Document of
The World Bank

Report No: 27571

IMPLEMENTATION COMPLETION REPORT
(IDA-35120)

ON A

LOAN/CREDIT/GRANT

IN THE AMOUNT OF US$150 MILLION

TO THE FEDERAL DEMOCRATIC REPUBLIC OF

ETHIOPIA

FOR AN

ECONOMIC REHABILITATION SUPPORT CREDIT

October 6, 2003

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 6, 2003)

Currency Unit = Ethiopian Birr
US$ 1.00 = Birr 8.55

FISCAL YEAR
July 7 July 6

ABBREVIATIONS AND ACRONYMS

ADLI	Agricultural Development-Led Industtialization
AIDS	Acquired Immune Deficiency Syndrome
CAS	Country Assistance Strategy
CBE	Commercial Bank of Ethiopia
CPPR	Country Portfolio Performance Review
CSRP	Civil Service Reform Program
DBE	Development Bank of Ethiopia
EDRP	Emergency Demobilization and Reintegration Project
EIA	Ethiopian Investment Authority
EIP	Extension Intervention Program
EMCP	Expenditure Management and Control Progamm
EPA	Ethiopian Privatization Agency
ERSC	Economic Rehabilitation Support Credit
EU	European Union
FAG	Federal Auditor General
FCSC	Federal Civil Service Commission
FIAS	Foreign Investment Advisory Service
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HIV	Human Imnuno-deficiency Virus
HRM	Human Resource Management
HRMIS	Human Resource Management Information System
IDA	International Development Agency
lFC	International Finance Corporation
IMP	International Monetary Fund
1PF	Indicative Planning Figures
I-PRSP	Interim Poverty Reduction Strategy Paper
IT	Information Technology
JCG	Job Classification and Grading
MEDaC	Ministry for Economic Development and Cooperation
MEFF	Macroeconomic and Fiscal Framework
MoF	Ministry of Finance
NBE	National Bank of Ethiopia
NDP	National Development Program
NGO	Non Governmental Organization
NPV	Net Present Value

NYCE	New York Commodity Exchange
PEP	Public Expenditure Program
PER	Public Expenditure Review
PIP	Public Investment Program
PMO	Prime Minister's Office
PPI	Private Participation in Infiastructure
PRGF	Poverty Reduction and Growth Facihty
PRSP	Poverty Reduction Strategy Paper
SAC	Structural Adjustment Credit
SOE	State Owned Enterprise
UN	United Nations
USAI)	United States Agency for Intemational Development
WMS	Welfare Monitoring System
WAN	Wide Area Network

Vice President:	Callisto E. Madavo
Country Director	Ishac Diwan
Sector Manager	Robert R. Blake
Task Team Leader/Task Manager:	Dino Merotto

ETHIOPIA
Eth. Economic Rehabilitation Supp.Credit

CONTENTS

Preface

This report assesses *two* single tranche adjustment credits for Ethiopia; the Economic Rehabilitation Support Credit (ERSC) and the Ethiopia Structural Adjustment Credit (ESAC).

These credits were originally conceived under the Bank's Interim Support Strategy (ISS) of November 2000 Report No. 21189 ET, November 2000.. The ISS presented a US$700 million emergency post-conflict support package which became active when peace was signed on December 12, 2000. The ISS envisaged a single US$250 million adjustment loan to be called the `Emergency Support Credit', as one of four major lending operations to be designed and disbursed quickly[1] .

At the Concept Review for this Emergency Support Credit in mid-January 2001, two important decisions were made which substantially changed the context, and led to the creation of two single tranche adjustment credits. First, in response to feedback on the ISS, it was decided that a change from an emergency to a balance of payments operation would best suit the twin objectives of; (a) macroeconomic stability, and (b) supporting policy reforms for recovery over a rather longer (12-18 month) timeframe than was agreed in the ISS. Second, recognizing that Ethiopia's urgent need for post-conflict financing in FY00/01 could make the timetable for agreeing medium-term policy reforms unrealistic, it was decided that the Emergency Support Credit could be split into two single tranche operations if appraisal (in early February 2001) revealed there was insufficient scope to reach early agreement on a robust medium-term program of structural reforms. This would allow early disbursement of the first single-tranche credit against the phase 1 of the reform program, and let the Bank discuss a plan for preparation of a second operation in support of a broader program of reforms.

Appraisal revealed that in the face of political unrest, Government of Ethiopia was neither ready nor willing to set out a medium-term reform program so soon after the war. After discussions with the Government at the end of the appraisal mission, it was agreed to develop two single-tranche credits. Both were seen as transition arrangements. ERSC became the first tranche of $US150 million, and was to support of the first phase of policy reforms. However, at the final review stage it was decided that given policy uncertainty in Ethiopia, it was premature to cast ERSC as a policy reform loan, and the credit was negotiated (2 weeks later) as a rehabilitation loan (RIL).

ESAC became the second single tranche operation and was designed as a policy-based structural adjustment credit. The original US$100 million under the ISS was supplemented by an additional US$20 million to offset a fall in Ethiopia's terms of trade, making ESAC a US$120 million single tranche operation.

Despite being split into two single tranche operations, the policies supported under each credit focused on the same core areas of structural reform, and ESAC was seen as a successor to ERSC. It is therefore more informative to review the impact of both credits together in one Implementation Completion Report. Hence ICR Report IDA-35120 and ICR Report IDA-36660 are identical - both review ERSC and ESAC together.

1. Along with the ERSC and ESAC, an `Emergency Demobilization and Reintegration Project' (US$170 million) and the `Emergency Recovery Program' (US$230 million) helped finance the PRGF-supported macroeconomic stabilization program. The fourth operation identified in the ISS was a $US55 million Fertilizer Supplemental credit., ie during FY00/01

Project ID: P072890	*Project Name:* Economic Rehabilitation Supp.Credit
Team Leader: Dino Leonardo Merotto	*TL Unit:* AFTP2
ICR Type: Core ICR	*Report Date: October 6, 2003*

1. Project Data

Name: Economic Rehabilitation Supp.Credit
L/C/TF Number: IDA-35120
Country/Department: ETHIOPIA
Region: Africa Regional Office

Sector/subsector: Central government administration (58%); Other domestic and international trade (34%); General industry and trade sector (8%)

Theme: Administrative and civil service reform (P); Export development and competitiveness (P); Public expenditure, financial management and procurement (S); Trade facilitation and market access (S)

KEY DATES			*Original*	*Revised/Actual*
PCD:	01/18/2001	*Effective:*		
Appraisal:	01/18/2001	*MTR:*		
Approval:	06/05/2001	*Closing:*		

Borrower/Implementing Agency: GOVERNMENT OF ETHIOPIA
Other Partners:

STAFF	Current	At Appraisal
Vice President:	Callisto E. Madavo	
Country Director:	Ishac Diwan	
Sector Manager:	Robert R. Blake	
Team Leader at ICR:	Dino Merotto	
ICR Primary Author:		

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: HS
Sustainability: UN
Institutional Development Impact: M
Bank Performance: S
Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry:		S
Project at Risk at Any Time:	No	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

Context. The objectives and design of both ERSC and ESAC must be assessed in the context of; (i) political uncertainty at the signing of peace; (ii) the subsequent launch in 2001 of a major state transformation process encompassing democratization and capacity building in a decentralized State, (ii) the Ethiopian economy's vulnerability to drought and terms of trade shocks; (iii) the delay in preparation of the PRSP, and (iv) urgent needs for post-conflict financing under the ISS which necessitated fast processing of the credits by Bank staff. In addition to coping with the costs of reconstruction and demobilization, after signing the peace agreement with Eritrea the ruling coalition government faced a wave of political dissent, both within the party and within society. As both credits were being developed, senior policy makers in Government were focused more on immediate financing requirements and political divisions within the ruling party, than on mapping out a medium-term structural reform agenda. A political consensus then emerged behind a fundamental decentralization program designed to transform democratic governance in Ethiopia. This resulted in delays in the development of the PRSP. Combined with the urgent need to process the credits quickly, it substantially limited the length and depth of policy dialogue.

The macroeconomic context post-war was one of severe external and internal imbalance. Foreign exchange reserves were down to 2 months of imports, below the minimum level required in Ethiopia to withstand an external shock. The fiscal deficit climbed to 11.2% of GDP in 1999/2000, due to the effects of the war and the need to respond to a drought. The post-war budget was heavily skewed towards defense spending, which reached 12.9% of GDP and 50% of total recurrent spending in 1999/2000. The terms of trade had deteriorated for 3 consecutive years, falling most dramatically by over 33% in 1999/2000. During the appraisal of ESAC the Ethiopian economy was hit by a further drop in export revenues. At the same time, due to the impact of the events of 11 September 2001, the global outlook was for a stagnation in external demand. In response the Bank supplemented ESAC by US$20 million to provide a cushion against the deterioration in Ethiopia's terms of trade.

Original objectives:

ERSC's primary objective was to help stabilize the post-war economy by; (a) reducing domestic financing of the deficit, (b) rebuilding foreign exchange reserves, (c) avoiding compression of private sector imports. The secondary objective was to restore key economic and social services by reallocating spending towards them. At appraisal the Bank's aim was to use the ERSC to initiate policy reforms (see preface).

ESAC's primary objective was also stabilization of the post-war economy. The main emphasis was on cushioning foreign exchange reserves against an expected deterioration of the terms of trade. ESAC's secondary objective was to help restart the structural reform agenda consistent with the IPRSP.

Importance: Against the macroeconomic context of a post-war economy heading for economic crisis, the stabilization objective of ERSC and ESAC was seen both by the Government and the Bank as critical for Ethiopia. The Government's post-war recovery program addressed 3 key priorities, each requiring fast-disbursing finance; (a) demobilization and reintegration of 150,000 soldiers, (b) rehabilitation and reconstruction of social infrastructure for over 400,000 victims of the war, and (c) economic stabilization and the resumption of reform. For the Bank, immediate economic stabilization coupled with longer-term engagement in critical areas of the economy were core underpinnings of the Interim Support Strategy (ISS).

Realism: In bringing two adjustment loans to approval in 18 months, the Bank responded very promptly to the borrower's financial circumstances. Yet so soon after the war, given; (i) the consequent political

climate, (ii) policymakers' reluctance to commit to a medium-term reform program, and (iii) the shortened preparation times needed for ERSC and ESAC to meet immediate financing needs, it was unrealistic to expect to reach agreement on a clear medium-term policy reform agenda. This is certainly true for ERSC, and it also applies to an extent to ESAC. Indeed the Bank's advice to the Government was to take sufficient time in developing the PRSP to attain political consensus on it.

Complexity: In these circumstances the credits' twin objectives of achieving macro stability and supporting policy reforms became competing priorities. This affected the design and reduced the potential impact of both credits. The tension was reflected in the guidance given to the design team through the review process for ERSC (see preface), which was to aim to re-initiate a policy reform program, but to support the reforms with single tranche credits.

By the time it became clear that it was premature to design ERSC as a policy reform credit, the key components of the policy reforms that both it and ESAC would support had been broadly set. Given the political context, the Bank could only `take what was there' as prior actions for ERSC from on-going reforms, and could only indicate in the ERSC the likely path of reform in the main components. Some of the ERSC prior actions were therefore rather weak and at an early stage. To strengthen the policy framework supported under ERSC during appraisal (whilst it was still seen as a policy reform credit), the Bank opted for breadth rather than depth. Since ESAC was a successor to ERSC, this affected the complexity of policy reform components under both credits. It reduced the clarity of the priority objectives under each. It increased the number of institutions involved, and it widened the distance between some of them and the overall financing imperative. It may also have hindered program monitoring. With hindsight, had there been acceptance at the concept stage of ERSC that it was unrealistic to expect to reach agreement on a clear medium-term policy reform agenda, the credits could - in theory at least - have been less complex. They might have more appropriately focused during the transition period to PRSP, on a very limited number of high impact rehabilitation or short-term policy measures to hasten economic recovery. However, Ethiopia's donors asked the Bank to help re-initiate the policy reform agenda because the ISS already included over $US 400 million in emergency rehabilitation credits.

The proposed ERSC supports the Government's efforts in stabilizing the economy and moving back to a sustainable path of growth, as a necessary condition for poverty reduction. The proposed Credit would allow the Government to reduce domestic financing of the deficit and rebuild foreign exchange reserves; it would finance increased private sector imports associated with the removal, in early 2001, of restrictions in the foreign exchange market; and it would help restoring key economic and social services, and rebuilding the institutional capacity needed to deliver them. (Report No P7441-ET para 55).

The proposed ESAC supports the Government's efforts in stabilizing the economy and sustaining economic growth. The proposed Credit would allow the Government to provide a cushion against the deterioration of the terms of trade, due to a decline in export revenues and the stagnation of external demand. Financing from the ESAC, as well as from other donors, is crucial to move from stabilization towards higher savings and investment; and it would help building institutional capacity needed to deliver essential public services. The ESAC builds on the reform agenda described in the I-PRSP and initiated in the ERSC, as well as on the Government Action Plan for 2001/02. (Report No 7521 ET, para 66).

3.2 Revised Objective:

N/A

3.3 Original Components:

Each component of ERSC and ESAC tried to map out medium-term reforms by setting both immediate

actions to be taken prior to Board approval, and many actions for the subsequent two years. Because they were both single tranche operations, this section looks only at the prior actions under each. The quality at entry section discusses the strength of prior actions, the extent to which conditions for subsequent years in ERSC into the measures supported under ESAC, and the robustness of the medium-term framework.

ERSC had four components. In addition to macro stabilization, it supported three main components of the reform program outlined in the I-PRSP. Other aspects of the IPRSP, e.g. financial sector and foreign exchange market reform were supported by the IMF in the context of the PRGF. The components of ERSC were;

- **Implementation of a sound macroeconomic program, including the reallocation of public spending towards poverty-reducing interventions**. The PRGF macroeconomic objectives for 2000-03 were;
  - *real GDP growth of 7.0%,*
  - *inflation down from 5.2% to 2.1 %,*
  - *reserves rising from 2.6 to 4.1 months of imports,*
  - *overall deficit including grants falling from 6.4 to 5.1% of GDP.*

- **Public sector management**. This component supported the Government's ongoing Civil Service Reform Program. There were four sub-components:
  - *Strengthening the legal framework*
  - *Enabling environment / performance incentives*
  - *Improving service delivery.*
  - *Enhancing the transparency of personnel management systems*

- **Public expenditure policy and management**. The component aimed to reestablish social sector programs and to support the Government's Expenditure Management and Control Program (EMCP).

- **Private Sector Development and Export Competitiveness**. Prior actions covered four main sub-components, with a strong emphasis placed upon export promotion.
  - *Remove regulatory constraints on investment*
  - *Promote exports*
  - *Privatization*
  - *Increase agricultural productivity*

The **ESAC** also aimed primarily at stabilizing the economy in the post-war period. It built on some of the policy reforms initiated under ERSC, which were to be developed in the full Poverty Reduction Strategy Paper (called in Ethiopia the SDPRP). ESAC was intended as a `*transition arrangement*' to be followed in later years by PRSCs. It focused more strongly on the enabling environment for private sector growth. The 4 main components of ESAC were;

- **Maintaining Poverty Focused Macroeconomic Policies**. The PRGF macroeconomic objectives for 2001-04 were;
  - *real GDP growth of 6.0%,*
  - *inflation at 3.0%,*
  - *reserves rising from 2.9 to 4.1 months of imports,*
  - *overall deficit including grants falling from 6.9 to 4.1% of GDP.*

- **Promoting Private Sector Development.**

- *Improve the business environment*
- *Reduce transactions costs*
- *Increase export competitiveness*

- **Improving Public Sector Management and Service Delivery.** This component supported the Government's ongoing Civil Service Reform Program. There were four sub-components, each with prior actions.

