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COUNTRY PARTNERSHIP STRATEGY

FOR

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

August 29, 2012

**Ethiopia Country Management Unit
Africa Region**

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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	ERA	Ethiopian Roads Authority
ADLI	Agricultural Development-Led Industrialization	ESW	Economic and Social Work
AGP	Agricultural Growth Program	ETB	Ethiopian Birr
AICR	Africa Infrastructure Country Diagnostic	ETC	Ethiopian Telecom Company
AMP	Aid Management Platform	EU	European Union
EAPP	Eastern Africa Power Pool Project	FAO	Food and Agriculture Organization
ATA	Agricultural Transformation Agency	FDI	Foreign Direct Investment
CAD	China Africa Development Fund	FEACC	Federal Ethics and Anti-corruption Commission of Ethiopia
CAS	Country Assistance Strategy	FTA	Financial Transparency and Accountability
CAS CR	CAS Completion Report	GAC	Governance and Anti-Corruption
CAS PR	CAS Progress Report	GAP	Gender Action Plan
CBE	Commercial Bank of Ethiopia	GAVI	Global Alliance for Vaccines and Immunization
COMESA	Common Market for Eastern and Southern Africa	GDP	Gross Domestic Product
CPAR	Country Procurement Assessment Report	GEF	Global Environment Facility
CPIA	Country Policy and Institutional Assessment	GEQIP	General Education Quality Improvement Program
CPS	Country Partnership Strategy	GER	Gross Enrollment Rate
CPPR	Country Portfolio Performance Review	GHG	Green-House Gases
CPR	Country Performance Rating	GoE	Government of Ethiopia
CRGE	Climate Resilient Growth Economy	GPI	Gender Parity Index
CSA	Central Statistical Agency	GTP	Growth and Transformation Plan
CSO	Civil Society Organizations	HIPC	Heavily Indebted Poor Countries
DAG	Development Assistance Group	HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune-deficiency Syndrome
DBE	Development Bank of Ethiopia	HSDP	Health Sector Development Program
DFID	Department for International Development	IBEX	Integrated Budget and Expenditure Management System)
DHS	Demographic and Health Survey	ICT	Information and Communication Technology
DPO	Development Policy Operation	ICT4D	National ICT for Development Action Plan
DRM	Disaster Risk Management	IDA	International Development Association
DSA	Debt Sustainability Analysis	IEG	Independent Evaluation Group
EAC	East African Community	IFC	International Finance Corporation
EAPP	East Africa Power Pool	IFPRI	International Food Policy Research Institute
ECX	Ethiopia Commodity Exchange	IHP+	International Health Partnership
EDRI	Ethiopia Development and Research Institute	IMF	International Monetary Fund
EEPCO	Ethiopian Electric Power Corporation	LMS	Light Manufacturing in Africa
ESW	Economic Sector Works		
EPRDF	Ethiopian People's Revolutionary Democratic Front		

LSMS	Living Standards Measurement Study	RF	Results Framework
MDG	Millennium Development Goals	RIMsys	Results Integration and Management System
MDTF	Multi-Donor Trust Fund	ROSC	Report On The Observance of Standards and Codes
MFI	Micro-Finance Institutions	SDR	Special Drawing Rights
MIC	Middle-Income Country	SGI	Schulze Global Investments
MIGA	Multilateral Investment Guarantee Agency	SIL	Specific Investment Loan
MoE	Ministry of Education	SIP	Small Investment Product
MoFED	Ministry of Finance and Economic Development	SME	Small and Medium Enterprises
MSE	Micro and Small Enterprises	SOE	State-Owned Enterprises
MSME	Micro, Small and Medium Enterprise	SEZ	Special Economic Zones
M&E	Monitoring and Evaluation	SRF	Statistics for Results Facility
NAP	National Action Plan for Gender	SSA	Sub-Saharan Africa
NBE	National Bank of Ethiopia	SWG	Sector and Technical Working Groups
NER	Net Enrollment Rate	TA	Technical Assistance
NGO	Non-Governmental Organization	T-Bill	Treasury Bill
OECD	Organisation for Economic Co-operation and Development	TF	Trust Fund
ODA	Official Development Assistance	ToR	Terms of Reference
ODI	Overseas Development Institute	TVET	Vocational Education and Training
OFAG	Offices of the Federal Auditor General	TWG	Technical Working Groups
PASDEP	Plan for Accelerated and Sustained Development to End Poverty	ULGDP	Urban Local Governance Development Project
PBS	Provision of Basic Services Program	UN	United Nations
PEFA	Public Expenditure and Financial Accountability	UNDP	United Nations Development Program
PFM	Public Financial Management	UNFPA	United Nations Population Fund
PPDF	Ethiopian Public Private Dialogue Forum	URRAP	Universal Rural Road Access Program
PPP	Purchasing Power Parity	VAT	Value Added Tax
PPPs	Public-Private Partnerships	WASH	Water Supply, Sanitation and Hygiene
PSCAP	Public Sector Capacity Building Project	WEDP	Women Entrepreneurship Development Program
PSNP	Productive Safety Nets Program	WFP	World Food Program
PforR	Program-for-Results Instrument	WHR	Warehouse Receipts
RSDP	Road Sector Development Program	WDI	World Development Indicators
REMSEDA	Regional State Micro & Small Enterprises Development Agency	WDR	World Development Report
		WB	World Bank
		WBG	World Bank Group

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Executive Summary

- i. **Since the early 1990s Ethiopia has pursued a “developmental state” model with a strong role for the Government of Ethiopia (GoE) in many aspects of the economy.** This approach, based on high levels of public investment, has been associated with strong economic growth and delivered notable progress towards the attainment of many Millennium Development Goals (MDGs). During 2004-11 Ethiopia experienced strong and generally broad-based real economic growth averaging around 10.6 percent a year; industry and the service sector grew on average 10 percent a year, and foreign direct investment increased from US\$0.5 billion in 2007 to US\$1.2 billion in 2011. The growth of goods and services exports reached close to 10 percent annually during 2000-10, and Ethiopia made good progress in diversifying processed exports. Significant improvements have been made in access to and, to a lesser extent, the quality of infrastructure. The average distance to an all-weather road decreased to 3.5 hours in 2011 from 4.5 hours in 2007. By 2010, the proportion of the rural population with access to potable water had risen to 65.8 percent, from 46 percent in 2006, with about five percent of Ethiopia’s population gaining access to improved water every year. By 2011, 41 percent of rural towns and villages were connected to the grid and the number of consumers connected grew from 800,000, in 2005, to more than 2 million in 2011. Going forward, the hydropower sector holds great promise for Ethiopia as a source of investments and closer regional integration.
- ii. **There has been similar progress on poverty, human development and capacity.** Poverty in both urban and rural areas has been reduced substantially from 39 percent of Ethiopians living below the national poverty line (US\$0.6 per day) in 2004/05, to less than 30 percent six years later. Ethiopia is on track to achieve MDGs related to gender parity in primary education, child mortality, HIV/AIDS, and malaria. Good progress has been made in increasing access to primary education (currently 85 percent coverage), but it may not be enough to reach the MDG on universal primary education. Limited progress has been made in reducing maternal mortality, which remains 676 per 100,000 live births. Finally, during the past decade Ethiopia has made impressive progress in decentralizing authority and service delivery. Capacity and institution building efforts at decentralized levels have contributed to improved access to basic services and to more effective decision-making bodies. There have been a series of modernization efforts across the public service, including Public Financial Management reforms. The legislative and regulatory framework for the business environment has undergone significant strengthening although more remains to be done.
- iii. **Notwithstanding these positive developments, important challenges have emerged during the last few years that may require GoE to adjust some of its policies.** Enabling the country to move to a higher growth trajectory may require attention to several challenges, including: ensuring macroeconomic stability; addressing the persistently high numbers of the poor and food-insecure; the lagging quality of social services; and the weak capacity of the public sector.
- iv. **With the recent death of the Prime Minister, GoE needs to ensure a smooth transition in coming months.** GoE has embarked on a constitutional process of transition, has

confirmed that government continues to work as usual, and has expressed confidence that the existing public institutions will continue to function normally. GoE has also confirmed its commitment to the vision and goals stated in the GTP, which remains the centerpiece of the country's development strategy.

