



1. Project Data:		Date Posted : 01/29/2004	
PROJ ID: P074585		Appraisal	Actual
Project Name: Economic Structural Adjustment Credit	Project Costs (US\$M)	120	120
Country: Ethiopia	Loan/Credit (US\$M)	120	120
Sector(s): Board: EP - Central government administration (60%), General industry and trade sector (40%)	Cofinancing (US\$M)		
L/C Number: C3666			
	Board Approval (FY)		02
Partners involved :	Closing Date	06/30/2004	06/30/2004
Prepared by :	Reviewed by :	Group Manager :	Group:
Michael R. Lav	Poonam Gupta	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
To support Government's efforts in stabilizing the economy and achieving a sustained path of growth .			
b. Components			
1. Supporting poverty focused macroeconomic policies, including increasing poverty -targeted expenditures . 2. Promoting private sector development and export competitiveness through improved competition policy, a new urban land law, and an improved investment code, privatization of state -owned enterprises, and export promotion (bonded manufacturing warehouse, export credit guarantees, suppliers credits, eliminating the Standards Authority's quality certificate, coffee sector reforms), improved agricultural productivity, and reduced transportation costs . 3. Improve public sector management (new legal framework for a modern civil service, performance management and service delivery improvement, improved incentives to perform, and new fiscal and personnel systems . 4. Improved Public Expenditure Management.			
c. Comments on Project Cost, Financing and Dates			
The Project cost US\$ 120 million financed through a single tranche IDA credit for US\$ 120 million. The project was appraised on February 11, 2002, approved by the Board on June 18, 2002, made effective on November 28th, 2002, and is scheduled to close on June 30, 2004.			
3. Achievement of Relevant Objectives:			
A sustainable growth path will be facilitated by the increase in poverty -targeted expenditure and the start made on implementing a program to facilitate private sector development . The new public sector management systems and legal framework will improve governance over time, which will also enhance growth prospects . The project also provided resources which helped stabilize the economy, although a drought undermined progress in achieving this goal.			
4. Significant Outcomes/Impacts:			
1. Poverty targeted expenditure increased from 11.7 percent of public expenditure in 2000/01 to 14.6 percent in 2001/02 under the ERSC to 19.3 percent in 2002/03 under the ESAC, exceeding the target for 2002/03 which had been 14.9 percent. Stabilization was not fully achieved, but largely because of a drought . 2. Private Sector Development: (a) A Trade Practices Proclamation was issued which was intended to establish rules on anti-competitive practices, abuse of market dominance, and consumer protection . (b) A new Urban Land Law has been approved by Parliament . (c) The investment code was revised . (d) A framework for the Bonded Manufacturing Warehouse was established . (e) An export credit guarantee scheme is being operated by the National Bank . (f) A Standards Authority's quality certificate is no longer legally required for exports . (g) The coffee sector study has been implemented . (h) Transportation costs are being reduced by the shipping monopoly (although a more thorough reform is not being implemented) and the Ethiopian Air Lines' protection in the cargo market has been abolished resulting in substantial reductions in shipping costs . 3. Public Sector Management. A new legal framework for a modern civil service has been established . (b) A new Performance Management and Service Delivery Improvement Program has been implemented in 6 ministries. (c) Technical work was completed for an affordable medium term pay policy . (d) New fiscal and personnel management systems have been implemented and about two -thirds of all			

records have been automated . 4. The reforms for improving public expenditure management and policy are being implemented.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. Private Sector Development. (a) The Trade Practices Proclamation allows for application of discretion to any enterprise designated an exception by the government . (b) The revised investment code does not yet meet the agreed condition of ending case by case reviews and foreign investment and joint ventures must still obtain investment permits. (c) The Bonded Warehouse has not yet been implemented for lack of interest by potential operators. (d) Only seventeen export credit guarantees have been issued of which five resulted in defaults . (f) The Standards Authority's quality certificate for exports is still required in practice . (g) The findings of the coffee study have not yet been acted upon. (h) Privatization has stalled, and only 2 enterprises were privatized in 2002. (i) The results of the fertilizer study implemented under the ERSC have not yet been acted upon . 2. Public Sector Management. Despite the technical work completed for the medium term pay reform, a political decision was taken to grant pay increases to lower level staff . 3. Public expenditure management and policy have not been improved as foreseen. Although conditions were technically met, full integration of federal and regional recurrent and capital budgets remains a work in progress .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	1. Poverty targeted expenditure increased by more than projected . Although stabilization targets were not achieved, this was due to drought . This component merits a rating of satisfactory . 2. A rating of moderately unsatisfactory for the Private Sector Development and Export Promotion component is warranted because only the reform of shipping and air transport has been fully implemented, while there are some flaws in implementation of the other 9 sub-components (Trade practices act, urban land law, revised investment code, bonded warehouse, export credit, export quality certificate, coffee study implementation, privatization, fertilizer study implementation). 3. The Public Sector Management component's outcome is rated satisfactory as three out of four sub-components fully implemented. 4. The Public Expenditure Management Policy component's outcome is rated unsatisfactory as in the ICR.
Institutional Dev .:	Modest	Modest	
Sustainability:	Unlikely	Likely	Sustainability is based on whether the achievements of the project are likely to be maintained in the future . The progress made in expenditure policy and public sector management, and the deregulation of air freight, for example, merit an overall sustainability rating of likely
Bank Performance:	Satisfactory	Satisfactory	Although Bank performance is rated satisfactory, supervision was lacking, so that the satisfactory rating is barely warranted.
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Adjustment operations should be closely monitored and supervised . A complex agenda to be acted on in a short time should have called for frequent and intensive supervision . 2. The ERSC and the ESAC both suffered from the

Bank allowing financing needs to drive project formulation, detracting from attention to setting out reform programs which would allow reasonable time for implementation . For example, the weak showing of private sector development in the ESAC, despite the good sector work which preceding the ESAC, is partly attributable to a compressed implementation schedule, compounded by lack of supervision resources .

8. Assessment Recommended? Yes No

Why? This is one of a series of rehabilitation /adjustment operations which could form an important basis of sustained reform. It would be important to draw clearer lessons from these operations to help formulate future support for Ethiopia.

9. Comments on Quality of ICR:

The ICR presents a detailed and straightforward description and discussion of this complex operation . The ICR is a serious effort to present this project accurately . The large number of useful lessons derived in the ICR is also an important learning exercise for the Bank . In addition, the Borrower's contribution is unusually complete and thoughtful.