- *Legal framework*
- *Improving expenditure management & prioritization*
- *Enhancing incentives to perform*
- *Improving fiscal monitoring and accountability*

Relating components to objectives: The macroeconomic stabilization components of each credit largely restated the credits' overall objective. For the reasons set out in section 3.2, the other components were more related to re-initiating a medium-term reform agenda than to stabilization and rapid economic recovery. They aimed to put in place legislation to improve the environment for public service delivery, and to improve the investment climate, especially for exporters. However the causal logic between components and the overall objective is not clearly set out in the President's Reports for either credit, and the overall objectives of each are not so clearly stated. Neither ERSC nor ESAC explicitly included quick-impact reform measures to kick-start the economy, but they did co-finance such actions under the PRGF and EDPRP. (Foreign exchange restrictions were being liberalized under the PRGF, and important demobilization was being supported under the EDRP, both of which ERSC and ESAC were helping to finance). Unlike their predecessor the 1993 SAC1 credit, ERSC and ESAC did not seek to further liberalize prices or trade, nor to deepen reform of the tax system, expenditure policy, nor the largely state-owned financial sector.[2] Nor did they identify high-impact short-term measures to reverse declines in infrastructure or productive assets. By seeking to re-start a medium-term policy reform agenda rather than focus on short-term adjustment measures for stabilization and economic recovery, ERSC was more of a hybrid policy credit than a straight Rehabilitation Loan (again, for the reasons set out in 3.2).

2. Reform of the Commercial Bank of Ethiopia was explicitly left to the IMF to tackle under the PRGF. It is the view of the ICR team that it was appropriate not to pick up financial sector reform in these operations because such reforms take time to develop and implement.

Relevance of components: Nevertheless the structural reform components under both credits were, and remain, highly relevant and appropriate to the medium term reform agendas subsequently mapped out in both the Government's SDPRP (PRSP) and the Bank's CAS. They were grounded in strong ESW, principally the Export Study of April 2002 (Report No. 23294-ET), on-going PERs, and the Regionalization study of June 2000 (Report No. 18898-ET). In some areas, particularly under the ESAC because more time was available for thorough appraisal, dialogue, and Government consideration, some initial path-breaking reforms were initiated – for instance on urban land reform and competition policy. These will continue to be highly relevant to Ethiopia's future reform agenda supported under the forthcoming PRSC. ESAC components tried to build on reforms initiated under ERSC, to set a medium-term agenda. However in some areas (such as public expenditure management reform) the prior actions for ESAC did not pick up actions which had been identified under ERSC as reform priorities for 2001/02.

Relating components to administrative capacity. Fiduciary issues were well dealt with under both credits. As they are largely legislative in nature, or involve the commissioning of studies, many of the prior actions supported under the credits' components did not rely on administrative capacity to fulfill. But now that capacity is required to implement the laws and policy reforms supported, especially those under ESAC, it is evident that capacity is lacking in several important areas discussed in section 4.

Reflecting on past lessons. Since financing could not be delayed, past lessons from adjustment lending in Ethiopia in the early 1990s could not be fully incorporated in the design of ERSC or ESAC, despite uncannily similar circumstances. Key lessons identified in the ICR for SAC1[3] were germane for ERSC and ESAC: (a) urgent financing needs of a war-torn economy may prevent sufficient preparation time for policy reforms to be fully implemented, (b) privatization reforms are prone to delay in Ethiopia because of a tradition of mistrust between the Government and the private sector;[4] (c) greater attention needs be paid in Ethiopia to building institutional capacity to implement and monitor policy reforms. The political context and the pressure to meet urgent post-war financing requirements cut off time for reflection, for policy dialogue, and for up-front policy implementation under ERSC and ESAC. Combined with the Government's hesitancy to agree strong prior actions in a medium-term framework, it also led to the decision to have single tranche operations rather than two tranches of the same operation; a decision which the Adjustment Lending Retrospective[5] concludes should have been accompanied by; a) strong prior actions, b) a medium-term policy framework with clear triggers for future lending, and c) strong supervision, monitoring and evaluation. These were arguably frail aspects at the design stage for both operations; and in the case of private sector and public expenditure management components, were not compensated for by close supervision during implementation.

3.4 Revised Components:

N/A

3.5 Quality at Entry:

For ERSC, quality at entry is rated as *satisfactory* (there was no QAG rating). This rating reflects the strong macroeconomic rationale, consistency with ISS and Government priorities and the speed with which the operation was prepared to meet urgent financing requirements. However it also recognizes an ambiguity of focus, and some design weaknesses.

3. Report no. 16787 of June 26, 1997.
4. There are several other reasons for the delay in privatization (see section 4.2)
5. Adjustment Lending Retrospective, OPCS, June 15, 2001

The President's Report presents ERSC as both a rehabilitation loan and a policy reform operation. For the reasons set out in the preface and in section 3.2, ERSC had too many conditions for a rehabilitation loan. Yet within those there was too much focus on future plans and not enough on immediate actions[6]. Ministers were not ready to make medium-term commitments or to take major short-term reforms. Consequently, there were no short-term `big ticket' reforms to kick-start sustained economic recovery. Under the ISS, rehabilitation of infrastructure and the economy's productive assets was being addressed through the EDRP and ERP. Financing aside, the main stimulus to the economy from the policy actions supported in ERSC components was to come from export promotion policies.

The development of additional new exports was always going to require a medium to long-term supply response in Ethiopia, and necessitate a medium-term program of reforms. The ERSC policy matrix attempted to present such a medium term framework; it identified 43 actions for the following year (2001/02) and 28 for 2002/03. However these were not prioritized, and none had formal status; ie none were set as clear priority actions or triggers that would make or break the successor ESAC operation. On the public sector management component, the absence of stronger prior actions on expenditure management and wage policy reforms weakened the efficacy of otherwise robust prior actions on civil service legislation and the development of a service delivery policy. Whereas a package of sound and much needed expenditure management reforms were proposed in the ERSC policy matrix for the following year, these were not identified as triggers for future Bank adjustment lending, and in fact they did not become prior actions for ESAC.

The absence of strong prior actions and a medium term framework reflected mainly the unwillingness of policy makers to commit to a medium-term program during an uncertain political transition. Seen in this light, the choice of a single tranche design for ERSC was a sensible response to uncertainties in the reform framework. Even with hindsight it is hard to envisage an alternative approach to providing timely emergency balance of payments finance consistent with the ISS. But without a track record of reform or clear commitment to a future program, the decision to neither set clear triggers for access to the ESAC nor to present a contingency response for the Bank to future performance meant that the Bank could not test Government's commitment to reform through the ERSC – not even in the politically challenging areas of private sector development. The Bank should have explicitly recognized that ERSC could not be a policy reform credit. But since it became a hybrid of policy reform and rehabilitation, the absence of clear triggers should have been compensated for by clear implementation arrangements and a clear monitoring framework for critical measures. The President's Report does not identify this.

For ESAC, this ICR rates quality at entry as *marginally satisfactory*, the same rating as given in the QAG first stage review (assessment date July 3rd, 2002) and the QAG second stage review (September 20th, 2002). The ICR endorses the overall judgment of the second panel.

6. Prior actions are listed to demonstrate the breadth of the Government's program, 12 are legally binding, of which 5 require studies, surveys, action plans and the establishment of a committee. The crux of ERSC prior actions was export promotion.

This rating reflects a very difficult context. A lower rating would not be justified in this context, given the strong macroeconomic rationale for the credit and consistency with the ISS and with Government priorities in the nascent IPRSP. The rating also recognizes the credit's strong ESW underpinnings, and the exemplary technical analysis at both pre-appraisal and appraisal. Aided by continuity on the design team, this analysis enriched the Bank's policy dialogue with the Government and provided a platform for policy discussions under the PRSP. Indeed much of the detailed analysis conducted during appraisal and pre-appraisal has been re-visited by the Government and the Bank in preparing the PRSP and PRSC.

Nor is a higher rating is justified, because of design problems stemming from the same cause as those which affected ERSC[7] . Although it was a transition arrangement, the ESAC initially intended to draw policy actions and implementation arrangements from the 3-year PRSP framework (SDPRP). But SDPRP became delayed to the point where the delivery of stabilization financing under ESAC would have been held back if the credit had waited for greater clarity on the medium-term policy reform program.

In the absence of an SDPRP reform program, too many prior actions were presented in the policy framework in the President's Report to signal the emergent broader program. Ten of these were legally binding prior actions. However – perhaps so as not to hold up funding - these 10 were not necessarily the most important in terms of economic impact, nor were they all identified under the preceding ERSC for implementation by end 2001/02. Whereas the policy matrix showed actions for subsequent years, the President's Report did not specify which areas should be regarded as likely triggers for future Bank adjustment lending, although it does state that ESAC would be succeeded by a series of PRSCs[8]. This in turn was because the Bank did not want to pre-empt priorities which might emerge from the PRSP process. A two tranche operation for ESAC was not feasible given ESAC's origins (see preface) but would have allowed the Bank to test commitment and to better support the state transformation which started in Spring of 2002.

Since they were left for the SDPRP, implementation arrangements in the President's Report were intentionally left unclear, especially the framework for monitoring and evaluation - both by the borrower and the Bank. Most of the future steps and outcomes in the policy matrix have no timing commitment; many outcomes are hard to measure, and those that can be measured do not set achievement targets. Responsibilities and accountabilities for implementation on the Government side were also unclear. Consequently there was insufficient focus on Government's capacity to monitor and implement reforms once new laws and procedures were enacted. The absence of any funding for targeted capacity building in the ISS meant that the Bank had no TA to offer under ESAC.

7. ie the competing priorities of waiting for a clear articulation of policy reforms and providing finance for macro stabilization. (The team had just 9 months between ERSC effectiveness and negotiations for ESAC)

8. PRSC1 will most likely continue several reform areas developed under the ESAC; on public sector management, public expenditure management, competition policy, transactions costs and urban land.

Risks were clearly identified in the President's Reports, and mitigating measures were proposed. ERSC identified a) terms of trade shocks, b) the risk of a resumption of hostilities with Eritrea, c) weak capacity in public and private sectors, and d) weakening commitment to reforms. ESAC recognized a) while noting that b) and d) had rescinded following the victory of pro-reformists in the post-war power-struggle. ESAC also identified c) and furthermore identified fiduciary risks. With hindsight the capacity weaknesses (under c) were underestimated, and inadequate attention was paid to technical assistance needs and to the extant provision of TA from donors and the Bank to support the program. A careful assessment of the country's extreme vulnerability to the external price movements for its main export commodity coffee was done, and a number of recommendations were made in the report entitled "Developing Exports to Promote Growth." Fiduciary weaknesses that could challenge the efficient delivery of basic services were evaluated.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

ERSC is rated highly satisfactory as it achieved its primary objective of stabilizing the post-war economy broadly in line with the targets in the PRGF program. Domestic financing fell from 8.4% of GDP in 1999 to just 0.9% in 2000/01 (see table 1). Import volumes fell by just 1.9% in 2000/01 compared to a precipitous drop of 17.9 % the previous year, and the depreciation of the Birr was slight. However foreign exchange reserves actually fell by 0.2 months of imports to just 2 months, compared with the 2.6 projected under the program, as the value of exports fell with a further decline in coffee prices and as official transfers reflected lower than expected grant inflows. ERSC also achieved it's secondary objective of rapidly increasing social spending, albeit by less than anticipated. Poverty targeted expenditures as defined in Ethiopia rose from 8.2% of GDP in 1999/00 to 11.7% in 2000/01[9].

ESAC is rated satisfactory against its primary objective of helping to stabilize the post-war economy, but does not merit a highly satisfactory score, despite having achieved progress against its secondary objective of restarting the structural reform agenda. The reason is ESAC did not actually disburse in 2001/02 - the financial year in which it was envisaged in the PRGF program - due to a 5 month delay between Board approval and credit effectiveness. ESAC did not therefore provide the intended foreign reserve cushion against the declining terms of trade in the Ethiopian fiscal year 2001/02, nor the intended budget financing in FY2001/02. Gross foreign reserves were higher than projected for 2001/02 only because grant transfers and debt relief were higher than expected. An unsatisfactory mark is unwarranted because ESAC initiated important policy reforms for private sector development.

9. In Ethiopia `poverty targeted' spending represents total aggregate spending in education, health, agriculture and roads sectors.

Macroeconomic Indicators	1999/00	2000/01		2001/02		2002/03	
(Annual percentage change)	Actual	Proj.*	Actual	Proj.*	Actual	Proj.*	Actual
Real GDP	5.4	7.8	7.7	5.8	1.2	6	-3.8
Consumer prices (annual avg.)	4.2	5.2	-7.2	3	-7.2	3	9.2
Terms of trade	-33.9	-11.8	-6.2	-6.6	-8.9	3.6	0.6
Import volume	-17.9	n/a	-1.9	n/a	11.8	n/a	12.6
(In percentage GDP)							
Overall fiscal balance (incl. Grants)	-11.2	-6.4	-5.5	-6.9	-9.3	-5.9	-9.7
Domestic Financing	8.4	n/a	0.9	N/a	-0.3	n/a	0.9
Total expenditure	32.3	31.2	28.5	31.1	32.2	29.8	36.4
- defense	12.9	7.3	6.1	5.2	5	4.5	5.5
- poverty targeted	8.2	12.1	11.7	14.9	14.6	14.9	19.3
Gross Domestic Savings	0.9	0.7	2.6	2.4	2.2	4.3	-2.3
Gross domestic Investment	15.9	17	17.8	18.6	20.5	19.3	20.5
External current acct. (incl. Off. t/fers)	-5.1	-5.7	-4	-7.1	-6	-6.2	-6.9
Gross official reserves (mths imports)	2.2	2.6	2	2.9	3.2	3.8	3.8
External debt**/GDP	85.7	88.8	86.3	91.6	101.1	90.0	101.6
Debt service ratio***	52.2	22.4	23.2	22.7	17	20.6	16

* 2000/01 projected refers to ERSC, 2001-03 refers to ESAC projections.
** Before debt relief for projections, after debt relief for actuals from 2001
*** In percent of exports of goods and non factor services, before debt relief for projections, after debt relief for actuals from 2001

4.2 Outputs by components:

Since there was continuity in the policy areas covered under sub-components of both credits, this section scores both loans together in terms of outputs. For brevity, specific components in section 3.3 have been merged. Annex 8 contains a full list of the listed prior actions for each of the reform areas discussed under the components listed here. When reviewing ratings for the components it should be recalled that the provision of emergency financing was the primary impetus behind both credits.

(a) Maintaining Poverty Focused Macroeconomic Policies. This component is rated satisfactory.

Fiscal and external imbalances were substantially narrowed in 2000/01, but widened again in the following two years as the economy suffered internal and external price instability. In 2000/01 and then again in early 2001/02, a bumper harvest coupled with food imports caused domestic grain prices to fall, while the terms of trade continued to fall as international coffee prices hit 20 year lows. Inflation became sharply negative (-7.2%) from 2000/01 through 2001/02. With good rains, real GDP growth recorded 7.7% in 2000/01 following the bumper grain harvest. Growth in 2001/02 was down to just 1.2% as production returned to more normal levels.

All quantitative targets under the PRGF program were observed throughout 2001-03. Poverty-targeted expenditures rose from just 8.2% of GDP in 1999/00 to 14.6% in 2001/02.

(b) Promoting Private Sector Development and Export Competitiveness. This component is rated satisfactory because ESAC opened up a dialogue on new, critical, and in some cases historical policy areas in just 4 months between pre-appraisal and negotiations. Prior actions for both credits were met, albeit with some delays and with weaknesses in some cases. A higher mark is not justified because some important actions were taken partially, or by the letter rather than the spirit. Some were not observed to the standard discussed at negotiations, and most could not sustain their intended impact without technical assistance or amendments to the laws passed.

Improve the business environment: Progress under this sub-component has been quite promising given that these were new areas to Ethiopia, but much remains to be done to convince private investors of Government intent.