- v. **The development model adopted by GoE relies heavily on high levels of largely government-led investments (like the Asian model of development), but faces low saving rates and limited availability of domestic resources (unlike the Asian model).** Given the high investment requirements of the GTP, public investments, which in past years have been one of the major drivers of economic growth in Ethiopia, will not be sufficient to maintain high growth performance going forward. While private sector participation in industry and services could greatly contribute to the Government's export-led job creation agenda, significantly leverage public sector financing and foster technology and knowledge transfer, realizing this potential will require enhancing opportunities for domestic and foreign private sector participation. There are also serious concerns that bouts of high inflation may reverse some of these positive poverty trends and, while inflation is currently showing a decreasing trend, keeping it down will be a major challenge for monetary policy.
- vi. Despite double-digit economic growth and substantial decreases in the percentage of the population below the national poverty line, the absolute number of poor is almost the same as 15 years ago and a significant proportion of the population remains just above the poverty line and vulnerable to shocks. Similarly the number of people living under the food poverty line has increased and dependence on appeals for emergency relief remains persistently high. Further, although access to basic social services and infrastructure has considerably improved, the quality of those services has not kept pace. Delivering quality would require continued efforts to deepen the implementation of decentralization and to build the capacity of the public service, both its institutions and its human resource. Finally, continuing efforts to promote an open and transparent environment, through, *inter alia*, creating more space for active engagement of non-government actors, facilitating increased participation of all citizens in decision making process at all levels of the government, and strengthening of fiduciary systems and oversight institutions, are important elements in transforming the Ethiopian economy and society and achieving middle-income status by 2020-23.
- vii. **The vision of the Growth and Transformation Plan (GTP, 2009/10-2014/15) is for Ethiopia to “extricate itself from poverty to reach the level of a middle-income economy as of 2020-23.”** This is to be achieved through strong economic growth within a stable macroeconomic framework with agriculture and industry as the main drivers; provision of quality infrastructure and social services (particularly health and education); and good governance and democratization. There is a large measure of overlap between these priorities and the challenges Ethiopia faces (paragraph iii above). Development partners have therefore broadly endorsed the GTP as an appropriate, and GoE-owned, agenda for the coming years.
- viii. **To succeed in meeting the GTP goals and sustaining high economic growth, a structural transformation will need to take place.** It would cover the following four dimensions:

- Increased productivity and competitiveness of the industrial and services sectors for rapid and sustained job creation;
 - Transformation to modern and productive agriculture;
 - Strengthened systems to better respond to shocks and increase resilience; and,
 - Improved government effectiveness.
- ix. **These objectives need to be pursued concurrently, as strong synergies exist between them.** New and diverse job opportunities in urban, peri-urban and rural areas could draw the unemployed and underemployed population (mostly youth) from overpopulated rural settings to where their skills can be utilized more productively. Complementary efforts (e.g., provision of key public infrastructure, stable regulatory framework, private sector engagement, leveraging mobile technologies to enhance the productivity of farmers and businesses) would be needed to diversify livelihoods and to catalyze a structural transformation from subsistence agriculture into a more modern and productive agriculture. Improving the effectiveness of GoE support would also be critical so that it can effectively and efficiently promote the transformation process through direct and indirect interventions. GoE also has a key role to play in providing basic social services (e.g., health and education), which would underpin people’s ability to respond positively to new opportunities. Broad-based economic growth in all sectors of the economy will, in the long term, be the key driver for sustainable reduction in vulnerability and increased resilience, however, there is also a need for a comprehensive social protection system that allows GoE to manage risks, respond to disasters and provide social transfers to the chronically poor.
- x. **This Country Partnership Strategy (CPS, FY13-16) builds on the progress achieved by Ethiopia during the past five years and aims to help the Government of Ethiopia address this structural transformation and assist in the implementation of Ethiopia’s GTP.** It also builds on the findings of the Completion Report on the last Country Assistance Strategy, the Country Portfolio Performance Review, and consultations with a wide range of Ethiopian stakeholders. The CPS is results-based, well aligned with the World Bank Strategy for Africa and selective, based on WBG’s comparative advantage. The CPS framework includes two pillars with governance as foundation and two cross cutting themes. Pillar One, “Fostering competitiveness and employment”, aims to support Ethiopia in achieving the following strategic objectives: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two, “Enhancing resilience and reducing vulnerabilities”, aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues in the CPS to strengthen their mainstreaming across the portfolio. The programs of IFC and MIGA are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar 1.
- xi. **WBG engagement, provided as a combination of partnerships, knowledge and finance, will be driven by the principle of partnering with GoE to look for pragmatic solutions.** The CPS builds on what has been achieved so far and continues its support in areas where there is strong government ownership (e.g., infrastructure and social protection). In order to

for the WBG to more effectively support GoE's medium to long term development agenda, there are three elements in the CPS that are new. First, the WBG will seek stronger engagement with the Government on macroeconomic issues, the job creation agenda, and improving Government capacity to deliver results. Second, in addition to strengthening already good collaboration with existing development partners, WBG will endeavor to reach out to non-traditional partners. Third, WBG will deploy to a larger extent than previously its analytical work and look to provide budget support (most likely starting with sectoral development policy lending) to deepen policy dialogue, foster the use of country systems and increase the predictability of Bank support.

- xii. **This CPS sets out a proposed IDA program**, which will span the last two years of IDA 16 (FY13-14) and the first two years of the expected 17th replenishment of IDA (FY15-16). In FY12 IDA's new commitments to Ethiopia amounted to US\$1.12 billion. The lending program for the first two years of the CPS (FY13-14) has been designed with a buffer of about 19 percent (US\$1.5bn in FY13 and US\$1.2bn in FY14) to allow for possible delays on individual operations. A specific IDA allocation for the two outer years of the CPS (FY15-16) is not available, since it will depend on the outcome of IDA 17 negotiations and Ethiopia's progress on CPIA indicators. The CPS program is therefore indicative and will have to be reconfirmed based on Ethiopia's allocation under IDA 17, and discussions with the Government.
- xiii. **Ethiopia faces a range of external and internal risks, the potential impacts of some of which can be mitigated in part by WBG.** Among the key risks identified is the possibility of external economic shocks, including the negative impact from a protracted slowdown in the EU and other high income economies, as well as natural disasters, of which droughts have been the most frequent occurrence in Ethiopia. There is a potential trade-off between economic growth and overall debt sustainability, especially for a development model which relies on large public investment in an environment of low levels of domestic savings. For a number of years Ethiopia has been perceived as having a culture that inhibited corruption, however, there is a risk that perception will be undermined by the challenges from rapid economic growth coupled with significant government intervention in the management of the economy. There is a continuous challenge related to the capacity to deliver results and the probity of the public service, which may not be able to keep pace with the broader reform agenda. High turn-over within the public service and the expansion of the number of woredas will exacerbate this challenge. Among the risks of which WBG needs to be aware, but the mitigation of which depends on close coordination with development partners in Ethiopia, are the regional security risks linked to relations with Eritrea, ongoing tensions between Sudan and South Sudan, and instability fed by Islamic fundamentalists in Somalia. There is also a risk associated with the death of the Prime Minister and ensuring a smooth transition in the coming months as described in paragraph iv above. Finally, in the longer term there is also a risk associated with the next elections scheduled for 2015.

Introduction

1. The last World Bank Country Assistance Strategy (CAS) for Ethiopia originally covering FY2008-11 was discussed by the Board of Directors on April 29, 2008 (Report No. 43051-ET). In 2010, at the time of the CAS Progress Report (CAS PR, Report No. 55931-ET), that CAS was extended by one year, to include FY12, due to slower than expected implementation of CAS activities as well as to allow more time to undertake a necessary poverty diagnostic. While some adjustments to the lending program were made by the CAS PR, mainly to help mitigate the risks related to the global food, fuel and financial crises, the key objectives of the CAS were retained.

2. This Country Partnership Strategy (CPS) builds on the progress achieved by Ethiopia during the past five years. It also aims to help the Government of Ethiopia (GoE) address ongoing challenges and assist in the implementation of Ethiopia's Growth and Transformation Plan (GTP, 2010-15). It covers the period from FY2013 to FY2016, one year beyond the GTP's implementation timeframe. As with the previous CAS it is a result-based strategy firmly anchored in the Government's program as well as the World Bank Strategy for Africa.¹

3. This paper is organized into four chapters. Chapter I provides a brief political and economic context followed by a summary of achievements in key areas of economic and human development over the past decade. Chapter II presents the ongoing challenges faced by Ethiopia and the approach the Government is taking, as outlined in the GTP, to address them in the coming years. Chapter III and IV focus on the World Bank Group (WBG) role in Ethiopia starting with a review of the past WBG assistance followed by a description of the key areas of the new partnership, its implementation and risks. Appendices and annexes provide additional information and statistics.

I. Country Context and Recent Developments

A. Political Context

4. **Ethiopia is a large, diverse and complex country with political dynamics resulting from its unique history.** Up to 1991, the country had seen a century of increasing state centralization, underpinned by a political culture reflecting strong hierarchies and social stratification that have deep social roots. The current government, led by the Ethiopian People's Revolutionary Democratic Front (EPRDF), came to power in 1991 after almost two decades of armed struggle, overthrowing the repressive military Dergue regime. EPRDF introduced three key reform processes: federal decentralization of the previously socialist state; market liberalization of a command economy; and democratization under a multi-party constitution. Each of these reform processes has progressed to different degrees and enjoyed some notable successes, but also faced significant constraints.

