



1. Project Data:		Date Posted : 01/29/2004	
PROJ ID: P072890		Appraisal	Actual
Project Name: Eth. Economic Rehabilitation Supp.credit	Project Costs (US\$M)	150	150
Country: Ethiopia	Loan/Credit (US\$M)	150	150
Sector(s): Board: EP - Central government administration (58%), Other domestic and international trade (34%), General industry and trade sector (8%)	Cofinancing (US\$M)		
L/C Number: C3512			
	Board Approval (FY)		01
Partners involved :	Closing Date	06/30/2002	06/30/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Michael R. Lav	Poonam Gupta	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
To provide initial support for the Government's efforts to stabilize the economy following a serious war and a sharp deterioration in the terms of trade, help restore key economic and social services and institutional capacity, while financing increased private sector imports and supporting private sector development and exports .			
b. Components			
1. Financial Support for macroeconomic growth, increased reserves, and decreased domestic financing of the fiscal deficit. 2. Public Sector Management: (a) civil service legal and structural reform, (b) strengthen performance incentives, (c) improve service delivery, (d) enhance transparency of personnel management systems . 3. Public Expenditure policy and management: re-establish social sector programs and support the Government's Expenditure Management and Control Program. 4. Private Sector Development and Export Competitiveness : (a) remove regulatory constraints on investment, (b) promote exports, (c) privatization of state-owned enterprises, and (d) increase agricultural productivity.			
c. Comments on Project Cost, Financing and Dates			
The project cost US\$150 million, financed entirely by this credit . The project was appraised on January 18, 2001. approved by the Board on June 5, 2001, made effective on July 5, 2001, and closed on June 30, 2002.			
3. Achievement of Relevant Objectives:			
The project reinforced the Government's commitment to stable macroeconomic management and social sector development. Domestic financing of the budget fell substantially, and poverty targeted expenditures almost doubled as a percentage of GDP. Import volumes increased.			
4. Significant Outcomes/Impacts:			
1. Domestic financing fell from 8.4 percent of GDP in 1999 to 0.9 percent of GDP in 2000/2001. Since the Ethiopian fiscal year runs from July 7 to July 6th, and the credit became effective on July 5, 2002, the project's role in reducing domestic financing is a good example of "just in time" financing. 2. Poverty targeted expenditures increased from 8.2 percent of GDP in 1999/00 to 14.6 percent of GDP in 2001/2002. 3. To promote improved public sector management a new civil service proclamation which supports a more open, devolved civil service system was issued and was a basis for further reforms under the ESAC . The Cabinet approved the National Service Delivery Policy which laid the basis for a new Performance and Service Delivery Improvement Program (supported by the ESAC) which is being implemented.			
5. Significant Shortcomings (including non-compliance with safeguard policies):			
1. Public expenditure management has not improved as foreseen even after three full budget cycles . The joint MEDAC-MOF committee created to help integrate current and capital expenditures into a public expenditure program is still discussing its terms of reference . 2. Regarding private sector development and export promotion : (a) the ICR cites no measures attributable to the project which removed regulatory constraints on investment as called for by the project. (b) Export promotion measures were not successful . A bonded manufacturing warehouse scheme was			

initiated but is not yet operational. The National Bank of Ethiopia issued only 17 export credit guarantees, of which five have resulted in defaults (including 3 in sugar). Only 10 suppliers credits have been issued. A Standards Authority's quality certificate as is still required for export clearance, contrary to the ERSC's conditionality. (c) The privatization program stalled.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Highly Satisfactory	Moderately Satisfactory	This project was implemented in a very difficult post-war environment. It was clearly over ambitious in design. The main achievement, in addition to the financing provided by the project, was the almost doubling of poverty-related expenditure in the budget, which is certainly significant. A modest start on civil service reform was initiated in accordance with the project's conditionality. Against this, many of the specific structural reforms supported by the project failed to take hold, as enumerated in section 5 above. Public expenditure reforms were not implemented as foreseen, nor were measures intended to support private sector development and exports. The privatization program for public enterprises stalled and fell far short of its objectives.
Institutional Dev .:	Modest	Modest	The civil service reforms supported by the project merit an IDI rating of modest, despite many shortfalls in other areas.
Sustainability :	Unlikely	Likely	The project increased the government's commitment to stable macroeconomic management and to poverty-targeted expenditures, so that the large increase in poverty-targeted expenditure appears likely to be sustained, especially since the budget has been freed of a portion of defense related expenditure. Civil service reform is also apparently beginning to take hold.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

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

7. Lessons of Broad Applicability:

In difficult circumstances such as faced by Ethiopia at the time of this project, it would be better to have a simple and straightforward rehabilitation project and leave conditionality to a time when the country's management can better focus on it.

8. Assessment Recommended? Yes No

Why? The ERSC and the ESAC formed an important part of the Bank's assistance to post -conflict Ethiopia and at some point should be part of a cluster audit.

9. Comments on Quality of ICR:

The ICR, which covers both this project and the ESAC, is rated satisfactory in that it covers the essentials for this project. However, it could have related the shortcomings in implementation more directly to the outcome rating. The Borrower's Contribution to the ICR is unusually complete. The Lessons Learned section has a number of thoughtful suggestions for the future, although many of these pertain more to the ESAC than the ERSC.