Competition policy: As a prior action under ESAC, Government took an important first step in creating a modern system for regulating competition. The Trade Practices Proclamation establishes rules on anti-competitive practices, abuse of market dominance, and consumer protection. As yet, the Proclamation has a number of problems which require attention. Most importantly, it requires a clear definition of what constitutes market dominance. Second, it allows for the application of discretion by stating that `certain provisions' may not apply, including for enterprises designated by the Government to facilitate development. Third, the Competition Commission established under the act, to be appointed by the Prime Minister, is responsible for both investigation and adjudication of cases. Furthermore there is little public awareness of the act, and the Ministry of Trade and Industry has neither the capacity to amend, nor to publicize it.

Urban Land: Also under ESAC, a new - and for Ethiopia, historical - urban land law was approved by the Council of Ministers, and then by Parliament. The four key regions and the city of Addis Ababa are working to adapt the federal regulations to their circumstances, but none have yet issued final regulations. The Ministry of Federal Affairs is seeking technical assistance to prepare manuals and guidelines on auctioning of leases, negotiating leases, calculating compensation, and developing incentives for land development. The Ministry has also been active in public education & awareness activities. It reports a continuing widespread misunderstanding of how a market in land rights can be compatible with a Constitution that forbids the buying & selling of land. It is aiming to change attitudes in regional and city administrations, away from maximizing initial auction proceeds, and towards promoting economic development through efficient land allocation. It is too early to evaluate whether the revision of the Proclamation will have the impact intended. Certainly, it represents a radical improvement over the previous legislation. Nevertheless, the new Proclamation itself is only the start of a long and extensive process. Commercial Banks remain anxious about accepting leases as collateral, because of the confusion over conflicting claims over the lease in cases of default, and also over whether the existing Foreclosure Law applies to land leases. In addition, regional administrations are still not putting enough land onto the market to bring prices down to realistic levels. Rural land reforms were not dealt with under ESAC.

Investment Code: A number of changes in the Investment Code were taken as prior actions for ESAC. Nearly all were fully implemented as agreed. The continuing re-orientation of the EIA away from regulatory and policing functions, and in the direction of positive promotional and facilitation functions is a positive outcome. However, the commitment to end case-by-case screening of new investments, as per GoE's 2001 Letter of Development Policy, appears to have been implemented in practice, but not yet fully reflected in the revised Investment Code. The Proclamation still requires foreign investments and joint ventures to obtain "investment permits," for which they must supply project profiles, machinery lists and various other documents. A current revision to the Code will take care of this problem. Furthermore a provision under the new Code only allows investors to form joint ventures with the Government telecom

services.

Promote exports: There has been little supply response as yet to the measures introduced to initiate the expansion of exports.

The Proclamations and Directives identified as prior actions under ERSC and ESAC to establish a *Bonded Manufacturing Warehouse* (BMW) scheme are effective. Most concerns regarding the drafts which were expressed by the Bank at ESAC appraisal have been addressed in the final versions of Directives, although there are still documentary controls on users of the scheme. Disappointingly, there has so far only been one application for the BMW scheme, from a foreign investor who recently took over at a large state-owned garment factory. Thus, the practicalities of the scheme have not yet been tested.

Following implementation of ERSC prior actions, NBE has only issued seventeen *Export Credit Guarantees* in total, of which five have resulted in defaults. Three of these five involved traders in sugar. Thus, the intended impact of the ECG's on export growth has so far been marginal. Default performance has been worse than expected. This partly reflects poor loan performance within the commercial banking system, possibly also the impact of the drought, and it partly reflects the fact that ECG's are being issued to traders, as well as producers of added-value or manufactured exports.

Similarly, take-up of the *Suppliers' Credit* scheme introduced under ERSC has so far been low, with less than ten applications since the May 2002 Directive was passed. This reflects the lack of growth so far in added-value or manufactured exports, where suppliers' credit is most relevant, in order to fund machinery purchases. It also reflects inadequate communication of the scheme: the National Bank merely issued the Directive in the normal way to authorized banks, rather than undertake direct promotion to exporters. Local banks have little interest in promoting suppliers' credit. There is still very little commercial usage of the facility on *Franco Valuta imports.* Most such imports continue to be for aid organizations or for government bodies.

The ERSC prior action waiving the requirement for presentation of *Standards Authority's* quality certificate as condition for export clearance has still not yet been satisfactorily implemented. Government intends to achieve the same result through a new Regulation that will introduce the important concept that all standards are by their nature voluntary.

A study initiated under ESAC of the *coffee sector* went ahead, but the findings have not yet been acted upon.

Privatization: Progress in privatizing state-owned enterprises started more slowly than envisaged under both ERSC and ESAC prior actions, and has now virtually stalled. The target set in 1997/98 was to privatize 144 enterprises before the end of 2000. In the event, 60 were sold in that period. In 2001, a further 10 were sold, and in 2002, only two more were actually sold. A fundamental problem with the current privatization process in the eyes of potential buyers is that prices are fixed unilaterally by Government and are set too high with the primary aim of raising revenue from the sale. Other reasons are the lack of interest from foreign investors coupled with limited availability of commercial bank credit for local investors.

Increase agricultural productivity: A study on fertilizer marketing and credit was conducted as required by ERSC. However a fertilizer action plan stalled as Government understandably focused on addressing the food crisis caused by the drought in 2002.

Reduce transactions costs: Progress under this sub-component has been quite promising, and there are strong early signs of an investor response.

Shipping – The system for monitoring ESL's performance under monopoly protection set up as required by ESAC (albeit not entirely as intended) has started to improve the shipping service. ESL has reduced average prices by around 5 to 8%. ESL now explains prices and service levels available in the market, and why its services represent value for money. A new company strategy is to be considered and approved within the next three months.

Air cargo – The abolition of Ethiopian Air Lines' protection in the air cargo market under ESAC has been a major factor in a new willingness amongst horticulturalists to invest in expanded capacity. Horticultural exports are expected to grow 30% next year, with 40-45 new hectares of cut flowers in production, together with 750 hectares of off-season fruits & vegetables for export. Quite separately, the new Investment Code, also supported under the Credit, has lifted the previous restriction on air transport services using planes with a capacity over 2700 kg. This, plus the liberalization of the cargo charter market, has encouraged one local investor to purchase a dedicated cargo-only Boeing 767 freighter, expected to carry meat to the Gulf, and horticultural produce to Europe. This new capacity is expected to come on stream within three months.

(c) Public Sector Management

The path of the civil service reform program which actions under this component were designed to support under both credits, was fundamentally changed by the political decision in 2001 to move forward with rapid decentralization. Most of the outputs achieved with ERSC and ESAC support remain relevant in a decentralized environment, and so this component is rated *satisfactory*.

Legal framework for a modern civil service. A key prior action undertaken under ERSC was the passage of the new civil service proclamation, which supports a more open, devolved civil service system. Provisions in the proclamation clarify and strengthen the rights and responsibilities of civil servants. Building on this, the ESAC supported subsidiary rules designed to initiative implementation of this legislation including the grievance procedures for civil servants. Other elements of the legal and ethics framework including the National Charter of Citizens and Rights and Responsibilities as well as Civil Service Code of Ethics have not been adopted in their original form. But the Government plans to develop institutional charters and an ethics management system with the rapidly evolving CSRP. Regardless of the shape Ethiopia's public sector capacity building efforts took in the year following ESAC, this civil service legislation provided an important building block.

Performance management and service delivery improvement. As a prior action for ERSC, the Cabinet approved the National Service Delivery Policy—a guiding framework on the use of relevant modern managerial techniques for adoption by civil service institutions at all levels of government. As a prior action for ESAC, Government developed the Policy into an integrated *process change* mechanism, the Performance & Service Delivery Improvement Program (PSIP). PSIP has been implemented in 6 key ministries of the federal government.

Enabling Environment / Incentives to perform. The technical crux of an affordable medium term pay policy was developed satisfactorily under both operations. But this technical work was usurped by a

political decision to award a pay increase to those on the lowest salary grades. By the Board Presentation of the ERSC, the Federal Civil Service Commission had completed a 1999 fair comparison of public and private sector wages and a survey reviewing salary grades, albeit not one which met the Bank's technical standards. As a prior action for ESAC, the Government completed the job classification exercise and a range of consultative workshops with civil servants and professional associations. A 2000/01 draft remuneration policy was developed to reform the pay and employment system, but has not been used.

Fiscal and personnel systems. The ESAC, and to a lesser extent the ERSC, satisfactorily supported actions intended to improve the quality of fiscal and personnel data. First, the modest prior actions related to closure of federal and regional accounts, as well as federal audits were carried out with delays. The Government has since moved well beyond ESAC targets and has currently closed and consolidated regional accounts for the year 2000/1, and completed federal audits for the year 1999/00. Similarly, the ESAC prior action of automating 50% of personnel records was achieved, but has since slowed. Approximately two-thirds of records have been automated.

(iv) Public Expenditure Management and Policy

Public expenditure management. This component is rated *unsatisfactory* for both credits because the intent of the component has not been advanced despite the eventual compliance with most of the credits' prior actions. Whereas ERSC appraisal identified a number of critical measures to achieve the strategic aim of linking planning and budgeting to policy choices, these measures were not taken up as prior actions under either credit, but were left for future years. Three full budget cycles on, the key ones - adherence to the financial calendar and development of an action plan for the public expenditure program (PEP) - have still not started.

Prior actions envisaged under the public expenditure component of both credits were met, albeit with considerable delays. ERSC prior actions setting up a joint MEDAC-MOF committee to discuss expenditure issues with donors, and developing an FMIS action plan were met on time, but the committee is still determining its terms of reference, and the action plan has yet to be implemented. The more robust ESAC prior conditions requiring approval by the Council of Ministers of the Macro Economic and Fiscal Framework, and the issuance of indicative planning figures for 2002-2004 were also completed. But they were so late as to undermine their purpose, which was to allow more timely and predictable medium-term planning and budgeting at regional and district levels The MEFF for the current (2003/04) Budget was eventually approved by the Council of Ministers in late May, 2003 – just weeks before the Budget was finalized.. Furthermore, whereas ESAC was designed following the merger of the planning and financing ministries, full integration of federal and regional recurrent and capital budgets remains a work in progress. At the local level, the heavy recurrent orientation of the block grant means that woredas are in effect managing only recurrent budgets. The upshot of all this is that Ethiopia continues to operate with a largely incremental, partially integrated budget system, without a clear link to medium-term policies or programs. Given its importance both for public service delivery and for the Government-donor budget support relationship, the Bank needs to pursue this public expenditure management agenda more rigorously in ESW and in the development of PRSC.

4.3 Net Present Value/Economic rate of return:
N/A

4.4 Financial rate of return:
N/A

4.5 Institutional development impact:

Modest. This rating recognizes that as single tranche operations at an early stage of reform, ERSC and ESAC sought to identify discrete policy reforms rather than to build capacity. Nevertheless, the President's Reports cite capacity building as an aim of the credits. Renewed capacity building efforts including technical assistance will be required to realize the potential IDI of ERSC and ESAC prior actions, particularly those in private sector development. Public expenditure management reforms require renewed momentum to have a positive institutional development impact.

The civil service proclamation, improvements in the remuneration system and in monitoring personnel, have helped move Ethiopia towards an open civil service system which is better paid. While these gains have been modest, the legal framework provides the basis for more ambitious efforts into the future. The launch of the PSIP should promote restructuring and rationalization in Ministries and Regions.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

As discussed in section 4, falls in grain prices and export prices adversely affected the macro economic outcome for ESAC, which finally disbursed in a drought-affected year, where macro and fiscal imbalances widened further.

5.2 Factors generally subject to government control:

Aside form the terms of trade decline and onset of drought, the 5 month delay between Board approval and disbursement of ESAC would have affected macro balances in 2001/02. Selective lack of commitment during appraisal, and of compliance thereafter, with the private sector development reform agenda means the climate of uncertainty amongst private investors remains, when it could have been improved. Failure to adhere to the Budget calendar in all successive budget cycles is important in terms of its impact on the quality of budgeting and fiscal reporting from regions, and seems to indicate some form of caution by the Ministry of Finance and Economic Development over seeking early decisions from the Council of Ministers on the strategic allocations of resources behind policies.

5.3 Factors generally subject to implementing agency control:

Continued capacity weaknesses in the Ministry of Trade and Industry have hindered private sector development policies.

5.4 Costs and financing:

N/A

6. Sustainability

6.1 Rationale for sustainability rating:

Overall sustainability is judged *unlikely*. This rating is based on the fragility of the private sector component at exit. Some of the actions under the private sector component were historical breakthroughs for Ethiopia, and some were taken almost to the point of no return with the introduction of new laws. Nonetheless they are judged unlikely to be sustained without continued attention from the Government of Ethiopia and its development partners. In nearly all aspects amendments to Directives and laws are needed to achieve the intended impact. Technical assistance is required to amend, implement, and even communicate many of the measures supported under ERSC and ESAC, in particular the competition policy and privatization. Government commitment to fully implement these reforms, to fully liberalize the transport sector, and to fully withdraw from investment regulations has still to be proven. Furthermore,

whereas ERSC and ESAC created openings in terms of export opportunities, these are necessary but not sufficient to attract new investment. As the Bank's recent investment climate assessment shows, improvements in the performance of the telecoms and financial sectors are needed to mobilize new investment. These issues as well as further follow up on privatization, competition policy, the investment code, urban land, and transport sector are likely to be followed up in the forthcoming multi-year PRSC.

Nevertheless, the Government's commitment to stable macroeconomic management, social sector development, and decentralized public sector capacity building, have deepened with the pro-reform political consensus which emerged in September 2001. On the public sector management aspects, ERSC and ESAC should not be seen in isolation from the broader Public Sector Capacity Building Program (PSCAP) which the Bank is now at the point of appraising. PSCAP will build on the initial improvements in rules for managing civil servants and financial resources. PSCAP will also ensure that necessary technical assistance is provided to sustain public sector reforms initiated under ESAC. The overall rating takes this into account.

6.2 Transition arrangement to regular operations:
N/A

7. Bank and Borrower Performance

Bank
7.1 Lending:
Performance for ERSC was *satisfactory*. For ESAC it was also *satisfactory*. Identification benefited from extensive ESW during the war period, notably the regionalization study, export study and annual PERs, and from continued involvement of staff in this ESW and in the design teams for both credits. It is to the staff's credit that a recently completed Investment Climate Survey has re-confirmed that the Bank's dialogue under ESAC was on the most important areas for private sector development; urban land, telecommunications, trade policy, and transactions costs.

During preparation, especially of ERSC, the Bank was under significant pressure to move quickly to meet urgent financing needs. This pressure was a concern all the design team members. It dictated the choice of single tranche operations, it weakened the Bank's ability to test Government's commitment to policy reforms ,[10] and - for ERSC - it severely limited the degree of technical collaboration.[11] and hindered the degree of interaction with other donors. It also determined the inclusion of various studies as prior actions for ERSC and ESAC, to consider future policy options. Under the circumstances it is difficult to envisage that the design team could have responded any differently. Nevertheless, quality at entry for ESAC was weaker than it could have been, and this prevents a score of highly satisfactory for the ESAC, despite highly satisfactory appraisal.