5. **A phased approach to federal decentralization has been pursued since 1995.** While the Constitution is premised on the philosophy of devolution of authority, practice often tends

¹ Africa's Future and the World Bank's Support to It, World Bank, March 2011.

more towards the deconcentration of responsibility: dominance of the EPRDF and its allies continuing to administer all levels of government seems to underpin strong *de facto* national uniformity. EPRDF's dominance has allowed it to establish a strongly interventionist "developmental state" system, which is often perceived as limiting the space and role of non-government social, political and economic actors in economic growth, promotion of liberal democracy and pluralism. These include non-governmental organizations (NGOs) and civil society organizations (CSOs), whose role is limited largely to service delivery under recent legislation; private media outlets, whose activities are also regulated by strict legislation and a tough judicial approach to editorial freedom; and private sector investors, who also often feel their interests are neglected by a government determined to curb what it sees as anti-development "rent-seeking". Weak opposition groups have struggled for space in this context, with Ethiopia's most competitive elections to date concluding in 2005 in bitter post-election contestation and violence, followed by the reconsolidation of the position of EPRDF. The May 2010 parliamentary elections resulted in a 99.6 percent victory for the ruling EPRDF and its allies, reducing the opposition from 174 to only two seats in the 547 member lower house. This weakening of the opposition and marginal role that other non-state actors are playing has created a polarized dialogue on many key political and economic issues outside Ethiopia, as well as within.²

6. **Ethiopia occupies a difficult position in the Horn of Africa** sandwiched between war-torn Somalia, Eritrea, and the newly divided Sudan and South Sudan. All of these neighbors generate difficult cross-border problems, often involving cross-border communities. Ethiopia's lowland peripheries have long been affected by instability, and its relatively strong state, security and military systems are regularly deployed domestically - and sometimes also regionally - to promote GoE interests in national stability and security. However, Ethiopia's central and important strategic position in the Horn of Africa also offers important potential for regional cooperation and collaboration (especially in the water and energy sectors), which could contribute to a growing inter-dependence between the countries and lead to promote peace and stability in the region.

7. **Ato Meles Zenawi, the Prime Minister who had led Ethiopia since 1991, died in late August 2012.** Since his death, GoE has embarked on a constitutional process for the transition to a new Government. The incoming Prime Minister and the Government have reconfirmed their commitment to political stability, to hold national elections in 2015 (as previously planned), and to continued implementation of the GTP and other key GoE strategies and policies.

B. Recent Economic Developments

8. **Since the early 1990s Ethiopia has pursued a "developmental state" model with a strong role for GoE in many aspects of the economy.** This approach, based on high levels of public sector investment, has been associated with strong rates of broad-based economic growth since 2001, albeit from a very low base and, since 2010, a particularly ambitious program for

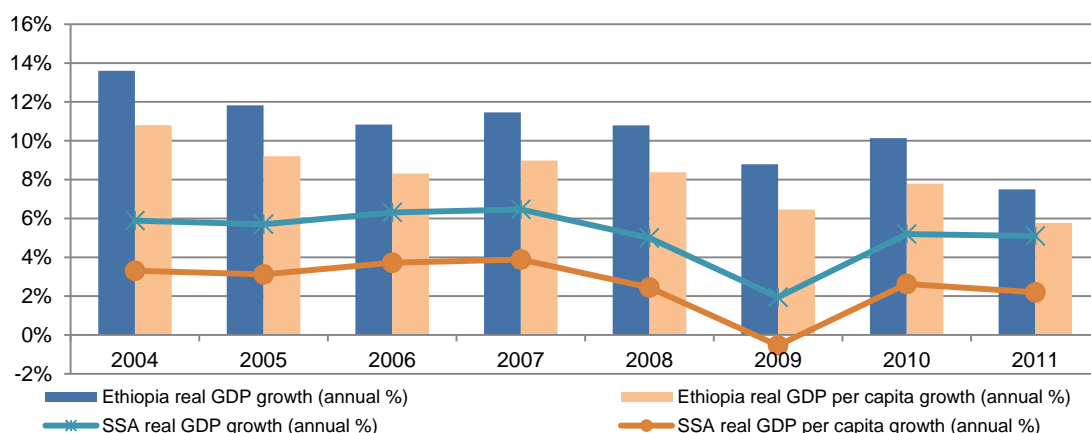
² The most visible examples of this polarized dialogue include the often critical position taken by parts of the Ethiopian Diaspora, and the high profile some international NGOs, such as Human Rights Watch and the Committee to Protect Journalists give to publicizing their concerns about governance in Ethiopia.

state, infrastructure, and economic transformation. Notable progress has been made towards many MDGs including those for poverty, access to education and health. Important improvements have been made in basic infrastructure, and in strengthening executive capacity, and Ethiopia presents a relatively positive picture, particularly at the federal level. It has a track record of successful management of reform at the higher tiers of government, and there is clear evidence of a strong and consistent vision guiding policies, which are strongly pro-poor.

Macroeconomic Trends

9. **From 2004-11 Ethiopia experienced strong and generally broad-based real economic growth of around 10.6 percent a year on average**, i.e., more than double the annual average of countries in Sub-Saharan Africa (SSA), which reached 5.2 percent (Figure 1). Growth came from a mix of GoE-led development investments, strong global commodity demand, and the development of new export sectors. More recently annual growth rates have declined slightly, but still remain at high single-digit levels. The economy is expected to stabilize at around 8 percent in 2012, largely owing to improved performance in the agriculture sector. The Gross Domestic Product (GDP) annual growth is likely to remain around 8 percent until 2016, driven by rising foreign investment and exports (EIU, 2012). In addition, despite high population growth of 2.2 percent a year, GDP per capita (at PPP) has increased from US\$965 in 2007/08 to US\$1,196 in 2010/11. Nonetheless, Ethiopia's GDP per capita remains among the lowest in the world (169th out of 181 countries, assessed by the World Bank).³

Figure 1: GDP growth rates – comparison between Ethiopia and Sub-Saharan Africa, 2004-11



Source: World Bank, World Development Indicators (2012); and IMF, World Economic Outlook (2011).

Note: World Bank staff estimate for SSA real GDP per capita growth in 2011.

10. **Export growth of goods and services has been strong, averaging close to 10 percent annually during 2000-10.** Agriculture remains a major earner of foreign exchange, accounting on average for about 90 percent of Ethiopia's exports over the past decade. Ethiopia has made good progress in growing and diversifying processed exports, with double digit growth volumes

³ Data refer mostly to the year 2010; World Development Indicators (WDI) database, accessed on 18 April 2012.

in export categories such as leather and leather products, and meat and meat products over recent years. The economy, however, remains dependent on primary products (principally coffee) to a larger extent than other African and Asian comparators.⁴ This may change in coming years, if Ethiopia is successful in maintaining recent growth of foreign direct investment (FDI), which increased from US\$0.5 billion in 2007 to US\$1.2 billion in 2011 (National Bank of Ethiopia - NBE).⁵ In addition, the mining and energy (hydropower) sectors hold great promise for Ethiopia as a source of investments and as important catalysts for the Government's export-orientated development strategy. Other sectors which appear to have scope for continued export growth and development include floriculture, hides and leather products.

11. During 2000-10 imports grew annually by around 15 percent on average due to a major emphasis on the import of capital goods as part of the government-led growth strategy. As a result, the trade balance has been in deficit. Likewise, the current account balance has been negative, even though it improved temporarily in 2010/11, when it recorded a small surplus resulting from a temporary slowing of investment activities. Yet, consumer goods imports have recovered since to earlier, albeit low levels. Thus, the current account is expected to turn into deficit again, and likely to stay there given the import requirements of the GTP and increasing demand for imported consumer goods.

12. Ethiopia weathered the 2008 global food-fuel-financial crises relatively well. GDP growth declined from 11.2 percent in FY2008 to around 10 percent in FY2009, representing only a marginal difference between projected and actual GDP. Nonetheless, even before the onset of the 2008 crisis, Ethiopia's economy was already slowing down. **Looking forward, there is a risk of negative economic impact from a protracted slowdown in the European Union (EU) and other high-income economies, mainly through reduced remittances and slowing demand for exports.** A slowdown of remittances (standing at around 9 percent of GDP) could reduce disposable income and ultimately decrease domestic consumption. Although Ethiopian exports are only around 15 percent of GDP, they may be vulnerable due to the high concentration of commodity and primary goods and to the 50-plus percentage share of OECD as export destination.

