largest cities of Addis Ababa and Dire Dawa have higher rates of poverty than we would expect given their size.

The Government of Ethiopia has reduced inequality and poverty through transfers provided in the Productive Safety Net Program (PSNP) but the urban poor do not benefit much from direct transfers or indirect subsidies. The immediate direct effect of transfers provided to rural households in the PSNP has reduced the national poverty rate by 2 percentage points. The PSNP has also had an effect on poverty reduction above and beyond the direct impact of transfers on poverty. PSNP transfers have been shown to increase agricultural input use among some beneficiaries thereby supporting agricultural growth (Hoddinott et al 2012). Poverty, particularly urban poverty, would be reduced further were spending on indirect subsidies (on electricity, kerosene and wheat) converted to direct transfers. Urban households do benefit more than rural households from indirect subsidies in fuel and food, but not enough to compensate for the lack of direct transfers to urban households among the bottom percentiles.

Large scale public investments in the provision of basic services such as education and health have contributed to poverty reduction both by contributing to growth and by preferentially increasing the welfare of the poor. Changes in individual and household characteristics, "endowments", can explain between 46% and 67% of consumption growth during this period. Of the endowments considered, improvements in education contributed the most to poverty reduction during this time. Access to, and utilization of, education and health services has increased over the last decade in Ethiopia. Spending on services that are well accessed by poor households such as primary education and preventative health services is pro-poor. However spending is less progressive on programs where challenges remain in ensuring

utilization by poor households, such as enrollment in secondary and tertiary education or use of curative health services.

The Government of Ethiopia has also reduced inequality through the tax system, but poor households pay similar rates of indirect tax than non-poor households. The tax structure—both direct and indirect taxes—is progressive with richer households paying a larger share of their income in tax. However, the tax structure could become more progressive and less costly to the poor were the government to increase the share of taxes collected via direct rather than indirect taxes.

3. Is Ethiopia on a path to end extreme poverty by 2030?

In an optimistic growth scenario, extreme poverty will be substantially reduced to 8 %, but not eradicated, by 2030. In an optimistic growth scenario, all households will experience annual growth in consumption of 2.5% which is higher and more equal than the growth Ethiopia experienced in the last decade. In a less optimistic scenario annual consumption growth rates might be lower, approaching the annual consumption growth rate for the last decade of 1.6%. Or consumption growth rates may vary for poorer and richer households as they did from 2005 to 2011. Achieving 8 % extreme poverty by 2030 requires both high and more equal growth than experienced in the last ten years. Even very high rates of growth will not result in poverty falling below 12 % if the pattern of income losses of the bottom decile from 2005 to 2011 is not reversed.

Annex 13: Managing for Operational Risks

(i) Demand Side Approaches to Governance Risk

Current WBG efforts to support demand side approaches to governance in Ethiopia include:

Enhancing participation of citizens: i) expanding the number of council members in order to ensure wider representation in grassroots assemblies; iii) establishing the village inspection and supervision teams consisting of village level civil society organization and council members who are responsible for ensuring participation of citizens in planning as well as monitoring through public meetings; iv) training 50 focal persons and the village inspection and supervision teams on participation of citizens in budget planning and monitoring of budgets; v) creating a system that allows direct participation of citizens in service delivery including managing community multi-purpose centers, community policing, social courts and small scale infrastructure development.

Enhancing accountability: i) deployment of kebele/village managers, designated as fulltime local government employees to serve as the secretariat for the council, the main point of contact to provide information to citizens and responsible for compiling village plan and handling complaints; ii) establishing information counters and complaint handling mechanisms at all levels of government; iii) introducing toll free call centers as devices for citizens to get information and register anonymous complaints, comments or compliments about specific public services or performance of public agents; vi) introducing service standards which are now being formalized through citizens charters; v) strengthening civil society organizations for improved social accountability.

(ii) FM and Procurement Risks:

Some examples of ways WBG has been managing for FM and procurement risks include: the roll out of the IBEX accounting system to 1,800 locations across Ethiopia - doubling coverage in the last two years. This has been accompanied by large scale, PFM training of over 50,000 officials for both Federal Government and the regions. IBEX roll out has greatly improved financial reporting, with interim financial reports under PBS, from more than 1,000 local governments across Ethiopia, and from the regions, delivered on time. This has enabled Annual Financial Statements to be produced on time by MoFED and for the Annual Audit also to be produced on time. Audit coverage has increased from 56% at the Federal level to 100% and at the regional level from 20% to 45%. This progress, together with a program of continuous audits, has helped the Channel One Programs Coordination Unit (COPCU) at MoFED support improved implementation and disbursement. Other WBG initiatives include distance learning for Federal and Regional Accountants; a Finance Managers Club for all WBG projects to facilitate peer learning; moving the portfolio to e-disbursement. On the procurement side we have ensured sustained high level dialogue with MoFED and implementing agencies on key issues; progressive procurement reform agenda dialogue to improve systems performance; closer support to implementing agencies in accelerating procurement actions; increased delegation of the procurement prior review threshold to both clients and field staff; and preparation of guidance manuals and training of staff. Over 500 GoE staff have been trained in Bank

procurement and contract administration. Nevertheless, staff capacity and turnover remain significant challenges.

(iii) Safeguard Risks:

In response to the concerns the capacity of client institutions to implement safeguards frameworks and plans has been enhanced. Safeguard specialists were recruited for almost all Bank financed projects to help ensure implementation of safeguards. In the last two years, many tailor-made training courses were organized to raise awareness on the importance of safeguards for project sustainability, and to train environmental professionals on methods to effectively implement environmental and social management plans. All safeguard specialists for WBG financed projects participated in two-day training in FY 14. During the training best practices, challenges and opportunities in implementing safeguards in Ethiopia and elsewhere in Africa were discussed. At the end of the training a community of practices was established to continue exchanges views in improving safeguard implementation. Further to the capacity building activities, challenges faced with the implementation of environmental safeguards were discussed with high level decision makers. The recently held high level meeting to discuss, the challenges faced in implementing safeguards (among others), in the transport sector is a good example. Following the meeting, safeguard implementation action plans were prepared by the Ethiopian Road Authority. It is planned that the high level meeting will continue to discuss on the progress in implementing safeguards. In the future, capacity building work, particularly in organizing series of training and dialogue with the Community of Practice Group will continue. Mainstreaming of environmental and social concerns at the design stage of infrastructure projects will be enforced.

Map