10. The ISS originally saw ERSC and ESAC as emergency recovery credits. During ERSC pre-appraisal pressure was exerted on the Bank to build in policy reforms. But at the time of ERSC, the Govt was not ready to commit to specific policy reforms, hence at pre-appraisal the team returned with insufficient agreement on policy actions. Triggers for accessing the ESAC successor should have been tightened and clearly set out, but the pressure to disburse ESAC on time meant they were weakened.
11. For instance the Ethiopian authorities expressed concern about their limited technical capacity and lack of experience in preparing a new competition policy, and requested short term Bank assistance. Ideas were shared in the context of appraisal

Appraisal for ERSC was shortened to meet the financing timeline. The concept review in late January 2000 was closely followed by a two-week pre-appraisal mission with (8 staff members and consultants). As mentioned in section 3, fiduciary risks were well explored and dealt with under ESAC. The complexity of program design and implementation capacity were somewhat under-explored under both credits. The team scored lower on incorporating lessons learnt from the design of adjustment operations, but their hands were tied on instrument choice. Technical appraisal was particular strong for ESAC. With ERSC supervision, pre-appraisal and the full appraisal there were in effect three rounds of policy discussions for ESAC. The appraisal team comprised several leading experts who brought to bear deep knowledge of international best practice in their technical areas. Their work is proving useful both to the Government and to the Bank in developing reforms in telecommunications, export development and competition policy. Regarding adjustment to other Bank operations, there has been a major adaptation under the new CAS to public sector capacity building and an emphasis on diagnostic work on decentralization. However there was little shift towards process development in the PERs conducted in 2001, 2002, even though a PEM reform program was being defined under ERSC and ESAC. This was a wasted opportunity – a better link between ESW and the reform program could have increased the chances of substantive progress on the PEM program. These issues are arising again as donors move towards direct budget support.

7.2 Supervision:

Performance under ERSC was *satisfactory*. For ESAC it was *unsatisfactory*.

The supervision mission for ERSC identified some disagreement with the borrower over the need for prior actions for ESAC, and some delays in implementation of ERSC actions, attributed to capacity weaknesses and a lack of attention from senior officials. Following ERSC, supervision of the public sector management component of ESAC benefited greatly from the relocation to Addis Ababa of the team's public sector specialist.

There is no documentary evidence of any supervision mission for the ESAC program. The TTL and sector manager maintained a dialogue by attending a CAS workshop on private sector issues shortly after the credit was approved, and before its effectiveness. ESAC was designed as a transitional operation pending the development of PRSCs to support the PRSP. Yet in the crucial transition period there were important staff changes in the Bank team which meant a break in the continuity of the Bank's dialogue on some issues where continuity in the Task Team had previously been the main strength. There was no Country Director for a 6 month period leading up to the approval of ESAC. Task management of the planned PRSC was transferred to another sector, and the previous manager for both credits took up a new assignment, but was not replaced. This ICR coming 13 months after approval, was the only detailed review of progress against specific actions under ESAC, and the first attempt to assess the cumulative experience of both operations. Supervision would have identified continued weaknesses in some laws post-negotiation of ESAC, continued weaknesses in implementation capacity, and communication problems over the intent of the reforms. Early action on these aspect could have significantly improved the impact of the credits. There were two requests for extension of the effectiveness date, with the second backdated. ESAC finally disbursed on 28 November, 2002, 5 months after approval.

7.3 Overall Bank performance:

Overall Bank performance on ERSC is rated *satisfactory* in very difficult circumstances.

Overall performance under ESAC is rated *satisfactory*, despite very strong technical appraisal. This rating reflects the collective performance of the Bank as an institution, from review and appraisal through supervision. The ICR considers the Task Team to have performed creditably in very difficult circumstances. The rating is justified by weak supervision on private sector and public expenditure

management actions, coupled with the loose M&E framework, despite the decision to opt for a single tranche operation in an uncertain policy environment, where enhanced monitoring would be expected. An overall rating of highly satisfactory could not be justified on appraisal performance alone, because stronger impact of reforms may have been possible through better instrument design and supervision to assess the implementation of the credit's prior actions. Furthermore, for the ESAC this ICR endorses the QAG Panel's conclusions on weaknesses in Bank processes which are not covered elsewhere in this report.[12]

Borrower

7.4 Preparation:

With a strong sense of leadership and responsibility, Government determined the pace and content of the reform program despite political uncertainty at the time of ERSC preparation. At times political changes affected preparation. For instance the ESAC identification mission was somewhat de-railed by the announcement of a major reshuffle of ministerial responsibilities.

Cooperation was not altogether smooth, as the Government could not accept the decision to split proposed adjustment lending in the ISS into two separate tranches. There was limited progress in several areas between ESAC pre-appraisal and appraisal. At ESAC appraisal Government was still resisting prior actions. The mission could not complete appraisal because two key documents required as conditions in the policy matrix – the draft revised Federal Urban Land Lease Proclamation and the draft Foreign Direct Investment Proclamation - were not made available.

There was a tendency within the Government to delay decision-making on specific actions on both credits until very late in the processing cycle for the operations. In addition the Government could have been more open in the policy dialogue for ESAC. The Council of Ministers' performance in coordinating and delivering a core set of policy reforms needs to improve.

7.5 Government implementation performance:

This was not homogenous across all program components – as outlined in section 4.

7.6 Implementing Agency:

see 7.5

7.7 Overall Borrower performance:

Overall borrower performance is rated *satisfactory* for both operations. Borrower performance was marginally unsatisfactory at appraisal and subsequent to negotiation, but marginally satisfactory in implementation of reforms. The overall satisfactory rating reflects compliance with the prior actions in a testing political context. It remains unclear why, notwithstanding the onset of a drought and terms of trade shock, Government did not draw down the ESAC for 5 months after Board approval.

12. Important comments in advance were not reflected in reviews. Review guidance was unclear. Peer review could have been earlier, and the findings should have been incorporated in eventual design.

8. Lessons Learned

Systemic lessons :

Technical assistance should accompany adjustment reforms in a country with relatively weak institutions. This is especially true for second-generation reforms such as competition policy, investment code, and privatization reforms supported under ESAC. Government would have benefited from Bank technical support in drafting competition and investment legislation, and in strengthen the institutions charged with administering new laws. This contrasts with the ample TA support provided to good effect for public sector management reforms.

Maintaining a recent stock of good analytical work is essential in a country where the Bank provides development policy lending. The value-added in prior analytical work conducted when the Bank had suspended lending during the war showed through in the speed with which the Bank was able to identify reform measures in public sector reform and the investment climate under both ERSC and ESAC.

In a Post-conflict situation, early understanding is needed amongst all partners, of the appropriate balance between financing urgent needs and policy reforms. These two considerations should shape the short and medium-term agenda for Bank lending, and the appropriate choice of instruments. In the case of both ERSC and ESAC, once the ISS had identified a $250 million fast disbursing adjustment credit, the Government relied on receiving this finance. That made it impractical for the Bank to consider anything other than timely single tranche operations, and weakened negotiations for far-reaching policy reform measures as prior actions.

The choice of adjustment lending instrument for a low income country, and the design of Bank policy conditionality should be CAS-based. This should take into account the maturity of the PRSP reform program, likely progress with critical reforms, and the need to finance the PRSP. In a low income country like Ethiopia where financing needs exceed the availability of resources, the Bank will always encounter an urgent need for finance, especially now that adjustment lending through the PRSC instrument is increasingly being treated by borrowers as medium-term budget support. In preparing the CAS or ISS, careful consideration needs to be given by the Bank to how to support and reward policy reforms in areas where improvement is crucial for development effectiveness, but progress is likely to be too slow to allow timely and predictable disbursement of policy-based loans.

The Bank needs to actively manage & supervise policy-based lending in uncertain policy environments. The transition from ERSC to ESAC and from ESAC to PRSC shows that where single tranching is chosen without a medium-term reform agenda, strong prior actions and clear triggers for future Bank policy-based lending are needed, and clear and close monitoring and supervision is advisable.

Ethiopia Specific Lessons :

Private sector development takes time. The tradition of mistrust between the private sector and the Government will require closer and more frequent dialogue, and should be addressed by mapping out and adhering to a transparent medium-term reform strategy with a sound legal framework, and clarity on the role of government. Support for this will require a strong and flexible partnership from the Bank based upon a good stock of analytical work, continued in-depth dialogue through policy-based lending building upon existing studies and lending experience, and continued strong monitoring and supervision of the

reform agenda.

More attention is needed to developing the public expenditure management agenda. As Ethiopia develops accountable decentralized government, and as the international community moves towards harmonized direct budget support to assist them, the need for a transparent dialogue around improved and more timely budgeting has increased. Government needs to adhere to the financial calendar before regions can budget with accuracy, and before donors can align around it and receive timely information on the budget that they are supporting. In addition the link between policies and resource allocation in the budget needs more attention through development of the PEP. The Bank should conduct PERs and the IGR with a view to developing key budget processes, and should seek a more open dialogue with the Government.

Allow sufficient time for reforms. More time is needed to test commitment to reforms aimed at private sector development. But even where there is clear political commitment to moving forward on a reform path, the technocratic support to give the reforms impact takes longer to develop.

9. Partner Comments

(a) Borrower/implementing agency:
Systemic lessons :

(b) Cofinanciers:

(c) Other partners (NGOs/private sector):

10. Additional Information

Annex 1. Key Performance Indicators/Log Frame Matrix

Objectives/Issues	Target	Actual
Private Sector Development and Export Competitiveness		
Improve access to export finance	Export credit guarantee directive operational by July 2001 Suppliers credit directive to be extended to cover suppliers credit for inputs for the purpose of exports on cash basis	The export credit guarantee directive became effective on May 9, 2001, incorporating the agreed improvements.
Remaining export ban exists for raw hides and skins	Replace export ban on raw hides and skins with export duty	No agreement was reached either on ending the ban or on converting it to an equivalent export duty
Slow and cumbersome customs regulation harm exporters	Waive the requirement for the presentation of a Standards Authority quality certificate as a condition for export clearance	An instruction letter to Customs was issued asking them to facilitate the smooth exportation of "non-standardized approved goods"
Continue privatization of parastatals	Bring to the point of sale 21 enterprises and initiate preparation for a further 13 (between January 2001 and September 2001)	36 enterprises were brought to the point of sale and preparations initiated for a further 33
Public Sector Management		
Strengthening the legal framework and ethics architecture for the federal civil service	Implementation of Civil Service Law Development of ethics training curriculum for federal civil servants Adoption by Council of Ministers of Civil Service-wide Code of Conduct in line with National Charter of Citizen's	The Civil Service Law came into effect in January 2002. Adoption was delayed due to inconsistencies with the Civil Service Law. The revised version is to be submitted to the

	Rights and Responsibilities	Council of Ministers by end of August 2003.
Improve civil service pay and remuneration	Adoption by Council of Ministers of medium-term pay and employment policy for federal civil service consistent with the Macro-Economic and Fiscal Framework	Expert advice is sought from an international pay specialist and the procurement process is underway.
Improve performance of frontline service delivery	Implementation of National Policy on Service Delivery Monitor client feedback using report cards in federal institutions piloting the national Policy on Service Delivery	Federal Civil Service institutions have started implementing the policy. Most federal civil service offices have established Customer Services and Complaints Handling units and have finalized the preparation of service standards. They have started receiving and handling clients feedback report cards. Encouraging results have been registered and growing clients satisfaction has been observed. Institution's capacity to undertake a more comprehensive and continuous application of the policy needs to be strengthened.
Improve transparency of personnel management system	Completion of automation of all personnel data for federal civil servants in Federal Civil Service Commission and federal line agencies Establishment of an Inter-ministerial Technical Committee to develop IT policy for systems integration by July 2001 Approval by Council of Ministers of draft IT policy	Personnel data of 31,577 federal civil servants were automated as planned.
Improve Financial Information Management System (FMIS) for efficient	Implementation of the findings of the FMIS study	The requirements and broad strategy of the Integrated Financial Management

public expenditure management		Information System has been defined and approved by the steering committee. A number of workshops have been conducted.
Improve timeliness of accounts preparation, reporting, and audit for increased transparency	Reduction in the backlog of accounts and audits from over 5 years to 3 years	The backlog of accounts has been reduced from 4 to 5 years to 1 to 2 years
Improve planning and budgeting at the federal and regional levels to improve service delivery	Adoption by council of ministers of Macro-Economic and Fiscal Framework (MEFF) and Public Investment Program (PIP), satisfactory to IDA, leading to the budget for 2002/03 by October 2001 and submission to the Council of People's Representatives by December 2001. Prepare any necessary legislation relating to the PEP and present it to the Council of People's Representatives for approval MEDaC in coordination with MoF to prepare plan that lays out the resource requirements and a timetable to help the regional states in carrying forward their multi-year planning and budgeting process	The MEFF was approved by the Council of Ministers. However, the MEFF documents that followed were not submitted to the Council of Ministers, lack of planned disbursement of external resources by donors being the main reason. Development of systems for Public Investment Program (PIP) and Public Expenditure Program (PEP) at the regional level has started in the Southern Nations and Nationalities Peoples Region (SNNPR). Due to lack of funds, introduction of the PEP system has stalled. Attempts are being made to solicit funds.

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
One tranche	150.00	150.00	100
Total Baseline Cost	150.00	150.00	
Total Project Costs	150.00	150.00	
Total Financing Required	150.00	150.00	

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	()	()	()	()	0.00 (0.00)
2. Goods	()	()	()	()	0.00 (0.00)
3. Services	()	()	()	()	0.00 (0.00)
4. Miscellaneous	()	()	()	()	0.00 (0.00)
5. Miscellaneous	()	()	()	()	0.00 (0.00)
6. Miscellaneous	()	()	()	()	0.00 (0.00)
Total	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	()	()	()	()	0.00 (0.00)
2. Goods	()	()	()	()	0.00 (0.00)
3. Services	()	()	()	()	0.00 (0.00)
4. Miscellaneous	()	()	()	()	0.00 (0.00)
5. Miscellaneous	()	()	()	()	0.00 (0.00)
6. Miscellaneous	()	()	()	()	0.00 (0.00)

Total	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)

[1/] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	Bank	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**

Annex 3. Economic Costs and Benefits

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
01/01	*1*	team leader		
01/01	*2*	public sector specialist		
01/01	*2*	lead economist		
01/01	*1*	sector manager		
01/01	*1*	economist		
01/01	*1*	research analyst		
01/01	*2*	agricultural economist		
01/01	*1*	financial management specialis		
01/01	*3*	consultant		
Appraisal/Negotiation				
n/a				
n/a				
Supervision				
10/01	*1*	team leader		
10/01	*1*	private sector specialist		
10/01	*1*	public sector specialist		
10/01	*1*	public expenditure specialist		
ICR				
07/03	*1*	team leader		
07/03	*1*	public sector specialist		
07/03	*1*	economist		
07/03	*1*	research assistant		
07/03	*3*	consultant		

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	65*	374*
Appraisal/Negotiation	n/a	n/a
Supervision	n/a	n/a
ICR	5	16
Total	70	390

* These figures reflect the total time and cost of the project. Figures for the various stages of the project are not available.

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating				
☒ *Macro policies*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Sector Policies*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Physical*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Financial*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Institutional Development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Environmental*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
Social					
☐ *Poverty Reduction*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Gender*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*
☒ *Private sector development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☒ *Public sector management*	○ *H*	● *SU*	○ *M*	○ *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	● *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*			
☒ *Lending*	○ *HS*	● *S*	○ *U*	○ *HU*
☒ *Supervision*	○ *HS*	● *S*	○ *U*	○ *HU*
☒ *Overall*	○ *HS*	● *S*	○ *U*	○ *HU*

6.2 Borrower performance	*Rating*			
☒ *Preparation*	○ *HS*	○ *S*	● *U*	○ *HU*
☒ *Government implementation performance*	○ *HS*	● *S*	○ *U*	○ *HU*
☒ *Implementation agency performance*	○ *HS*	● *S*	○ *U*	○ *HU*
☒ *Overall*	○ *HS*	● *S*	○ *U*	○ *HU*

Annex 7. List of Supporting Documents

ERSC Concept Paper Review Meeting Minutes, January 20, 2001.

ERSC Pre-appraisal mission: BTO, February 23, 2001.

ERSC Decision Note of the OC Meeting, March 6, 2001.

ERSC Agreed Minutes of Negotiations, March 23, 2001.

Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit of SDR 116.6 million (US$ 150 million equivalent) to the Federal Democratic Republic of Ethiopia for an Economic Rehabilitation Support Credit, April 30, 2001.