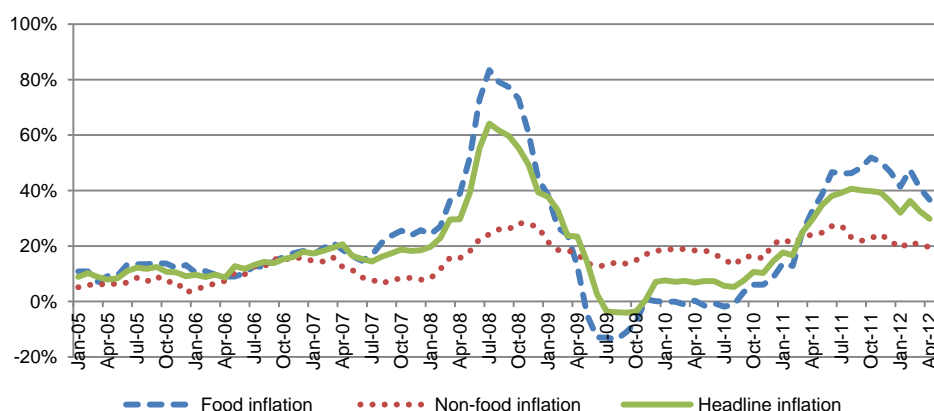
13. Recent high inflation rates are a particular concern for Ethiopia and its economy. Inflation has a negative impact on poverty, possibly pushing poverty up by as much as 0.5 percent for each 1 percent increase in the inflation rate (World Bank Working Paper, WP3378). Further, inflation negatively affects the domestic savings rate, which for the past decade (2000-10) has been at low single-digit levels, as well as the private investment rate, both of which are vital to finance ambitious GTP investment targets. Headline inflation rates in Ethiopia have largely been driven by developments in food price inflation and partially by the increasing global commodity prices. Since 2005, there have been two major spikes (Figure 2). In August 2008,

⁴ During 2005-09 share of manufactured exports as a share of total exports in Ethiopia was only 13 percent compared to China (90 percent), Cambodia (90), Bangladesh (93) and Vietnam (58). In case of light manufacturing, its share in total exports was 9 percent compared to China (91 percent), Cambodia (89), Bangladesh (91) and Vietnam (43). UNIDO, 2011

⁵ Currently most FDI originates from China, India and Turkey and focuses on agriculture, textile and leather. Most deals are negotiated case-by-case, generally as a result of high-level bilateral official visits. Despite growth in private FDI, it only represented 0.6 percent of GDP in 2010 (World Bank, WDI).

headline inflation (year on year) peaked at 61.6 percent, driven by 79.2 percent food price inflation; likewise, in August and September 2011 inflation was 40.7 and 40.2 percent respectively, at a time when food inflation reached almost 50 percent. Food inflation kept rising to more than 50 percent in November 2011, but by then headline inflation had started to ease slowly, driven by a tightening monetary stance (base money growth stabilized at the end of 2011).

Figure 2: Inflation rate in Ethiopia, January 2005 to April 2012



Source: Central Statistics Agency of Ethiopia (CSA)

14. Non-food inflation, a measure of core inflation, shows a relatively high persistent level, which indicates that inflation in Ethiopia is not purely a food price problem. In both spikes of 2008 and 2011 non-food inflation rose above 20 percent. In the 84 months between January 2005 and December 2011, core inflation was between 10 and 20 percent for 34 months, and above 20 percent for 25 months. Non-food inflation likely has several drivers in Ethiopia, including: relatively high overall monetary growth in the system, inflation expectations (which could be further fuelled by food price-inflation), and currency devaluation, which increases the prices for imported goods.

15. **While high inflation persists, it is showing a slightly decreasing trend.** Recognizing the difficulties that inflation poses for its economy and the poor, GoE has been executing stringent cash-based budgeting and negative reserve money growth.⁶ As a result, headline inflation rates, which were above 33 percent on average during all of 2011, started to ease at the end of the year, and reached 20.9 percent in June 2012. However, international prices for Ethiopian food staples are now rising sharply, and this has in the past led to increased inflation in Ethiopia.

16. **The exchange rate has continued to steadily depreciate since September 2010,** following the 20 percent nominal depreciation in August 2010, consistent with the long-term

⁶ The trend to tighten monetary base was slightly reversed in December 2011 primarily due to a drawdown in government deposits at the National Bank of Ethiopia (NBE). At the same time reserve requirement ratios were lowered by 5 percentage points in January 2012.

trend. Overall the Birr has depreciated by 97 percent over the course of 5 years. This trend is largely mirrored in the Nominal Effective Exchange Rate which shows a steady path of depreciation between September 2008 and December 2011. The Real Effective Exchange Rate, however, has been on an appreciating trend since December 2010, which coincides with and largely originates in the recently observed high inflation rates.⁷

Table 1: Key Macroeconomic Indicators (2010/11-2016/17)

	2010/11 est.	2011/12 proj.	2012/13 proj.	2013/14 proj.	2014/15 proj.	2015/16 proj.	2016/17 proj.
	<i>(Annual percentage change)</i>						
GDP at constant prices (at factor cost)	7.5	7.0	6.5	6.5	6.5	6.5	6.5
Consumer prices (period average)	18.1	34.4	14.9	9.0	9.0	9.0	9.0
Exports, f.o.b.	37.1	16.9	9.0	12.6	15.2	14.7	13.2
Imports, c.i.f.	-0.9	35.5	10.8	8.5	10.1	11.4	6.9
	<i>(In percent of GDP, unless otherwise indicated)</i>						
Gross domestic saving	8.8	7.8	6.7	7.3	7.5	8.2	8.3
Gross domestic investment	25.5	26.4	24.5	24	23.9	24.8	24.2
Revenue	13.5	13.7	13.3	13.5	13.7	13.8	13.8
Expenditure	18.4	17.8	17.5	17.1	16.9	17.0	16.8
Fiscal balance, excl. grants (cash basis)	-4.8	-4.1	-4.2	-3.6	-3.3	-3.2	-3.0
Fiscal balance, including grants	-1.6	-2.3	-2.9	-2.3	-2.1	-2.1	-1.9
Public Debt	37.4	34.3	35.0	35.7	35.2	35.3	34.8
Domestic debt	15.4	15.8	16.0	15.5	14.3	13.4	12.5
External debt	22.0	18.5	19.1	20.2	20.8	21.9	22.3
Overall balance of payments (US\$m)	1,446	-1,215	591	435	362	399	241
Gross official reserves (US\$m)	3,044	2,114	2,704	3,140	3,502	3,901	4,142

Source: International Monetary Fund (IMF).

Note: Government growth estimates and projections differ for 2010/11 and beyond and are above 11% per year (e.g.: 2010/11 estimate 11.4%, and 2012/13 projection 11.3%).

17. Fiscal policy needs to play a key role in GoE's efforts to reduce inflation over the short run as well as mobilize and spend resources efficiently in the medium-term. While the current federal budget stance is tight, supported by significant increases in revenues, quasi-fiscal activities are growing (such as domestically and externally financed investment activities of state-owned enterprises). The overall general government deficit in 2010/11 was 1.6 percent of GDP, financed mostly by external project loans and privatization receipts almost without recourse to net domestic financing. Federal government data for the first half of 2011/12 indicates that the revenue performance was improved, the overall deficit was reduced, and a large repayment to the banking system from GoE was recorded. The latter, however, resulted in a large deposit accumulation at the state-owned Commercial Bank of Ethiopia (CBE) which has been extending credits to state-owned enterprises at a very rapid rate (IMF, 2012). Regarding the revenue side, implementation of the authorities' tax reform strategy, which was started in 2010, is ongoing and already shows significant improvements in tax collection. On the expenditure side, implementation of public financial management (PFM) reforms, including the move to a program-based budgeting is ongoing and would need to be deepened to prepare for a possible increase of budget support programs of development partners. At the same time, the current tight fiscal policy stance needs to be maintained to support the reduction of inflation.

⁷ Ministry of Finance and Economic Development (MoFED) and NBE, as part of the Macro Update on the Current Inflation in Ethiopia.

18. **The latest Debt Sustainability Analysis (DSA) carried out for the 2011/12 period indicates that Ethiopia remains at low risk of external debt distress – similar to the findings for 2009/10 and 2010/11.**⁸ However, given the large financing requirements of the GTP, it is expected that debt ratios will rise moderately in the medium-term but stabilize in the long-term. Analysis indicates that borrowing from domestic sources is constrained and public enterprises will continue to rely significantly on external financing to sustain the large infrastructure investments that are expected to drive growth; for the latter a growing share is expected to be on non-concessional terms. Consistent with GoE's intention to keep a low risk of external debt distress, the amount of non-concessional borrowing will be limited. Indeed there may be a trade-off between GoE's desire to maintain a low risk rating and the implementation pace of the GTP. In other words, GoE may need to increase the implementation period of the GTP in order to smooth the profile of the non-concessional financing requirements for the planned investments. Ethiopia is subject to the IDA Non-Concessional Borrowing Policy (NCBP). In the absence of an IMF program, IDA could establish a non-concessional borrowing limit if it was consistent with the maintenance of low debt vulnerabilities, and if the planned investments are critical and growth-enhancing.⁹ Recently GoE officially requested a non-concessional borrowing limit of US\$ 1 billion and the Board will be informed of IDA management's decision as specified in the NCBP.

Governance and Public Sector Management

19. **During the past decade Ethiopia has made impressive progress on the decentralization of authority and service delivery.** A phased approach to federal decentralization has been adopted, with a transfer of powers from GoE to Regional States (1991-95) followed by the decentralization of service delivery first to woredas (districts) and, for some aspects, down to kebeles (villages) (2001- ongoing). Kebele councils have been enlarged, and kebele managers put in place to be focal points for service delivery and to handle complaints. The capacity and institutions built at decentralized levels have resulted in improved access to basic services and to decision-making bodies.¹⁰ Serious efforts have been made at reforming the tax system (including policy revision, structural review, adoption of ICT and taxpayer education), resulting in a fivefold tax collection increase from 2005 to 2012. The legal and policy frameworks and operational systems of urban centers have also been reformed, and capacities strengthened.

20. **Public Financial Management reforms have made good progress over the last decade, although further reforms are needed.** This progress was facilitated through strengthening of the legal framework for PFM; rolling out of simple but easy to use computerized systems such as IBEX (Integrated Budget and Expenditure Management System) across GoE and regional administrations; extensive training for PFM staff; and building of

⁸ See Appendix 5 for details.

⁹ The ability to establish a non-zero ceiling for non-concessional lending in IDA's NCBP in the absence of an IMF program was outlined in "IDA's Non-concessional Borrowing Policy: Progress Update", April, 2010. (IDA Sec 54240).

¹⁰ According to the 2011 Woreda and City Benchmarking Survey, an independent survey of local governments, during 2005-11 percentage of jurisdictions graded as "high performers" by their constituencies has increased from 25 to 88 percent.

capacity at institutions including the Offices of the Federal Auditor General (OFAG) and the eleven Regional Auditor Generals. Several important laws have been drafted including:¹¹ a Financial Reporting Law and the law establishing a regulatory body for the accountancy profession in Ethiopia, which mandates the establishment of the Institute of Certified Accountants and adoption of accounting standards as well as International Standards on Auditing. Currently, a review of the 1960 commercial code is ongoing under the auspices of the Ministry of Justice, and supported by the World Bank. While Public Expenditure and Financial Accountability (PEFA) assessments of 2007 and 2011 have noted improvements, they have also noted the wide variability in capacity, systems and practices that exist across the country. These assessments have highlighted the need to address remaining PFM weaknesses in tax collection, procurement, internal and external audit, structured training, legislative oversight and scrutiny as well as transparency (see discussion in paragraph 89).

21. The implementation of fiscal decentralization is still ongoing. Although resources flowing through the block grant system are increasing, they are flowing to a rapidly increasing number of woredas, many of whom have yet to develop in full the capacity to handle and manage these funds. Furthermore, on average, 80 percent of these resources are used to fund salary costs while resources for capital expenditures are limited. Woredas have limited discretion on the allocation and utilization of these funds. In order to make further progress GoE needs to further explore mandates over revenue and expenditure within its intergovernmental transfers system. The affordability and sustainability of financing the large (and increasing) number of woredas also needs to be carefully analyzed.

22. Public Sector Reform has been high on Government's agenda, and is rooted in its long term strategy of state transformation articulated in the early 1990s. There have been a series of modernization efforts across the public service including: business process reengineering (BPR) implemented at all levels of government; introduction of a balanced score card fostering greater customer orientation and performance management in service delivery; improvements in transparency and of the budget process; and access to information. Nonetheless, there is a high level of staff turnover and churning in the public service which affects the quality of service delivery. Whilst this phenomenon is not fully understood a strategy for civil service reform, with an overhaul of GoE human resource policies, including pay scales, should be considered as a matter of priority by GoE going forward (see paragraph 86).

23. The legislative and regulatory framework has undergone significant strengthening in recent years, through overhauling of old acts and enactment of improved proclamations in civil service, decentralization, tax (income and turnover tax, Value Added Tax), finance (public finance proclamation, procurement, cash management directives), Information and Communication Technology (ICT), city proclamations and urban policies, asset registration and disclosure, and criminal laws as well as laws that determine the powers and responsibilities of the three branches of government. GoE has also embarked on efforts to increase the transparency and accountability of its mining-derived financial flows, which are being analyzed, discussed,

¹¹ Drafting of these laws was recommended by the Report on Observance and Codes - Accounting and Auditing conducted in 2007.

and made publicly available under the World Bank-supported Ethiopian Revenue Transparency Initiative. Nonetheless, Ethiopia can still do more to improve its business environment (see paragraph 30 and 62).

24. Regarding **anti-corruption measures**, the Federal Ethics and Anti-Corruption Commission has overseen the establishment of regional commissions in all regions, with a network of Ethics officers in all regional bureaux. The development of investigative capacities of staff at the Commissions is still a work in progress, is moving in the right direction. The legislature at federal level has passed a number of laws aimed at enabling an environment for fighting corruption. Initiatives around asset disclosure for political leaders and public officials (defined as “government appointees, elected persons and public officials” in the Disclosure and Registration of Assets Proclamation, 2010) at federal level have resulted in the recording and disclosure of assets in respect of over 40,000 individuals.

Agriculture and Rural Development

25. **Agriculture remains the cornerstone of the Ethiopian economy and the most important source of growth.** It accounts for almost 48 percent of GDP and 85 percent of export earnings. Principal crops include coffee, maize, teff, wheat, sorghum and other cereals, pulses (e.g., beans), oilseeds, potatoes, sugarcane, and vegetables.¹² From 2007/8 to 2010/11 the agriculture sector was reported to have grown by 6.5 percent a year on average. According to official statistics, agricultural productivity of wheat, teff and sorghum increased by an average of 14 percent,¹³ due to investments in agricultural extension, some increases in inputs (especially fertilizer), improvements in land tenure security and management as well as significant increases in the area farmed (by over 2 percent annually). Ethiopia is also the 10th largest producer of livestock in the world and, with 75 million head of livestock, has the largest concentration of livestock on the African continent. Agriculture remains a major earner of foreign exchange, with coffee, oilseeds, qat, flower, pulses, live animal and hides and skins making up the bulk of Ethiopia’s total exports.

26. **Agriculture is the main income earner, livelihood and way-of-living for 85 percent of Ethiopians living in rural areas.**¹⁴ Ethiopia’s agricultural production is by and large rain-fed and dominated by small-scale farmers and enterprises. While much of Ethiopia’s agriculture remains for subsistence purposes, smallholders also provide a large part of traded commodities, including for exports. Food is also the main consumption item for Ethiopian households, accounting for about 57 percent of the consumption basket (excluding beverages). Given the

¹² Ethiopia is Africa’s biggest coffee producer and second biggest maize producer. It is the biggest teff producer in the world.

¹³ However some independent studies shed some doubts on the reliability of the official statistics. For instance, according to the Food and Agriculture Organization (FAO)/World Food Program (WFP) Crop and Food Security Assessment Mission to Ethiopia (2010) “national cereal and pulse production in 2009/10 is some 4.7 percent below the all time record harvest in 2008/09 but still about 7 percent above the previous five years average. Sorghum and maize crops have been most adversely affected, while production of teff and barley is less affected and production of wheat is expected to increase.” p.4.

¹⁴ Rural population is increasing at about 2.4 percent annually (e.g., over 1.5 million people). Currently, migration to urban areas is much smaller than rural population growth rate.

large rural share of the total population, there is a strong correlation between recent agricultural growth and the significant reduction in rural poverty. In recent years, GoE has been increasingly interested in pursuing large commercial agriculture schemes especially in crops with export potential (e.g., sugar cane) and in collaboration with the private sector, both domestic and foreign, which brings both opportunities and challenges going forward (see paragraph 78).