ERSC Supervision Mission: BTO, October 24, 2001.

ERSC Supervision Mission: Aide-Memoire, October 2001.

ESAC Concept Brief, November 2001.

ESAC Pre-appraisal Mission, December 22, 2001.

ESAC ROC Review Meeting Minutes, February 14, 2002.

ESAC Appraisal Mission: BTO, March 7, 2002.

ESAC Appraisal Mission: Aide-Memoire, March 2002.

ESAC Appraisal Mission: Comments on the ToR for the Study on Agricultural Commodity Exchange (Coffee & Grain).

ESAC Appraisal Mission: Comments on Customs Directives for BMW Scheme and Ministry of Trade and Industry Directives for Export Trade Duty Incentive Scheme.

ESAC Appraisal Mission: Comments on the Draft Trade Practices Proclamation.

ESAC Appraisal Mission: Comments on the FDI Regime of Ethiopia.

ESAC Appraisal Mission: Converting an Export Ban to an Export Tax.

Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit of SDR 96.2 million (US$ 120 million equivalent) to the Federal Democratic Republic of Ethiopia for an Ethiopia Structural Adjustment Credit, May 15, 2002.

ICR mission on ERSC and ESAC: BTO Report, July 22, 2003.

ERSC & ESAC Implementation Completion Report by Ministry of Finance and Economic Development (MOFED), July 2003.

Notes for ICR – Private Sector Development Related Issues, July 2003.

Contribution to ERSC/ESAC Implementation Completion Report: Public Sector Management Components and Relevant Aspects of the Public Expenditure Management Components, August 2003.

Bank and Borrower Performance – Notes, August 2003.

ESAC: Quality at Entry Assessment Panel Report – First Stage Review, July 3, 2002.

ESAC: Quality at Entry Assessment Panel Report – Second Stage Review, September 20, 2002.

Implementation Completion Report: Ethiopia – Structural Adjustment Credit (SAC 1), June 26, 1997.

Annex 8 : Full List Of Actions Taken Prior To Board Approval

Macroeconomic Component:

ERSC

- Prepare IPRSP.
- Agree (PRGF) macro framework.
- Significant reallocation to poverty-targeted sectors in 2000/01 Budget (to 12.1% of GDP from 8.6%).
- Launch study to analyze poverty incidence and trends using 1999 Household Budget Survey.
- Launch Welfare Monitoring Unit's work program to analyze impact of Government programs on incomes of poor people.

ESAC:

- Prepare full draft PRSP.
- Satisfactory performance under agreed (PRGF) macro framework.
- Significant reallocation to poverty-targeted sectors in 2001/02 Budget (to 14.9% of GDP from 10.9%).

Public Management

ERSC

- *Strengthening the legal framework*
- Council of Ministers to adopt draft Civil Service Law.
- *Enabling environment*
- launch diagnostic survey of Job Classification and Grading (JCG).
- complete 1999 labor market survey on differentials between private-public sector wages.
- Develop criteria for integrating findings from JCG and labor market survey in view of formulating a medium-term pay and employment policy.
- *Improving service delivery*
- Council of Ministers to adopt Draft National Policy on Service Delivery.
- *Enhancing the transparency of personnel management systems*
- Complete piloting of software for a records and filing system, as a prerequisite for the Human Resource Management Information System, and initiate rollout across federal line agencies.

ESAC Public Sector

- *Legal framework*
- The Council of Ministers has approved the civil service grievance system and procedures.
- *Enhancing incentives to perform*
- The completion of job classification and grading exercise, including new job grouping/grades
- Launch labor market surveys against 1999 benchmarks and for new grades.
- The SDPIP (or PSIP) has been developed and implementation has started in key agencies at the federal level and selected regional bureaus.
- *Improving fiscal monitoring and accountability*
- Closure and consolidation of accounts at the federal level for 1999/90; closure and consolidation of federal and regional accounts up to 1998/99 and initiation of federal audits for 1998/99.
- Preparation of roll-out plan for the BDA system has been prepared, incorporated the new budget structures in the regions and as a transition to IFMIS
- Review of options for using wireless technology for the development of a Wide Area Network.
- Automation of 50 percent of all personnel records at the federal level has been achieved, with action plan for reconciliation with payroll data

Public Expenditure Management:

ERSC

- Establish a committee with membership from the Ministry of Economic Development and Cooperation & the Ministry of Finance to facilitate Government-donor dialogue on public expenditure issues.
- The committee will hold semi-annual meetings with donors on public expenditure issues
- Provide IDA with an action plan to indicate progress and future plans for improving the accounting system, in particular for reducing the current backlog of accounts preparation and reporting for audit.
- Agree with IDA on an Action Plan to develop an improved FMIS.
- Complete review of Sector Development Programs (SDP) in Education and in Health.
- Task Force on implementation bottlenecks of SDPs to report to Ministry of Finance.

ESAC

- Approval by the COM and subsequent communication to Parliament of the MEFF and 2002-04 Indicative Planning Figures
- MOFED initiates technical assistance to select regions on carrying forward their multi-year planning and budgeting
- Issuance by MOFED of joint budget call with a common calendar for submission of the recurrent and capital budgets for 2002/03

Private Sector:

ERSC

- *Remove regulatory constraints on investment*

– Initiate agreed study to identify regulations which hinder private sector development.

- *Promote exports*

- Export Promotion Council to re-establish regular meetings to provide forum of discussion to improve the environment for exports.

- Council of Ministers to adopt new Voucher-based Duty Exemption scheme, open to all exporters with a genuine export order and to exporters using Franco-valuta imports.

- The National Bank of Ethiopia (NBE) to issue Amended Directive on Export Credit Guarantee Scheme, allowing participating banks to charge market interest rates, limiting the maximum collateral requested to new entrants, and simplifying eligibility criteria.

- Coverage of NBE export price monitoring restricted only to products where international prices are available from recognized international sources.

- Export price information responsibility to shift out of NBE to Export Promotion Agency.

- Waive requirement for presentation of Standards Authority's quality certificate as condition for export clearance where buyer confirms his/her acceptance of a different specification, or internationally accepted standard, and his/her acceptance of certification of compliance by a party other than the Authority.

- *Privatization*

- Compete preparation for privatization of 21 enterprises (i.e. compile all documentation necessary to send invitation to tender).

- Initiate preparation for privatization of 13 enterprises (i.e. select winning bidders for preparation).

- *Increase agricultural productivity*

- Sign contract with the selected consulting firm to conduct an agreed study on fertilizer marketing and credit has been signed.

- Pending the results of the study, recommend regional governments procure fertilizer for distribution under extension programs only on basis of competitive bidding procedures, as is already the practice in some regions.

ESAC

- *Improve the business environment*

- Council of Ministers to approve draft Trade Practice Proclamation covering anti-competitive practices, unfair trade practices and consumer protection.

- Council of Ministers to approve draft amended Federal Urban Land Lease proclamation, revised to: (i) secure lease holding and transfer rights; (ii) remove constraints on the secondary lease market; and (iii) establish the use of leasehold rights as collateral.

- Council of Ministers of approve a draft amended Investment Code revised to: (i) remove the minimum investment requirements for 100 percent export oriented activities; (ii) transfer the administration of duty free capital good imports for 100 percent export-oriented investments from EIA to the Customs administration; and (iii) promote export-oriented non-equity based foreign collaboration

- *Reduce transactions costs*

- adoption by the Ministry of Trade and Industry of a Directive: (i) mandating that a single bill of lading be issued by ESL for each consignment naming the actual importer as consignee; and (ii) creation of

a system under said ministry for the monitoring, on a regular basis, of prices, service quality, practices and overall performance of ESL, including reviews of countries subject to ESL's monopoly rights.

- The Ministry of Infrastructure has submitted to the Council of Ministers a Communications Policy, discussing the vision and strategy to reach universal telecom access, options for the participation of strategic partners in ETC and the timetable for liberalization of the market and additional private participation in the sector.
- The Civil Aviation Authority has issued a Circular which defines the specific conditions under which air cargo charter flights may operate to and from Ethiopia.

- *Increase export competitiveness*

- Customs Authority to issue Directive implementing Bonded Manufacturing Warehouse Scheme; in parallel, the Ministry of Trade and Industry to issue Directive implementing Export Duty Incentive Schemes.
- NBE to amend Suppliers Credit Directive to remove debt/ equity ratio requirement for foreign credits and loans for exports.
- NBE to amend Directive to reduce the 2 percent service charges imposed on franco-valuta imports.
- Prepare study to consider and review issues pertaining to coffee marketing with a view of setting up an efficient coffee commodity exchange; and for designing a self contained regulatory framework for the introduction of a commodity exchange.
- Prepare terms of reference for study of raw hides and skins market, considering overall impact of transforming export ban into tariff;

Steering Committee has been set up to lead the study, including representatives from farmers, traders, processors, and the tanneries.

Annex 9 : Borrower's Self Assessment

ERSC & ESAC Implementation Completion Report (ICR)

Economic Policy and Planning Department (EPPD)

Ministry of Finance and Economic Development (MOFED)

July 2003

Addis Ababa

Table of Content

1. <u>Background</u>

When the then Transitional Government of Ethiopia (TGE) assumed power in 1991, it inherited an economy impoverished by a protracted civil war and misguided policies with per capita GDP lower than its level during the 1960s. Real GDP growth averaged less than 2 percent per annum during the decade ending in 1991 while population growth averaged 3 percent per annum during the same period. This translates to a more than 1 percent decline in per capita GDP during the same period. This dismal performance of the economy had resulted in severe macroeconomic imbalances.

The then TGE embarked on a series of a package of economic reform program that moved quickly from macroeconomic stabilization to structural reforms with focus on liberalization of prices of agricultural products (grain). The package of reform measures during the first years of the period of the reform launched in 1992/93 included:

- Steps on the removal of prohibitions and restrictions on the private sector;
- Devaluation of the exchange rate (by 142%) followed by introduction of an auction market for foreign exchange, and
- Liberalization of most prices;

The Government through its New Transitional Economic Policy has also considered the private sector as a partner in the development endeavor by rationalizing the role of the state as facilitator rather than the main actor in the socio-economic transformation of the country. To this effect, government spending has been re-oriented towards developing social and economic infrastructure sectors as witnessed by substantial increase in expenditure on education, health, roads, water and sanitation as well as agriculture and food security since 1992/93. The reign of peace and stability in the country since 1991 has helped significantly reduce defense expenditures from over 10 percent of GDP on the eve of the fall of the Dergue (more than half of recurrent expenditure) to less than 2 percent of GDP in FY 1996/97 with much of the peace dividend directed to social and economic infrastructure sectors (education, health, water and sanitation and agriculture and food security).

However, the momentum of the reform program was interrupted following the outbreak of the Ethio-Eritrea border conflict in May 1998. The conflict had severely hampered the performance

of the economy through strained public finance, reduced donor support, and undermined investor confidence. The conflict had resulted into sharp cuts in capital spending and regional transfers accompanied by heavy domestic borrowing.

Following the signing of the peace agreement with Eritrea in December 2000, the Government has developed a plan to address the immediate human, infrastructure and economic impact of the conflict and to initiate long-term structural reforms in the areas of Food Security, HIV/AIDS, and Capacity Building for core services. This plan has been supported by IDA two-year Interim Support Strategy (ISS), which included the four operations:

- The Emergency Demobilization and Re-integration project
- The Emergency Recovery program
- The Fertilizer supplemented Credit
- The One-Year Economic Rehabilitation Support Credit (ERSC, 2001) followed by the Ethiopian Structural Adjustment Credit (ESAC, 2002).

The assessment that follows will focus on the ERSC and ESAC implementation, as they are forerunners for the upcoming Poverty Reduction Support Credit (PRSC).

2. Assessment of the Reform Programs supported by ERSC and ESAC in Sustaining Macroeconomic Stability and Deepening Structural Reforms

Following the peace agreement, the Government resumed its reform program and reconfirmed its commitment to poverty reduction with in a framework of macroeconomic stability. To support this program, the Government sought assistance from the World Bank and the International Monetary Fund. The World Bank IDA support was extended in the form of two adjustment credits: the Emergency Rehabilitation Support Credit (ERSC) amounting to US $150 million during 2001 and the Ethiopian Structural Adjustment Credit (ESAC) worth US $120 approved in the following year (2002). The Government at the same time entered into a three-year Poverty Reduction Growth Facility (PRGF) arrangement with the IMF.

The ERSC aimed at providing initial support for the Government's effort to stabilize the

economy and bring back to a sustainable path of growth. The ERSC was directed at restoring key economic and social services as well as institutional capacity while financing increased private sector imports associated with removal of restrictions in the foreign exchange markets. It supported the Government's programs to improve macroeconomic performance and reallocate public spending to poverty-targeted sectors and address the Government's reform agenda in three areas:

- Public Sector management
- Public Expenditure Policy and Management
- Private sector Development and Export Competitiveness.

The focus areas of the Subsequent Adjustment Credit (ESAC) was also the same and was intended to strengthen and deepen the reform agendas supported by its fore-runners the Emergency Rehabilitation Support Credit (ERSC).

The reform programs supported by the two credits have set the stage for second-generation reforms (institutional reforms) and have also yielded a number of positive socio-economic outcomes.

2.1. Maintaining Macroeconomic Stability

The two credits have been particularly instrumental in achieving macroeconomic stability via their direct and indirect effects on the exchange rate. Much of these credits have been used for balance of payment support through financing critical imports in the face a continuous decline in the international price coffee. This has enabled maintain a stable exchange rate of the Birr against the US Dollar. The Ethiopian Birr has depreciated by a mere 5.6 percent between 2000/01 and 2002/03.The premium on the parallel rate has narrowed significantly and has

almost coincided with the market rate. This had been so even before these two credits thanks to measures enforced to abolish Franco valuta imports. Merchandize imports increased from 12,967.7 Million Birr in 2000/01 to 14,485 Million Birr in 2001/02, respectively. The reserve requirements in months of import increased from 2.2 months of import in 2000/01 to3.9 months in 2001/02.

Real GDP growth averaged 7.7 percent during 2000/01. This remarkable performance was spurred by a 12.5 percent growth rate of value added of agriculture and allied activities. The industrial and service sectors also registered more than satisfactory performance during the same year. Inflation was maintained to a much lower level of -7.2 percent in 2000/01. However, real GDP growth slowed (a mere 1.2 percent) in 2001/02 owing in the main to weather related factors while non-agricultural GDP with average growth rate of 5.5 percent had relatively performed well. Inflation fell 7.2 percent below zero owing largely to bumper harvest during the previous year (2000/01). Despite increases in the volume of exports, Ethiopia's export earnings declined in 2001/02 (for the second consecutive year) owing to a fall in the terms of trade by 8.9 percent in 2001/02 largely brought about by a fall in coffee prices. According some studies (CAS, 2003), Ethiopia's term of trade (TOT) has been falling by 44 percent since 1996/97.

Macroeconomic stability would not have been achieved had it not been for the two credits given the critical role of essential imports and the volatility of Ethiopia's export earnings.

2.2. Deepening Reforms and Undertaking Poverty Focused Programs

The main achievements, among others, of the pre-conflict Economic Reform Program (ERP) launched in 1992/93 have been macroeconomic stability. The package of reform programs implemented up until 1996/97 focused on the economic domain and is referred to as "first generation reforms". The reforms on the economic domain produced encouraging results in terms of improving the growth performance witnessed during the reform years ending in 1996/97. Annual real GDP growth averaged 6 percent per annum during the reform years ending in 1996/97.