27. Land remains one of the main structural and regulatory challenges that Ethiopia faces, as a critical input into all economic activities (rural and urban). According to the Ethiopian Constitution, land belongs to “the State and the people of Ethiopia.” Private ownership of land is not allowed. Instead, private users have user rights that are different for rural and urban areas and vary by region; a significant amount of land is informally used. Formal land markets are underdeveloped and do not exist in many areas, and land is generally undervalued. Given the country’s strong economic growth, urban and industrial development, and larger-scale agricultural investments, the challenges and demand for improved land tenure security, access to land, land use planning and land management are further increasing. To address these challenges, Ethiopia can build on strong in-country experience and focus on strengthening: (i) the legal and regulatory framework; (ii) the organization set-up and administrative capacity; and (iii) the provision of effective land administration services.¹⁵

Industry and Services

28. For the past five years (2007/08 – 2010/11), industry and the service sector have experienced strong average real growth of 10.2 and 10.8 percent a year respectively. However, while the rate of growth of industry has accelerated, partially due to increased FDI, services registered a recent slowdown to 6.7 percent from 11.7 percent (IMF, 2012).¹⁶ The output structure remains reflective of a developing economy in early transition, with agriculture accounting for 48 percent of GDP, industry for 14 percent, and services for 38 percent (2010). The manufacturing sector has been growing in value terms at similar rates as GDP but remains small in terms of its contribution to GDP (5.5 percent in 2011) and employment – only around 13 percent of the employed population in urban areas is engaged in manufacturing, and the corresponding annual growth in employment has been a modest 4 percent during the last three years (CSA 2009, 2010 and 2011).

29. Public investment has in recent years been one of the major drivers of economic growth in Ethiopia. The growth in GoE and the activities of state enterprises have multiplied. Credit to the public sector from the banking system has increased five-fold from 2004/05 to 2010/11 from Birr 8 billion to an estimated 42 billion, accounting for nearly two-thirds of all banking system credit.¹⁷ Despite a robust privatization program (so far more than 115 state-owned enterprises (SOEs) have been privatized) the share of public corporations, which are predominantly large and medium sized SOEs, has been relatively stable (around 8.6 percent of

¹⁵ Ethiopia: Options for Strengthening Land Administration, World Bank, 2011.

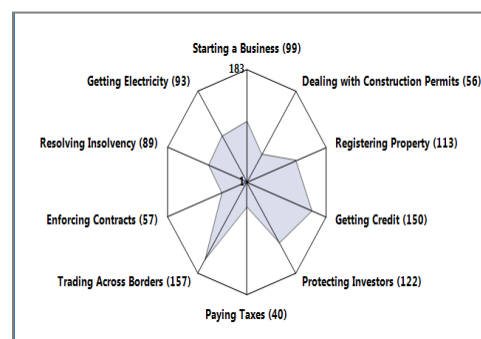
¹⁶ There are some discrepancies between the official Government data and those of IMF. For example, real GDP growth in industry in 2010/11 is registered at 15 percent by GOE as opposed to IMF figure of 12.5 percent. The variance is much higher with regard to the growth rate in services where IMF has shown a decline of 6.7 percent while GOE has registered a slight increase in growth rate to 12.5 percent.

¹⁷ Source: Access Capital

GDP). Further, several large enterprises that the Government considers strategic remain in the public domain resulting in limited scope for private participation and competition.¹⁸

30. The domestic private sector is dominated by the informal sector. In services and manufacturing the informal sector is growing but continues to be characterized by low productivity. The formal private sector represents a small part of the economy – a recent study estimated that private corporations generated only 2.7 percent of GDP and employed just 5.8 percent of the workforce. It is dominated by large and medium sized formal firms and includes mostly endowment companies (i.e., companies controlled by EPRDF) and FDI. One of the contributing factors to the small size of the formal private sector is the fact that, despite some positive developments in industry and service sectors, Ethiopia has been a difficult place to do business. In *Doing Business 2012*, Ethiopia ranked 111th out of 183 economies and 7th out of the 18 economies that make up the Common Market for Eastern and Southern Africa (COMESA).¹⁹ In this regard, Ethiopia's ranking has not improved significantly over the past few years and the pace of reforms is slowing down (e.g., registration and licensing regulations as shown in Box 1). Ethiopia's performance is also uneven across the Doing Business indicators (Figure 3), with particularly slow progress in removing barriers to trading across the borders, which in the context of regional collaboration, presents a significant barrier to Ethiopia's export-driven growth.

Figure 3: Doing Business in Ethiopia (2012)



Financial Sector

31. **The Ethiopian banking sector is relatively underdeveloped compared with its regional peers and plays a limited role in the economy.** The Banking system comprises one development bank (the Development Bank of Ethiopia – DBE), two state-owned commercial banks (CBE and the Construction and Business Bank) and 14 private banks. There are no foreign-owned banks. In 2010/11 CBE's assets were about ETB180 billion (up from ETB53 billion in 2004/05), which accounted for about 70 percent of the banking sector's total assets; its market share in terms of credits is almost 75 percent, and in terms of deposits 65 percent. The remaining 15 banks are mainly private and have combined assets of ETB86 billion. In addition there are 30 Micro-Finance Institutions (MFIs), of which the five largest MFIs (owned by regional Governments) represent 85 percent of 2.5 million clients and 90 percent of overall outstanding loans (as of September 2011).²⁰ Regarding the overall financial sector depth (measured by private sector credit/GDP) Ethiopia's standing is comparable with Uganda and

¹⁸ Public corporations that the GOE considers strategic include: Ethiopian Air Lines, Ethiopian Shipping Lines, Ethiopian Telecoms, Ethiopian Electric and Power Corporation, Ethiopian Metal Engineering Corporation, Commercial Bank of Ethiopia, Development Bank of Ethiopia, and Construction and Business Bank.

¹⁹ These results are also corroborated by the Global Competitiveness Index. Accordingly in 2010-11 Ethiopia was 119th (out of 139) in terms of its overall competitiveness, 127th with regard to macroeconomic environment, 105th in innovation, 129th in higher education and training and 121st in financial market development.

²⁰ According to quarterly data on MFIs collected by the Association of Ethiopian MFIs, in Q3 2011 the total capital of all MFIs reached Birr 2.5bn; the stock of outstanding loans was Birr 6.7bn and savings were Birr 2.1bn.

Tanzania, especially after accounting for Ethiopia's lower income per capita. However, while Ethiopia's regional peers have seen credit to the private sector as a proportion of GDP rise substantially over the last five years (2006-2010)²¹, in Ethiopia this ratio has fallen from 18 percent to 15 percent (NBE).

32. Ethiopia's financial sector penetration and access to finance is still limited

(Table 2). According to the IMF Financial Access Survey, during 2004-10 the number of commercial bank branches per 100,000 adults has grown from 0.8 to 1.8 as well as the number

Table 2: Regional financial sector comparison

	Ethiopia 2010	Kenya 2009	Uganda 2010	Tanzania 2009
GNI/capita	218	460	371	447
Population (mln)	82.9	38.6	34.6	43.2
Private sec credit/GDP (%)	15.0	19.4 ₍₂₀₁₀₎	13.1	19.3 ₍₂₀₁₀₎
Deposits/GDP (%)	28.8	46.0	27.9	27.0
Bank branches/100K pop	1.8	4.4	2.5	1.8
ATMs/100K pop	0.3	7.3	3.6	0.9
No of loans/1,000 pop	1.9	73.1	18.4	30.0
No of deposits	107	370	192	130

of their depositors per 1,000 adults from 66 to 107. However, the number of outstanding deposits with commercial banks as a percent of GDP has declined from 38 to 28 percent. Similarly, while the number of borrowers from commercial banks per 1,000 adults has increased from 1.2 to 1.9, outstanding loans from commercial banks as a percent of GDP went down from 19 to 14 percent. The ability of the commercial banks to collect deposits and provide loans to the real sector is restricted by negative real interest rates prevailing in the economy and a recent GoE requirement on the commercial banks to allot 27 percent of their loan disbursements to purchase T-bills. While there are some encouraging trends in accessibility and use of financial services, there is substantial scope for the financial sector can play a more active role supporting the Government's growth and transformation agenda. One of the possible areas worthwhile exploring in Ethiopia is mobile banking, which over the past few years has substantially changed the access to banking services in Kenya and Tanzania, especially for the rural poor (see also paragraph 35).

Infrastructure

33. **Over the past decade, Ethiopia has made significant improvements in access to and quality of its infrastructure.** It is estimated that if Ethiopia's infrastructure platform could be improved to the level of the African leader, Mauritius, annual per capita growth rates could increase by 3.8 percent.²² Further, given Ethiopia is a landlocked country, connectivity with its neighbors and with the rest of the world brings important challenges as well as opportunities. **Ethiopian Airlines** is now one of the three main sub-Saharan African airlines and Bole Airport serves as a regional air transport hub for passenger and commodity transport (including cash crops such as floriculture). The quality of Ethiopia's **road network** has increased: 80 percent of the paved network of over 40,000 kilometers is in good or fair condition (2010).²³ Nonetheless, road density is still low: only 10 percent of the rural population lives within two kilometers of an all-weather road, which is only half of the benchmark level for low income countries in sub-

²¹ For example, private sector credit/GDP between 2006 and 2010 in Kenya went from 26 to 34 percent, in Uganda from 10 to 16 percent and in Tanzania from 13 to 16 percent (World Bank WDI, 2011).