Implementation bottlenecks were found the major stumbling blocks for the full realization of the outcomes of the first generation reform programs. Thus, the reforms during the post conflict years (since 2000/01) have focused on institutional transformation including justice and civil service reform, decentralization and empowerment and capacity building while at the same time deepening, strengthening and rationalizing reforms on the economic domain as well. The other important development during the post-conflict period was the preparation of the poverty reduction strategy paper entitled the **Sustainable Development and Poverty Reduction Program (SDPRP).**

Being built on existing strategies and programs the SDPRP provides Opportunities to sharpen and refocus ongoing poverty reduction efforts. In other words, it enabled development actors rally around the government for the implementation of poverty-oriented programs through coordinating their development interventions and mobilizing resources. It has also helped pave the way for predictability of external resource flows as well as their efficient utilization.

The government is already in the process of implementing its medium term (2002/03-2004/05) **Sustainable Development and Poverty Reduction Program (SDPRP).** The SDPRP, which was submitted in July 2002 and subsequently accepted and endorsed by the IMF and the World Bank, has served as a framework for development partnership between the Ethiopian Government and the donor community. Donors have expressed renewed interest in supporting the poverty-oriented programs articulated in the SDPRP as witnessed by their pledges during the December7-8 Consultative Group (CG) Meeting held in Addis Ababa. Medium term poverty reduction programs such as the SDPRP are meant to serve as vehicles to achieving the Millennium Development Goals (MDGs) by 2015.

The government is currently in the process of preparing Annual Progress Report for the first year of the Medium-term Program (2002/03). The SDPRP Policy Matrix has been further refined in the context of preparing the first Poverty Reduction Support Credit (PRSC I). The Draft SDPRP Policy Matrix prepared by the Government was also shared to donors and the

Matrix is currently being further refined based on the feedbacks from the Technical Team set up by the Development Assistance Group (DAG).

2.3. Improving Public Sector Management and Service Delivery

The Civil Service Reform Program is one of the foremost capacity building programs that has been underway since 1994. The five major areas the reform covers are service delivery, expenditure management and control, human resource management, ethics and top management systems. Over the last six years, a number of studies, which would improve the effectiveness, efficiency, and accountability of the civil service have been prototyped and some are under implementation. Implementation of reform outputs began in September 2002.

2.3.1. The Civil Service Law

The Civil Service Law (Proclamation 262/2002) came into effect in January 2002. Since then, federal civil service institutions are required to manage and direct their HRM activates in accordance with the law. An attendant legal instrument to the law, the Discipline and Grievance Procedure (Regulation 77/2002), which with discipline and grievance cases arising from the breach of the law are to be handled, was also approved by the Council of Ministers.

Following the approval of the law by the federal parliament, most regional states have adopted versions of their civil service law. Implementation of the laws are said to be going fairly good. Pertinent staff of all federal civil service institutions including judges of the Supreme courts, first instance courts and administrative tribunals were given orientations and trainings on the Civil Service Law and Discipline and Grievance handling procedures. This represents 45% of the targeted group. The trainings have increased the awareness among civil servants of their rights and responsibilities. There have been also new plans to undertake similar trainings during FY 2002/2003. There have been some delays in the development of some procedures by the Federal Civil Service Commission (FCSC) however, that has not hampered the implementation of the Civil Service Law.

Following the recent revision of the Result-Oriented Performance Appraisal Guideline, amendment of the Civil Service Law is already underway and is to be finalized and submitted to the approval of the Council of Ministers in early September 2003.

2.3.2. The Civil Service Code of Conduct

The draft code was supposed to be submitted in June 2001 for adoption by the Council of Ministers. However, this was not possible owing to substantive and procedural issues as related

to citizen's constitutional rights. Few provisions provided for in the code considered were found to be inconsistent with the Civil Service Law were identified by federal and regional ethics trainees. A committee composed of members from the Federal Ethics and Anti-corruption Commission and CSRP Office now undertakes revision work. The deadline set for the finalization and submission of the code to the Council of Ministers is set for the end of August 2003.

First phase trainings on ethics to representatives of federal and regional civil service institutions were undertaken from April to October 2002. Civil service reform offices of federal institutions have carried out trainings on ethics to their respective employees as part of their 2002/2003 action plans. Although the delay in the adoption of the code could not allow the exercise of sanction measures, the Ethics Officers appointed in each federal institutions closely monitored observance of the ethical codes by civil servants.

2.3.3. Medium Term Pay and Employment Policy

Progress has been made on the technical aspects of medium-term pay and employment policy. Although the long-term option is to adopt a points rating system, the existing job classification method is to continue for the short-term. There are differing opinions on this and similar issues by World Bank experts. In view of this, it was decided to seek expert advice from an international pay specialist and the procurement process is underway.

A total of 22,620 job descriptions were collected from 104 federal and pilot regional civil service institutions. These were clustered into 21 major occupational groups and 235 sub-occupational groups, and over 1100 classes. Draft guidelines on class specifications and position classification are completed. The target date for the completion of the reform work is set for June 2004.

The first labor market survey was conducted in 1999. The changes made in the job structure and grading system, and the fluctuations that resulted in the labor market following the civil service employee, salary increments made in 2001/02 the need to carry a labor market survey became evident. In 2002 the second labor market survey was conducted with a concurrent family budget survey. Analysis of the survey data however, is delayed apparently for lack of resources. A draft policy paper on pay, benefits and conditions of work is finalized. There is considerable interfacing between the Job Evaluations and Grading and Remuneration and Conditions of Service (RCS) projects, which requires integration. The remuneration reform is to be finalized by June 2004.

2.3.4. Service Delivery Policy

The Service Delivery Policy was adopted by the Council of Ministers in 2001. Federal Civil Service institutions have started implementing the policy. Following the adoption of the policy, most regional states have adapted and/or adopted their service delivery policies. Most federal civil service reform offices have established Customer Services and Complaints Handling units and have finalized the preparation of service standards. They have started receiving and handling clients feedback report cards. Encouraging results have been registered and growing clients

satisfaction has been observed. There are no data available on the proportion of results of client reports published. Institution's capacity to undertake a more comprehensive and continuous application of the policy needs to be strengthened.

2.3.5. Service Delivery & Performance Improvement Plan (SDPIP)

The progress made in the implementation of SDPIP otherwise known as PSIP is at its initial stage. The CSRP Office has made some improvements to the draft operational manual prepared by Price Waterhouse Coopers (PWC). Currently revision work is underway to address some key issues raised in the consultation process. The draft manual is to be submitted for discussion to a workshop to be convened in the not too distant future. Implementation of PSIP is to be launched soon after the workshop. In regard to PSIP, six key federal ministries together with their affiliated agencies were selected to undertake service improvement measures on critical service areas to bring about immediate results (quick-wins). These institutions would be encouraged to access support and resources of PSIP through the CBDSD project. Regional bureaus will also benefit form this exercise.

2.3.6. Human Resource Management Information System (HRMIS)

Personnel data of 31,577 federal civil servants were automated as planned. Installation of wide area network (WAN) and roll-out of HRMIS across federal institutions could not be carried out due to administrative bottlenecks which resulted in delay of the disbursement of the budget allocated for the activity. Budget is earmarked for this activity in CBDSD, and the expected time of completion is set for mid 2004. The more comprehensive aspect of HRMIS is only at the developmental stage, as it requires among the others completion of all HRM reform measures.

IT Policy set up mandate until recently was under the presumed province of ICT Capacity Building Program of the Ministry of Capacity Building (MoCB). Lately the Council of Ministers has approved the transfer of the program to an ICT Development Authority whose accountability is still to remain to MoCB.

2.3.7. Institutional Charters

A draft guideline on intuitional charter was completed and a consultation workshop was undertaken on the draft guideline. There is a lot of interface between the draft guideline and service delivery policy. Necessity has emerged to integrate or eliminate altogether unnecessary overlaps. Once the guideline is finalized, trainings on the guideline will be carried out for federal institutions. The drafting of institutional charter is a task left for each federal ministry, commission and agency.

2.3.8. On Ethics and Anti-corruption Issues

The Ethics sub-program is one of the components of the Civil Service Reform Program (CSRP) aimed at improving the functioning of public bodies. This sub-program has been aimed at

improving public sector management and service delivery. The Federal Ethics and Anti-corruption Commission was established in 2000/01 to oversee the implementation of the Ethics Sub-program. The following key activities have been carried out up until June 2003:

- Four categories of Ethic Principles documents have been prepared for Civil Servants, Heads of Organizations, Judges, and Political appointees;
- The establishment of the " Ethics and Anti-corruption Commission in Southern Nations and Nationalities Peoples Regional State;
- 160 ethics officers have been selected and instituted in 160 government organizations. These officers are entrusted with the follow up of ethics principles.

2.4. Strengthening Public Expenditure Policy and Management

The then Ministry of Economic Development and Cooperation (MEDaC) and the Ministry of Finance (MOF) and the now Ministry of Finance and Economic Development (MOFED) organized Public Expenditure Management issues into eight separate areas of reform activities**:** Public Expenditure Program (PEP), Financial Legal Framework, Budget Reform, Accounting Reform, Cash Management Reform, Financial Information Systems, Internal Audit Project, and External Audit Project. The assessment of each project's performance is thus outlined in the respective sections below.

2.4.1. Public Expenditure Program (PEP)

The merger of the former Ministry of Finance and Ministry of Economic Development and Cooperation has helped better integrate planning of recurrent and development spending. It has also helped better coordinate external resource mobilization and debt administration.

The objective of the program is to implement a system of improved allocation and medium-term planning of public expenditure by reference to clearly defined objectives and priorities & assessing medium term consequences of present day decisions and effectively incorporating donor financing into the accounting and budgeting framework.

The Project enabled carry out the organization, staffing and management of capital budgeting process at federal, regional and sectoral levels, preparation of issues and policy papers on PIP; preparation of the PIP design Document; preparation of PIP manual, develop PIP Database system and Operational Manual, preparation of the 1991-1993, 1992-1994, 1993-1995, 1994-1996 and 1995-1997 Ethiopian Fiscal Years MEFF and PIP documents, preparation of PEP Design Document and Concept Paper. The Project has also helped conduct a number of workshops and seminars to create awareness among stakeholders on the activities just outlined.

This project has been successful in the preparation of the PIP document although problems have been encountered in the operation of the database system. As stipulated in the Financial Law, the Medium term Macroeconomic and Fiscal Framework (MEFF) and the Public Investment Program (PIP) documents were supposed to be submitted to the Council of Ministers for approval. The MEFF (1995-97 E.F.Y) was submitted and approved by the Council of Ministers. The MEFF documents that followed were not submitted to the Council of Ministers, lack of planned disbursement of external resources (loans and assistance) by donors being the main reason for being reluctant to submit subsequent MEFF documents to the Council of Ministers as projection figures have not been found firm on the part of external finance throughout the exercises that were conducted.

In regard to developing systems for Public Investment Program (PIP) and Public Expenditure Program (PEP) at the regional states level, attempts have been made by the DSA project to conduct such an exercise at least for the Southern Nations and Nationalities Peoples Region (SNNPR). If this attempt is to be successful, it is expected that the system will be rolled out to other regional states.

The major problem encountered by this project has been Inability to undertake the installation of a system for PEP preparation owing to lack of fund. Attempts have been made /are being made to solicit funds for undertaking the PEP preparation process.

The next steps of this project will focus on: developing relevant design documents and manuals

on PEP, establishing in-service training program for conducting training programs at federal and regional levels, further strengthening utilization of tools like PIP/PEP to establish capital budget ceilings.

2.4.2. Financial Legal Framework

The objective of the Financial Legal Framework project is to develop and introduce financial administration laws, regulations and associated directives in order to institute financial discipline for executive bodies at federal, regional and ***woreda*** levels.

The project has so far developed a financial administration proclamation and regulations as well as other relevant directives. It has conducted several workshops and seminars to create awareness among regional and ***woreda*** level bodies. The proclamation and regulations were promulgated and are being implemented both at federal and regional levels. The relevant directives developed through the reform process have also been issued and put to use at federal level. They have also been rolled out to regions so that Regional Finance Bureaus could adopt the directives and adapt them to their legal system.

Tasks to be performed in the future in the area of financial and legal framework include, among others: identifying shortcomings of the already issued financial law, regulation and directives, drafting and adopting procurement laws and codes, providing the necessary training for professionals involved in financial administration and procurement.

Although training of trainers has been carried out on procurement principles and techniques to regional experts, the proposed regional training programs have not been conducted in most of the regions. Attempts aimed at identifying shortcomings of the already issued financial laws through structured questionnaires sent out to Public Bodies have not materialized for lack of timely response.

The Financial Legal Framework project component commenced operation at the early stage of

EMC's constitution and whose outcomes have been implemented throughout all Public Bodies both at Federal and Regional Levels. Besides, a working team has been set up for this project to follow up the recommendations of CPAR. The project is to be implemented in consultation with the World Bank Experts for drafting and adopting procurement laws and codes through financial support from CBDSD.

2.4.3. Budget Reform

The objective of the reform Program has been to improve budget control by strengthening existing line item budget and budget processes and introducing revised budget codes, chart of accounts, unit cost norms; improve budget management by improving expenditure composition, undertake budget preparation with due consideration for resource ceilings and medium-term objectives and priorities and introduce performance-budgeting.

The project has so far documented the existing budgeting system of the country, which deals with the process of budget preparation & presentation to evaluate the status of the prevailing system and then developed a new chart of accounts, budget policy paper, the budget information system (BIS) package and concept paper on unit cost. The BIS is a system designed for automating the budgeting process. A number of workshops and seminars have been conducted at various levels by way of creating awareness among stakeholders. The new chart of accounts has been put to use among Public Bodies of the Federal Government and rolled out to the SNNPR as well as to Dire Dawa Administrative Council. Continuing the rolling out process, it is expected that Tigray and Amhara Regions will put to use the new chart of accounts right from 1996 EFY.The BIS has also been put to use at the Federal level and rolled out to the SNNPR Moreover, the on-going exercise on the development of Unit Cost is currently well under way.

The next steps of this project will focus on:

- Issuing directives on Budget Calendar,
- Finalizing the computerization of the budget process in all Federal and Regional Public Bodies,
- Developing relevant manuals/Guidelines in such areas as Aid Management,

performance-budgeting Budgeting and Unit Cost Development,

- Issuing directives on the application of Budget performance evaluation & monitoring,
- Training Federal & regional employees on the application of the various manuals to be developed.

This project has been successful in the preparation of a new chart of account, budget preparation and presentation system. The new chart of account jointly classified recurrent and capital spending by a common account code. The rolling out process to regional governments has also shown success even though additional effort is still necessary to complete the rolling out process to all regional governments.

In regard to improving the budgeting process, one of the areas that received attention was the development of performance budgeting. The application of this system of budgeting will be facilitated through the introduction of the use of Unit Cost. The development of Unit Cost for the preparation of annual budget is currently well in progress.

Besides, directives have been drafted to issue a budget calendar although this draft document is awaiting updates based on feedbacks through workshops to be organized **subsequently**.

2.4.4. Accounting Reform

The objective of the accounts reform has been to clear existing accounts backlogs and produce timely accounts, extend cash accounting to include reporting on key aspects of assets and liabilities, introducing effective systems for the recording and control of the existence, status and custodianship of assets; and in the long-term, including asset information accounts.

Technical assistance was provided to regions and federal institutions in closing backlog of accounts and this has helped reduce backlog of accounts from 4 to 5 years before the commencement of the reform to 1 to 2 years following the reform. The existing government accounting system has been documented in two volumes (Treasury and Donor fund accounting). The expanded double entry-modified cash basis of government accounting system has also been

developed. This system would enable all Public Bodies to register in their books of account such non-cash transactions as fixed assets, debtors and creditors. The preparation of fixed asset manual has been finalized.

Training strategy has been designed and following the strategy two training modules for experienced staffs and one basic training module for new recruits have been developed. In addition to this, relevant training material has been developed to deliver training on the expanded double entry modified cash basis of government accounting system. Intensive training has been provided for over 4000 accounting staffs from both federal and regional governments on the existing single entry cash basis of accounting to expedite the closing of backlog of accounts.

A substantial number of federal government staffs have also been trained on the modified cash basis of accounting system. Besides, the modified cash basis of accounting system has been implemented at the federal level. The rolling out of the modified cash basis accounting system has also been carried out in SNNPR and Tigray regional states for the implementation of this new system during the 1996 EFY. It is also intended to intensify the rolling out process for the implementation of this system in all regional governments during 1997 and 1998 EFYs.

The next steps of this project will focus on

- Entirely clearing existing backlog of accounts although its volume has even now been remarkably reduced;
- Conduct workshop on the fixed assets manual,
- Conduct training on the improved and expanded accounting system for staffs of regional states;
- Implement the improved and expanded accounting system with in all regional government institutions.

This component of the program has been successful in the clearing of backlog of accounts although there still is a need to make extra effort to completely clear back log of accounts. There is only a one-year backlog both at Federal and Regional government levels. The

accounting reports for 1993 EFY have already been compiled for consolidation. This is to mean that by the time the 1996 EFY turns on; there will be a backlog of one year at the Federal level and two years at the Regional level.

Besides, the new modified cash basis of accounting has been put to use at federal government level and in SNNPR. Attempts are also being made to speed up the rolling out process to other regional states.

2.4.5. Cash Management Reform

The objective of this component of the reform program has been to design & implement an integrated system for the efficient and effective use of government cash resources, including forecasting cash-flow requirements, debt management and cost of borrowing, timely collection of receipts, instituting cost-effective payment systems and supporting information systems in order to incorporate a system for controlling issuance of advances and for reducing the existing level of advances.

A number of tasks have been accomplished to date: strategy for executing the assignment has been designed and existing cash management practice has been reviewed and documented. Procedural guideline has been drafted for the preparation of monthly cash projection & reconciliation. Besides, a draft comprehensive disbursement document has also been prepared. Moreover, a comprehensive study has been conducted on the introduction of Treasury and Cash Management System with technical assistance from the IMF.

The next steps in regard to cash management reform will focus on: establishment of efficient government bank accounts administration through closing non-essential accounts; produce cash management directives through issuing comprehensive cash management directives with sections on investment of idle cash reserves deposit of retained revenue directly to the central treasury bank account; projection of cash flow to reduce year-end spending requirements; and development of cash management manual. The manual would help elaborate the basic ideas

outlined in the directives by providing detailed illustrations and instructions on the application of the new operational systems and automate the treasury payment system. This will add to the efficient operation of the overall treasury system and also improvement of accuracy.

This project has a plan to implement the study on the improvement of both treasury and cash management during the current fiscal year. Subsequently, the reform endeavor will be rolled out to all regional states sequentially.

2.4.6. Financial Information Systems

The objective of this project is aimed at reducing the risk of failure of the medium system hardware platform used by the then Ministry of Finance and Economic Development to operate its applications - budget, disbursement, accounts (BDA) and payroll; implement the PC-based BDA system in all Regional Finance Bureaus to improve the quality, accuracy and timeliness of financial information provided to management and the Federal Government; develop & implement an integrated computerized financial Information System across the country for quick and reliable decision making; for effective control and efficient utilization of resources.

So far the project has managed to transfer its application from an aged mainframe based system to a PC based server platform for reducing the risk of computer failure. It has also undertaken provision of basic computer operation training and hardware to each regional finance bureau as an interim measure to computerize the activities of the regional finance bureaus. Besides, the requirements and broad strategy of the Integrated Financial Management Information System (IFMIS) has been defined and approved by the steering committee. A number of workshops have been conducted to create awareness among stakeholders on the requirements and broad strategy of the IFMIS.

This project has been successful in the rolling out of the revised BDA package to regional governments such as Oromia and SNNPR as well as the Dire Dawa City Administration. It is also intended to implement the same package in the remaining eight regions during the 1996

EFY. The project plans to use the Visat technology which would be developed for Education, Health, Agriculture and Community development in creating a wide area network system for financial information transfer from *Woredas* to regions and vice versa. As far as the rolling out this project activities are concerned, it is intended that IFMIS be implemented at the Federal level first and mean while regions would continue to use the different versions of the BDA package and web portals. At present, preparation is underway for invitation of international tender to procure the different components of IFMIS project.

Proposed subsequent steps of the project include:

- Provision of advanced training and additional hardware for each regional state to create and strengthen capacity for sustainable use of computer software and hardware;
- Re-orient the requirements and strategy of IFMIS in line with the on going decentralization process;
- Carry out pilot implementation at the federal level;
- Provide intensive training for relevant staff of both federal and regional public bodies on the operation of IFMIS;
- Conduct full implementation of IFMIS at the level of both federal and regional public bodies.

2.4.7. Internal Audit Project

The objective of the Internal Audit Project has been to develop and institutionalize modern international standards and practices of internal audit in all government institutions at all levels.

Regarding the performance of this project to date, it has produced draft Internal Audit Standards, Code of Ethics for Internal Auditors and a comprehensive Internal Audit Procedural Manual. It has conducted workshops to enable the draft documents be reviewed by local professionals. It also obtained feedback in the draft documents review workshop. The draft documents have further been amended on the basis of the feedbacks and recommendations obtained from the participants of the workshop.

The next steps of the Internal Audit Project will focus on:

- Producing the final versions of the draft Internal Audit document;
- Conducting intensive training for internal auditors at the level of both Federal and Regional public bodies,
- Building both in-house technical capabilities of the Ministry of Finance and Economic Development and Regional Finance and Economic Development Bureaus to enable them carry out their duties of organizing an internal audit body. This would help realize sustainable development of internal audit practice in the civil service of the country.

2.4.8. External Audit Project

The objective of the External Audit project, among others, has been to strengthen public accountability, transparent performance and good governance through enhancing the capacity of both the Office of Auditor General (OAG) and Regional Auditor Offices (RAOs) and there by enhancing capability in discharging responsibilities so as to effectively serve the legislature and its oversight responsibilities.

The project assessed the existing external audit practice in the civil service audit offices of the country and documented its findings. Besides, the project plans to develop a comprehensive manual in the area of financial audit, control audit, performance audit and special investigations. Besides, there is a plan to build in-house technical capacity of the audit offices. It has developed proposals in the area of financial, control, performance, and special audit and capacity building. Relevant manuals and other background documents have been drafted through this study. Qualified and well-experienced experts have reviewed the manuals and materials developed by the project. Most of the manuals have been approved at the auditor generals meeting and are recommended for use.

Next steps in the areas of external audit will focus on:

- Review and approval of the draft manual developed in the area of performance audit;
- Develop training materials and providing intensive training on the application of the manuals;
- Build in-house technical capabilities of Audit Offices to enable them adequately discharge their duties and responsibilities.

At federal level Audit Reports have been submitted to Parliament up to and including the 1992

EFY. The preparation of the 1993 EFY Audit Report is underway as the accounts for this fiscal year are in the process of being closed. The Audit Reports of the previous fiscal years have enabled the parliament to take corrective action that spent beyond their allocated budget. The Finance and Budget Committee which represents the "Public Accounts Committee" summoned higher officials of those federal institutions whose financial position and internal control system were criticized by the Audit Report.

By way of summary, despite the set backs encountered in the implementation some of the components of the sub-program, measures taken at different stages of the reform process have brought meaningful changes in Public Financial Management and Control. However, one still needs to carry out thorough assessments in all areas of our reform endeavors.

As it stands now, the MoFED is in the process of preparing a Strategic Plan so as to facilitate a more coordinated approach towards implementation of the various components of the Expenditure Management and Control Program (EMCP). The plan will be discussed in the presence of representatives of Finance & Economic Development Bureaus and other stakeholders before it will be put to use.

The purpose of developing the strategic plan includes but is not limited to the following:

- To address changes in organizational structure brought about as a result of the on-going decentralization process;
- To set a time table for the various development and implementation activities of the sub-program (Expenditure Management and Control Sub-Program- EMCSP;
- To properly coordinate among others the rolling out of the implementation of the outcomes of the budget and accounts reform projects to regional states in a short time possible;

- To roll out the implementation of the outcomes of other reform activities of the sub-program to regions and *woredas* in the shortest time possible;
- To clearly identify and indicate technical assistance and financial support requirements to potential donors in a more coordinated manner;
- To follow up and monitor the progress of the different activities of each constituent project of the EMCSP.

As the preparation of Expenditure Management and Control Sub-Program (EMCSP) Strategic

Plan is at the proposal stage, the CFAA and CPAR findings, recommendations and plan of actions contained in the CFAA and CPAR report would be incorporated in the Strategic Plan.

2.5. Improve the Business Environment & Increasing Export Competitiveness

2.5.1. Improving Business Environment

There is a wide spread recognition among policy makers on the role of sound economic policies, good governance structures and effective public institutions to create the conditions towards implementing pro-poor policies and strategies. The general direction of Ethiopia's development endeavor is for the economy to be led by market forces and for the private sector to be the prime engine of growth and development.

The private sector can contribute to poverty reduction in at least two ways first, through generating economic growth, employment and higher incomes especially for those involved in agricultural production and trade and second, through its contribution to the development and efficient delivery of social services such as education, health, water and energy. Given this framework, the government could work in partnership with the private sector to achieve a stable macro economic environment, which by itself is an important prerequisite for sustained private sector development.

It is against this background that the Ethiopia government has taken several policy and reform measures that are considered essential towards enhancing private sector development. The following initiatives have been put forward by way of addressing impediments to private sector development.

a) Study on Regulatory Constraints to Private Sector Development

There had been various measures issued during the command economic system that adversely affected the private sector. It is against this background that the Ministry of Trade and Industry in collaboration with the World Bank intended to conduct a study on regulatory constraints to private sector development.

The objective of the study is to identify and prioritize key binding legal constraints, analyze the distortion created by these regulatory impediments and finally develop proposals for amendments and revisions based on the findings of the study. The project was to be financed by the Japanese PHRD grant and was supposed to be coordinated by the World Bank.

The study was to cover all sectors of the economy particularly those that have had greater impact on private sector development. Specifically the following sectors were covered: Trade, Industry, Tourism, and Construction, Transport & Communication, Agriculture, Finance, Mining and Social Sectors (education and health).

The study has not only been aimed at addressing existing legal constraints that hampered the smooth operation of the private sector but also help assist the private sector to regain sufficient confidence to become a dynamic actor in the socio-economic transformation of the country.

A consulting firm was selected and a draft contract agreement signed between Ministry of Trade & Industry & Maxwell plc. However, the World Bank canceled the project on the ground that the Ministry of Trade and Industry, Ministry of Finance and Economic development and World Bank itself did not properly coordinate it.

b) Trade Practice Proclamation (Competition Policy)

In regard to the **Trade Practice Proclamation (Competition Policy),** it is believed that business practice must be undertaken in accordance with a free market economy policy of the country. Thus it is desirable to establish a system that is conducive for the promotion of competitive environment by regulating anti competitive practices in order to maximize economic efficiency and social welfare. It is also believed that regulation of price and equitable distribution of certain basic goods and services during times of shortage and irregular supply is necessary to safeguard the public from abrupt shocks.

The current **Trade Practice Proclamation (competition policy)** approved both by the Council of Ministers & the Parliament is a clear indication of the government's commitment to create and

enhance competitive environment with in the business community. The proclamation is now under publication.

c) Public Private Consultative Forum

Another important development in regard to addressing impediments to private sector operation has been the establishment of **Public Private Consultative Forum**.

The complexity of the modern economy requires the public and private sector to work in partnership to foster economic growth and development. It was with this spirit that the Public-Private Consultation Forum has been established. The main objective of the Forum has been to:

- Identify government sectoral policies and strategies that need scrutiny for their on-the-ground implementation;

- Identify implementation bottlenecks of newly issued proclamations, regulations and directives;

- Initiate and hold discussions on emerging issues that help strengthen private sector development;

- Review the directives of federal line ministries that are believed to impede private business operations;

The Forum being chaired by His Excellency the Minister of Trade and Industry (MOTI) is comprised of private business operators engaged in Industry, Transport, Constructions, Trade, Agriculture, Hotels, Banks, Insurance Companies, Health & Education. The Forum has been holding regular meetings every quarter and three such meetings have been held to date.

d) Restructure the Existing Operation of Chambers Commerce

Acting as an interface between the public and private business, chambers and trade associations in collaboration with government could play an important role towards improving the framework under which individual business operates. Chambers act as advocate and representative of the business community. They are better informed of the problems of business than most public sector organizations. They also could provide useful feedback on possible ways of addressing the problems. It is also believed that chambers do play significant role in the promotion of Trade and Investment. The Government could also gain from the dialogues on such forums through fine-tuning its policies, strategies and directives.

However, chambers in Ethiopia are not yet in a position to discharge such a catalytic role. It is with this background a study has been conducted to **Restructure the Existing Operation of the Chamber of Commerce**. The basic objective of the proclamation is to reestablish the Ethiopian Chamber of Commerce in the light of the federal form of government as well as the on-going market oriented economic system. Based on the study, a new proclamation for the re-establishment of the Ethiopia chambers of commerce has been approved both by the Council of Ministers and the Parliament. **The Proclamation is now being published**.

e) Revising the Investment Proclamation

The Ethiopia's investment code has been continuously revised since 1992 to encourage & facilitate both domestic and foreign private investment. The first Investment Code (No. 15/1992) was issued in 1992. This Proclamation was further revised by subsequent investment codes (No.37/1996 and No.280/2002) in 1996 and 2002, respectively with the prime objective of opening up more investment areas for domestic and foreign private investors. These have enabled rectify the shortcomings of the preceding Investment Proclamations and ensuring transparency. Following the issuance of the New Investment Proclamation (No. 280/2002), the scope of participation of foreign investors has been widened and investment facilitation relatively improved.

Attempts have also been made to attract more **Foreign Direct Investment.** However, this has

been and still is an area where not much has been achieved despite efforts the government has waged since it took power in 1991. The level of FDI is still one of the lowest in the World with only 4 million USD in 1999. A number of measures have been undertaken to attract FDI through continuously revising the investment code. In this regard, the Council of Ministers has already approved the draft amended investment code via removing the minimum investment requirement for export-oriented activities, transferring administration of duty free capital good imports for 100% export-oriented activities from the Ethiopian Investment Authority (EIA) to the custom administration, and simplification of procedures to obtain work permits and Visas.

f) Warehouse Receipt and Inventory Credit System

In regard to **Warehouse Receipt and Inventory Credit System,** food distribution margins and seasonal price variability is high in Ethiopia. Storage and transport infrastructure in grain markets is poor and access to commodity finance is limited. There are no institutions and instruments that enable producers and traders manage risks associated with price variability. Systems for standardizing products and establishing grades are poorly developed except for few export crops. This has hindered development of efficient marketing systems. Uncertainty in marketing particularly for small holders dampens production incentives and contributed for stagnation in agricultural productivity. This in turn has constrained improvements in rural livelihood.

This is the rationale behind the idea of establishing **Warehouse Receipt & Inventory Credit System**. The central objective of the project is to improve the efficiency and performance of grain marketing system in the country.

The Warehouse Inventory Credit System would provide smallholder farmers with access to timely and low-cost financing. This would enable them sell their grain during times of their choice rather than immediately following harvest when farm gate prices are usually at their lowest level. Improved access to inputs will enable farmers increase yields with more grains forthcoming for sale. This would also help improve access to grains amongst consumers and thereby help improve food security amongst the urban and rural poor.

The first phase of the project has been completed and establishment of a regulatory body, which controls & coordinates the credit system, is under process. Besides, a technical taskforce drawn from pertinent private and public bodies has been established .The Task Force has prepared its TOR with focus on the following topics:

- Insurance and performance guarantees;
- Grading standards and grain handling;
- Warehouse receipt system (paper or electronic);
- Market information systems;
- Food aid and Ware House (WR) system;
- Developing commodity exchange systems.

g) <u>Establishment of Industrial Zones</u>

Although the government has taken a number of policy & structural reform measures to attract investment, there still remains a lot to be done to encourage private investment in manufacturing. In this regard, the Government has to intervene by way of developing an effective support system that would help address major bottlenecks that hamper the flow of private investment. One major component of the support system is the **establishment of industrial zones**, i.e., supply of a large track of developed land with infra-structural facilities, to be sold or leased out to investors to build their own factory premises.