²² Africa Infrastructure Country Diagnostic (AICR) Country Report. Ethiopia's Infrastructure: A Continental Perspective World Bank, March 2010.

²³ ICT, Maintenance Needs Assessment and Updating of Road Financing Study, 2011.

Saharan Africa. Ethiopia's primary transport corridor is through Djibouti and GoE has recently initiated construction of a 5,000 kilometer national **railway** to link Addis Ababa with Djibouti, of which the first 2,000 kilometer phase is anticipated to be developed by 2015. Ethiopia is actively trying to develop a rail industry to serve the broader region including South Sudan, Somalia (Puntland) and northern Kenya. The Government is also exploring alternative routes to market including Berbera and Lamu.

34. Access to improved **water and sanitation** is rising rapidly, albeit from a very low base. Close to five percent of Ethiopia's population is gaining access to improved water every year. Though reliance on surface water is in decline and the emphasis has shifted to multiple uses of ground water sources, matching drilling capacity with the demand for source development has been a challenge. Moreover, the assessment of groundwater potential and the management of groundwater resources have not been given sufficient attention. Exceptionally rapid expansion of traditional latrines has benefited 60 percent of Ethiopia's population (Health and Sanitation Action Plan, 2012). The practice of open defecation, while still widespread, is declining steeply, due mainly to the government's health extension program and partly the deployment of more than 34,000 health extension workers to implement a comprehensive health and sanitation package. GoE in collaboration with their development partners has made progress towards establishing a harmonized and integrated Water Supply, Sanitation and Hygiene (WASH) program and is putting in place the corresponding institutional arrangement for its universal access plan to provide access to improved water supply for the entire population by 2015.

35. **The GTP has a clear vision to “embrace ICT as essential to creating new jobs, new business opportunities, to education and to improving the effectiveness of government administration and service delivery.”** To improve the country's mobile, internet and broadband penetration rates, GoE signed in 2011 a contract with France Telecom to manage the state-owned Ethiopian Telecom Company (ETC). After almost a year ETC now serves over 15 million subscribers and expects its total mobile subscriber base to increase to 50 million at the end of 2015, by extending coverage from 50 to 90 percent. To increase the quality and reliability of service, ETC has completed steps to eliminate faulty power equipment in Addis Ababa, and is assessing equipment needs in regional states. In addition, it has signed an agreement with the Ethiopian Electric Power Corporation (EEPCO) to facilitate the installation of optical fiber between Addis Ababa and Bahir Dar and Addis Ababa and Galafi. Ethiopia's fixed-line and internet penetration rates of 1 and 0.9 percent respectively (2011) rank among the lowest in the region; ETC plans to expand its internet subscriber base from the current 180,000 to five million by 2015.

36. **Since 2005 electricity access in Ethiopia has been growing rapidly.** 41 percent of rural towns and villages are now connected to the grid and the number of consumers connected grew from 800,000, in 2005, to more than 2 million in 2011 (14 percent coverage). During the same time, off-grid programs, such as: efficient cook stoves and solar lighting, have brought access to modern energy services to over 4 million households. The average rate of growth of demand for electricity was above 15 percent a year during 2005-10,²⁴ and EEPCO implemented demand side management by replacing existing incandescent lamps with CFLs. Ethiopia is endowed with vast

²⁴ About 25 percent in FY10 and 32 percent in FY11.

hydropower potential and could become one of the largest power exporters in Africa. In 2010, EEPCO commissioned three large hydro power plants²⁵ that increased its power generation capacity from about 850 MW to above 2,000 MW, providing sufficient capacity to service the current demand²⁶ and allowing high-cost thermal plants to be decommissioned from the grid. New regional interconnectors to facilitate regional power trade are underway with Djibouti (in operation since 2010), Sudan (expected in 2012) and Kenya (expected in 2017).

Climate Variability

37. **Ethiopia is highly vulnerable to climate change and variability.** Ethiopia has become warmer over the past century and rainfall variability is predicted to increase further. Impacts of droughts and floods will be the most acute impacts on agriculture and on average cost the economy about one percentage point of GDP growth per year.²⁷ However, Ethiopia is also vulnerable in terms of other sectors including water, transport, industry, energy, health, and in terms of its environmental resources. A multifaceted approach is needed to address the challenges posed by climate change, including but not limited to interventions in the agriculture sector; better management of natural resources such as land, forestry, groundwater; and promotion of “green technologies” (see discussion in paragraph 79). Reducing population growth will also be essential in reducing the stress on natural resources and addressing environmental degradation.

C. Poverty and Human Development Trends

Poverty Trends

38. **Poverty has been reduced substantially during the last decade, in both urban and rural areas.**

According to Household Income Consumption and Expenditure Surveys (HICES), while almost 39 percent of Ethiopians lived in extreme

poverty in 2004/05 (below the national poverty line of US\$0.6 per day), six years later the number was reduced to less than 30 percent (Table 3).²⁸ While both, urban and rural areas experienced reduced poverty rates in this period, inequality declined in urban areas but has worsened in rural areas. Nevertheless, the poverty rate in Ethiopia as measured by international standards remains very high: 39 percent of Ethiopians live below US\$1.25 a day; 78 percent of Ethiopians live under US\$2 a day ((United Nations Development Program - UNDP); and the Oxford Poverty and Human Development Index calculates the poverty rate in Ethiopia to be 90 percent, the second highest after Niger of the 104 developing countries covered.

Table 3: Population below the national poverty line (US\$0.6 per day)

	1995/96	1999/00	2004/05	2010/11
Urban (%)	33.2	36.9	35.1	25.7
Rural (%)	47.5	45.4	39.3	30.4
Total (%)	45.5	44.2	38.7	29.6
Number of poor	25.6mln	28.1mln	27.5mln	25mln
Number of food-poor	27.9mln	26.6mln	27.0mln	28.4mln
Population	59mln	66mln	74mln	85mln

Source: HICES (several issues)

²⁵ Tekeze (300 MW), Gibe II (420 MW) and Beles (460 MW).

²⁶ In FY11, EEPCO's peak demand was around 1,100 MW which was well within its capacity.

²⁷ AICR, 2010.

²⁸ According to the GTP, the target is to reduce this further to 22.2 percent by 2014/15, which would be another decrease of 7.4 percentage points over five years.

Education

39. **There has been encouraging, albeit uneven, progress towards achieving the education Millennium Development Goals (MDGs).** Ethiopia continues to give high priority to the education sector by channeling significant public resources to education – in 2010/11 education expenditures were equal to 4.6 percent of GDP or 24.9 percent of public expenditure. While, as a result Ethiopia is on track to achieve gender parity in primary education (MDG Goal 3) it will likely not achieve universal primary education (MDG Goal 2).²⁹ The primary Gender Parity Index (GPI) increased from 0.87 in 2006/07 to 0.94 on 2010/11. In the same time period increase in access to primary education was modest: the net enrollment rate (NER) increased from 79 to 85 percent, an annual growth rate of 1.9 percent, which was less than the population growth rate. Grade 8 completions increased at 2.8 percent a year, but remain low at 49.4 percent. The gross enrollment rate (GER) of early childhood development grew rapidly at 13.8 percent a year during 2006-11 though from a low base of 3.1 percent. Ethiopia has set an ambitious target of achieving universal general secondary education (grades 9-10) by 2025 as part of its strategy to become a middle-income country (MIC) by that year.³⁰ However, progress with the expansion of general secondary education was slow reaching 38.4 percent coverage in 2010/11. There was good progress in the expansion of coverage for grades 11-12 – GER increased from 5.5 to 8.1 percent. Higher education is rapidly expanding – the gross enrollment ratio for which has increased from about 1 percent in 2000 to about 5 percent in 2010, and is expected to reach over 9 percent by 2015.³¹ Moving forward, more emphasis needs to be placed on addressing the quality of education, which is lagging behind (see paragraphs 65 and 81).

Health and Nutrition

40. **Ethiopia is on track to reach the child mortality, HIV/AIDS, and malaria MDGs** (United Nations MDG Progress Assessment). The latest data report that between 1997/01 and 2007/11 Ethiopia experienced a rapid decrease in child mortality rates: neonatal mortality declined more than 30 percent (to 37 deaths per 1,000); infant mortality declined by 42 percent (to 59 deaths per 1,000); and under-5 mortality has been almost halved (to 88 deaths per 1,000).³² The latest Demographic and Health Survey (DHS) data finds that during 2005-11 maternal mortality changed only insignificantly (decline from 676 to 673 deaths per 100,000 live births) as well as proportion of births attended by a skilled person (increase from 6 to 10 percent). While these MDG targets are still achievable, they will require intensified efforts (see paragraph 82).