The advantages of establishing industrial zones with basic infra-structural facilities are many. Industrial zones are one of the best tools to promote intensive, balanced and harmonious development of the manufacturing sector. It is an instrument for accelerated and organized development of the manufacturing sector, particularly in emerging regions. From the viewpoint of investors, it would help gain easy access to well developed and readily available industrial sites and thereby enable them reduce the cost of establishing new industrial units. Furthermore, the establishment of various types of industries within the industrial zones helps create and strengthen linkage among sectors. This would help benefit healthy development of the manufacturing sector of the country.

In view of these, the Ministry of Trade & Industry has already started conducting a study that would serve as a guide for the establishment and operation of industrial zones in a number of regional states. The main objective of the study is to formulate a strategic framework and action plan for establishment of industrial zones in 15 regional cities/towns. The project is now under study. Some regions (Addis Ababa and Amhara) have already started identifying industrial zones.

h) The Privatization Process

On efforts waged to reducing the size of public sector in the economy, the privatization process has not been as such smooth. As of June 30/2003, some 230 units of enterprise have been privatized at a total value of 3.1 Billion Birr (note that some enterprises have been broken down and sold as separate units).

As at June 30/2003, the number of enterprises brought to the point of sale stood at 256 units. Regarding the number of enterprises prepared for privatization, the first phase of preparatory work (due diligence, privatization strategy, asset Valuation, audit, financial restructuring, business valuation) has been completed for 52 enterprises. However, valuation for some enterprises need updating as more than three years has lapsed since the first valuation was done.

Besides, the first phase preparatory work for privatization of 61 enterprises is underway. The preparatory work by the Agency took longer than anticipated owing to the direct involvement of stakeholders. Moreover, the time required for the audit at share company establishment date was not taken into account at the beginning of the preparatory work. The audits of many of the enterprises have not been found up to date. The delay in the privatization of enterprises has been to a large extent attributed to problems related to the audit.

Originally, EPA's plan was to complete the privatization program for 111 enterprises that had began in 2000/01 by end of 2002/03. This has been delayed and the number of enterprises to be

privatized increased to 127.

2.5.2. Improving Export Competitiveness

By way of giving free trade status regime for 100% exporters, Proclamation to establish export duty incentive scheme was approved in July 2001(Proclamation 249/2001). Subsequently the Ministry of Trade and Industry issued a Directive towards implementing the export duty incentive scheme and is currently being implemented. This will help improve export performance. Currently alternative schemes are being reviewed. Access to imported inputs for re-export has been already in place. Efforts are currently underway to introduce voucher based duty exemption scheme. This would help simplify access for duty free inputs for export production.

Thus, the introduction of the **Bonded Manufacturing Ware House (BMW)** is an innovative development in this regard. The Ethiopian export sector, particularly the manufacturing sector, has faced difficulties in entering into the international market owing to, among others, their inability to compete in terms of price and quality. The BMW is one of free trade status scheme designed for exporters to import raw materials and other intermediate inputs that are to be used for export production free of any duties and indirect tax. Such a scheme has been widely used especially before economy wide scheme such as duty drawback and duty exemptions are in place and effectively implemented.

The other measures aimed at strengthening export competitiveness are the **Duty Drawback and Voucher Schemes.** The duty drawback scheme is where duties paid at the port of entry on goods imported by firms that are engaged in export trade shall be refunded upon fulfillment of the necessary conditions.

The **Voucher Scheme** works via a document possessing monetary value, printed by the Ministry of Finance and Economic Development (MOFED), to be used as deposit for duties and taxes payable on imported raw materials. Beneficiaries of the voucher schemes are individual

businesspersons and firms that have obtained eligibility certificate issued by the Ministry of Trade & Industry.

The Export Trade Duty Incentive Scheme Proclamation, which incorporates the three schemes outlined above, was issued in July 2001. The three schemes are currently operational under the tripartite direct supervision of Ministry of Finance and Economic Development, Ministry of Trade and Industry and the Customs Authority.

2. 5.3. Reducing Transaction Costs Through Streamlining the Utility Sector

Attempts have been made to devising regulatory framework and mainstreaming the activities of the Utility Sector: Power, Telecom, Postal, Ethiopian Shipping Lines Share Company (ESLSC), and the Ethiopian Civil Aviation Authority (ECAA).

a) The Ethiopian Postal Service

The separation of the postal and telecom services has already been effected. The Ethiopian Postal Service has been implementing Communication policy since April 2002. The Ethiopian postal service being self-financing government agency provides its services using 500 outlets across the country.

b) Ethiopian Telecommunication Corporation

Regarding the separation of regulatory and operational functions, the Ethiopia Telecommunication Corporation was separated between the Ethiopian Telecommunication Authority (ETA) and the Ethiopian Telecommunication Corporation by proclamation No. 49/1996 (as amended).

c) The Power Sector

On the **Power Sector**, the following papers have been submitted in connection with the study on **Rural Electrification Institutional and Financing Framework**:

- Review work on regulatory structure;
- Tariff regulation guideline;
- Performance standard;
- Interface code rural electrification technical regulation product standard.

By November 2002, an Interim Report was submitted to the Agency and final report is planned by December 2003. Training on electricity regulation private participation is to be provided in October 2003. A separate study is under way to define legal, institutional, technical and financial requirement to implement private sector off-grid rural electrification. Comments from various stakeholders are being consolidated and preparation of final draft report is currently well underway.

An Inception Interim reports and draft Rural Electrification Fund have been presented in various stakeholder meetings. The draft Proclamation has at Ministry and Council of Ministers level. It was also publically debated through the standing committee of the parliament before it had been approved on 29 January 2003. It was in turn approved by Parliament and issued on February 6, 20003 (Proclamation No. 317/2003). The high duty on imported renewable energy technology is reduced since January 2003 (2002 version, harmonized system). A board and secretariat was established in May 2003 to oversee the Rural Electrification Fund. Studies are also underway to assess potential access to a commercial renewable energy services through mobilizing efforts by communities & the private sector.

d) The Ethiopian Shipping Lines Share Company

Regarding the directives that require shipping space for imports (from the company's trade routes/ports of call) to be booked through the company which refer to the establishment of clear and transparent criteria to govern the Issuance of Waivers, the practice of issuing waivers to importers by ESLSC has been streamlined pursuant to the directive of the Ministry of Trade and Industry by a letter dated April 4, 2002, Ref. No.MA-9/4 as well as the subsequent letter of

April 16, 2002 Ref No.MD193-630/3 from the Public Enterprises Supervising Authority. The list of waivers issued is being quarterly compiled and reported to the Ministry of Trade and Industry (MOTI) as per the "Waiver Issuance Follow-up Format".

Regarding Information on ESLSC's Service & Freight Level, ESLSC reports quarterly to MOTI on the quantity of cargo carried, the name of ports served, the freight rates charged, complaints received from customers, problems encountered during the application of the directive as well as measures taken to fulfill the corporate plan as part and parcel of improving the company's performances.

Regarding the Issuance of a Single Bill of Loading for Each Consignment, the ESLSC has established new procedures & implemented the issuance of single bill of loading for each consignment naming the actual importer as consignees (or his designated agent) pursuant to the proposal of the World Bank Mission, and the then directive dated 4th April 2002 Ref. No.MA-9/4; from the Ministry of Trade and Industry. The new working procedure has replaced the previous arrangement for delivery of cargo carried on ESLSC's slot-chartered carriers and a system has been devised to ensure delivery of cargo from slot carriers agents in Djibouti direct to consignees as of April 2002.

For this purpose, ESLSC has put in place the necessary working procedures, established the necessary office and documentary arrangements, made agreement with the slot carriers & their agents, etc.

e) <u>The Ethiopian Civil Aviation Authority</u>

To cope up with the increasing demand of air cargo services for export of perishable goods, the Ethiopian Civil Aviation Authority (ECAA) has issued circular No.1/2002 that liberalize charter cargo operation as of March 1/2002. The circular came into effect as of March 1, 2002. The former ECAA has been split to regulatory and service-rendering entities Proclamation No. 273/2002 issued to re-establish ECAA and Council of Ministers' Regulation No. 82/2003 issued to establish Ethiopian Airports Enterprise, respectively..

2.6. Sector Specific Interventions: Hides & Skins, Fertilizer

2. 6.1. Broadcasting Price Information on Hides and Skins

Regarding the broadcasting of hides and skins prices on regular basis, to start with, Regional Agricultural Bureaus were supposed to serve as sources of the price information. However, this has not been found feasible in terms of reliability and authenticity. Thus, tanneries were found out to be better sources for price information. Thus, price data have been collected from these sources analyzed and supplied for weekly broadcast. Broadcasting the price information on a regular basis is believed to have helped participants in the hides and skins markets to make informed business decisions.

The Livestock Marketing Authority has been able to gather data on prices of hides and skins from different tanneries and able to organize and broadcast weekly price information every Thursday. This has enabled all participants involved in production, collection from producers, deliverers to tanners and the tanners at different location are informed with the prevailing market prices on hides and skins.

2. 6.2. Fertilizer Marketing and Credit Study

The Fertilizer Marketing and Credit Study was carried out in December 2001 by a local consultant.

The Study had three main objectives:

- To critically review fertilizer use and to project fertilizer demand;
- To analyze fertilizer marketing and recommend measures to broaden and deepen the competitiveness of fertilizer marketing by region;
- To analytically examine the existing input credit delivery system.

Following the study, the then National Fertilizer Industry Agency (NFIA) made efforts to prepare an action plan on the recommendation of the study. However, most of the recommendations were not within the mandate of NFIA and required the involvement of other stakeholders like the Regional Agricultural Development Bureaus and the Ministry of Agriculture.

While efforts were underway to institutionalize the Study and on how to go about the recommendation, the National Fertilizer Sector Project (Financed by IDA) was phased out in June 30, 2001. Eventually, the NFIA and the National Seed Industry Agency were merged to establish the **National Agricultural Input Authority (NAIA)** by proclamation No. 288/2002.

Within the mandate of NAIA an Agricultural Input System Study has been launched in order to establish a well-developed agricultural input system. This draft document will be discussed in a workshop in the presence of all stakeholders and collaborators including regions. The NAIA believes that this study would help address existing problems facing fertilizer marketing and credit. All pertinent stakeholders are expected to address the agricultural input system in their respective jurisdictions. To facilitate the implementation of agricultural input system on fertilizer marketing and credit, the Authority is currently preparing a three-year strategic plan.

This strategic plan will be operational from September 2003. The input marketing issue will be incorporated in the strategic plan and will be made operational. The action plan will be drawn

and implementation will start in 2004. Detailed action plan is under preparation by the NAIA.

3. Assessment of IDA's Performance with regard to the ERSC and ESAC

The Interim Support Strategy signed between the Ethiopian Government and the World Bank on November 9th 2000 set the background for the Economic Rehabilitation Support Credit (ERSC). The strategy was devised in an effort to support Ethiopia's immediate post-war recovery needs shortly after the signing of cessation of hostilities between Ethiopia and Eritrea. The strategy anticipated balance of payments support needs of US$250 million from IDA to support the overall macroeconomic framework of the country during 2000/01 and 2001/02. Subsequently, the Bank in consultation with GoE prepared the Economic Rehabilitation Support Credit (ERSC). The ERSC was presented to the Board of Directors of IDA and approved by the Board on the 5th of June 2001.

The loan agreement was signed on June 19, 2001 and it became effective on the 5th of July 2001. *The approval of the loan by IDA's Board in early June and the subsequent signing of the credit during the same month has enabled GoE to present the loan agreement to the Ethiopian parliament for ratification before the latter adjourns due to its scheduled break during the summer.*

On July 6, 2001, GoE filled disbursement request format and submitted the same to the Bank. IDA disbursed the total loan amount on July 9th 2001. The release of the resources in just three days from the date of request was a commendable move by the Bank. The quick release of the resources, which coincided with the beginning of a new budget year in the country, was also instrumental in building confidence towards achieving quickly recovery from the war. The disbursed amount of USD144.74 million contributed significantly towards financing the export needs of the nation and stabilizing the exchange rate. The private sector is the major beneficiary from the foreign exchange proceeds of the loan as a result of increased access for foreign exchange.

Fluctuations in global exchange rates reduced the expected proceeds of the loan from USD150 million to USD144.74, or a 3.5 percent reduction by the time of disbursement.

The Ethiopian Structural Adjustment Credit (ESAC) credit was also foreseen under the Interim Support Strategy agreed between the Ethiopian Government and World Bank in November 2000. Other than building upon the programs supported under the ERSC, the ESAC also contributes towards reducing the imposed by subsequent balance of payments deteriorations.

ESAC was submitted to IDA Board of Governors for approval on May 15, 2002. On June 18, 2002, IDA approved a loan of SDR 96.2 million, which at the time of approval was equivalent to USD 120 million. The credit became effective on the 28th of November 2002. As indicated above, it has taken more than five months to bring the credit to effectiveness condition. The main factor for the delay is associated with the ratification of the credit agreement by the Ethiopian parliament. The parliament was not in session starting from beginning of July, which

necessitated the postponement of the ratification process.

Immediately after the effectiveness condition was fulfilled, GoE submitted a disbursement request for the whole amount of the credit. The Bank then released USD127.435 million on the 2nd of December 2002. Again, the fast reaction by the Bank is noted as it took only 3 days to process and release the funds after the disbursement request. In addition, unlike the previous case, the prevalent exchange rate situation allowed to secure an additional USD7.435 million as the proceeds of the loan during disbursement as compared with the estimated USD 120 million during approval.

In light of the deterioration in the trade balance of the country at the time because of sharp falls in export earnings as well as terms of trade deterioration, the credit has allowed to boost the supply of foreign exchange resources.

In summary, the contribution of both credits on the overall effort to maintain the macroeconomic stability was positive. This was achieved partly because the credits were prepared with proper assessments of impending balance of payments constraints facing the country. The Bank's quick reaction during implementation was also commendable.

4. Findings and Recommendation

This preliminary assessment has indicated areas of reforms that are well on track like in the case of macroeconomic stability as well as undertaking poverty-focused programs **(Poverty Reduction Growth Facility-PRGF)** while reforms on components of Expenditure Policy and Management have lagged behind, albeit on a different degree. There are, of course, components that still have relatively advanced like in the areas of budget reform and accounts reform.

Reforms on the Public Sector Management area have evolved over time and are taken over by subsequent developments following the further decentralization effort to *woredas* and the streamlining of the on-going capacity building program. The case in point is components of the Civil Service Reform. The reforms in this area have evolved in the context of the Public Sector Capacity Building Program (PSCAP).

The establishment of the Ethics and Anti-corruption Commission and measures being undertaken are encouraging. The capacity building initiatives in by the Ethics and Anti-corruption Commission are also suggestive of commitments to go forward and deepen the reform agenda in this area.

Although there still is a need for full-scale implementing legislative actions, the reforms in the area of **Private Sector Development** are also well on track.

The following recommendations seem to come out of this preliminary assessment:

(a) It is at this stage pre-mature to assess the overall impact of the reforms carried out in those areas of reform supported by the credits. Certainly, the two credits did contribute to macroeconomic stability in the context of post-conflict situation and continued deterioration in the terms of trade of Ethiopia;

(b) The reform agendas in some areas are still evolving in the face of new developments;

(c) The focal institutions for implementing the various reform measures have indicated the need for taking up these programs through the upcoming Poverty Reduction Support Credit (PRSC);

The reform areas supported by the credits are part of the on-going dynamic process of creating enabling environment for growth and poverty reduction