41. The driving force behind Ethiopia's success in the health sector has been a sound sector strategy – the Health Sector Development Program (HSDP) – which over the past 15 years has governed investments of the Government and its development partners to expand health infrastructure and strengthen health service delivery systems. Ethiopia is also at the forefront of international health initiatives and partnerships: it was the first country to sign the International

²⁹ Improving the Odds of Achieving the MDGs. Global Monitoring Report 2011. World Bank.

³⁰ Education Sector Development Plan IV 2010-2015, Addis Ababa, Ministry of Education, 2010.

³¹ International Standard Classification of Education, 2011.

³² Source: <http://www.ophi.org.uk/policy/multidimensional-poverty-index/mpi-country-briefings/>

Health Partnership (IHP+) Compact in 2007 that allowed Ethiopia to establish an “MDG Fund”, which now serves as the preferred channel for most of the internal and external resources related to reaching health MDGs in Ethiopia.³³

42. **Ethiopia has one of the highest burdens of chronic under-nutrition in the world, despite some decreases of anemia in children and women.** During 2005-11, prevalence of anemia among preschool aged children and women age 15-49 years was reduced by 10 percentage points each.³⁴ Reductions have been larger in urban areas, and larger reductions have been recorded for the worse classifications (e.g., moderate and severe anemia). Nonetheless, anemia prevalence rates remain high at 44 and 17 percent (2011) in preschool aged children and women aged 15-49 years, respectively. According to the recent analysis by CSA (2011), less than one-fifth of households consume iodized salt. Vitamin and mineral deficiencies affect millions of women and children across the country. Among under-five children, 29 percent are underweight and 44 percent are stunted (chronic under-nutrition - short for their age).³⁵ Stunting rates are similar in both food secure and food insecure woredas and children are undernourished in one-quarter of even the richest households. It is estimated that Ethiopia will lose more than US\$13 billion from 2006-15 due to iron deficiency anemia and stunting.³⁶ This evidence suggests chronic under-nutrition is not only an issue of access to food, but also about provision of the right combination of food as well as of caring practices and disease.

Social Protection

43. **Despite substantial decreases in poverty rates, vulnerability exists in Ethiopia at individual and community levels.** Sources of vulnerability are manifold including natural disasters (e.g., droughts and floods); food shortages; macroeconomic shocks (e.g., high levels of inflation); health and nutrition risks (e.g., HIV/AIDS, malaria and other diseases); conflict and environmental degradation coupled with climate change. These shocks by themselves have an immediate effect of lowering living standards and perpetuating the poverty trap among the poor and the vulnerable. Because there are currently few possibilities to insure against these shocks, poor Ethiopians adopt negative coping mechanisms, such as accumulating livestock, even if the returns are low, or taking their children out of school to work on the farm, which are likely to keep them in poverty now and for future generations. Although Ethiopia is a young country (70 percent of Ethiopians are below 30 years old), 3.6 million people are over the age of sixty and most them have no reliable income sources. Finally, limited opportunities for income-earning

³³ The MDG Fund is managed by the Ministry of Health and follows government procedures. Several health partners (e.g., Department for International Development DFID, Global Alliance for Vaccines and Immunization GAVI, Italian Cooperation, the Spanish Government, United Nations Population Fund UNFPA) have so far pledged over US\$200 million into the MDG Fund.

³⁴ Anemia is of particular concern for children as it can increase morbidity from infectious diseases and it is found to lower educational outcomes by impairing abilities to learn. Anemia in women signals poor nutritional status and increases risk of adverse pregnancy outcomes.

³⁵ Benson T. 2006. An assessment of the causes of malnutrition in Ethiopia. Washington, DC, International Food Policy Research Institute IFPRI.

³⁶ Ethiopia PROFILES. There is substantial evidence on the links between improved nutrition status and improved human capital, health, and education outcomes. See: Victora CG, et al. 2008. Maternal and child undernutrition: consequences for adult health and human capital. *Lancet*. 371:340-57.

employment in rural and urban areas results in significant un- and underemployment especially among young Ethiopians.

44. **Despite a wide range of social protection actions implemented across the country, prevalence of vulnerabilities is on the rise and food insecurity is a significant developmental challenge.** The Productive Safety Net Program (PSNP), Ethiopia's largest social protection program and one component of the Food Security Program,³⁷ has had a positive impact on livelihoods, especially during times of crisis.³⁸ However, while the food security situation of program beneficiaries has improved and productive assets and livestock holdings have increased, graduation levels from the program (1.4 million thus far) have been lower than anticipated in the GTP. Addressing the issue of vulnerabilities and food insecurity exclusively by means of social protection is not going to yield the expected results nor reduce the number of households participating in the program in a sustainable way. Broad-based economic growth with agriculture and industry as the main drivers is clearly seen as key in reducing poverty, vulnerabilities and increasing resilience in the medium- to long-term. Simultaneously, strengthening national systems is needed to improve delivery of social services (e.g., health and education) and to better prepare and respond to shocks (discussed in Chapter II, section C).

D. Gender

45. **GoE has a strong commitment to gender equality,** which is firmly rooted in national policies as well as in the signing of international and regional treaties and protocols on women's rights. The GTP highlights gender as a cross cutting theme (p.110). The Ministry of Women, Youth and Children's Affairs contributes to policy development and supports gender mainstreaming in all government ministries and bureaus and spearheads responses to address gender inequalities.³⁹ To date gender units have been established in all line ministries and in the regions. However, implementation capacity remains a serious challenge.

46. **Over the past decade, Ethiopia recorded good progress towards gender equality in education and health.**⁴⁰ During 2006-11 the female GER for primary and secondary education increased from 84 to 93 percent and from 25 to 35 percent respectively. Due to extensive campaigns and increased availability, use of contraceptives doubled from 2005 to 2011 (from 15 to 29 percent) and family planning increased from 25 to 60 percent of households (Ethiopia Population and Housing Census 2007). Fertility declined by 10 percent, while adolescent fertility was reduced by 35 percent in the same period. Despite these efforts, the share of women without education is almost double that of men (51 versus 29 percent in 2011), and literacy levels of women are markedly lower than those of men especially in rural areas and among urban poor. The retention level of girls in secondary education is lower than that of boys, and the gender gap is steep in tertiary education. Finally, harmful cultural practices such as female genital mutilation and early marriages are widely practiced and gender based violence are widespread.

³⁷ National Food Security Program includes the Productive Safety Net Program, the Household Asset Building Program and the Complementary Capital Investments Program.

³⁸ 2010 PSNP Impact Evaluation report, IFPRI

³⁹ The National Action Plan for Gender (NAP) and the Development and Change Package of Ethiopian Women aim at eliminating gender and cultural biases that hinder women from participating equally in economic engagements.

⁴⁰ Appendix 6 provides gender analysis for Ethiopia and recommendations to streamline gender in Bank operations.

47. **Significant progress has been made in providing joint land certification for wives and husbands** in rural areas of the four main regions of the country. More than 20 million land-use certificates have been issued with both spouses' names and photos on the certificates, and women's registration for land increased significantly. Some of the benefits of those programs are already becoming apparent as women are showing a strong sense of ownership and security that their rights will be upheld in case of divorce. More intensified efforts are needed to improve women's access to farm inputs, extension advice and credit, which will contribute to increased land productivity and the country's economic growth.

II. Development Challenges and the Government Agenda

48. **The development agenda of Ethiopia for the next 3 years (until 2014/15) is governed by the Growth and Transformation Plan**, GoE's strategy that has been under implementation since 2010/11.⁴¹ The main goals of the GTP are for Ethiopia to "extricate itself from poverty to reach the level of a middle-income economy as of 2020-23." Drawing from lessons learned from the prior poverty reduction strategy (PASDEP, 2005-10), the GTP has the following objectives (Appendix 1): (a) to attain a high average real GDP growth rate of 11 percent per annum within a stable macroeconomic framework; (b) to achieve MDG goals in the social sectors, especially the quality of education and health services; and (c) to establish a stable and democratic, developmental state. In order to attain these goals, GTP places strong emphasis on economic growth and job creation with industry and modern agriculture as key drivers. During the transition period social protection will play an important role, especially in providing safety nets to the large food-insecure population.

49. **The "developmental state" model adopted by GoE has shown significant results over the past decade, nevertheless attaining the GTP goals will most likely become more difficult in coming years** as the easier gains have already been made, and the global environment is not as conducive as before. Enabling the country to move to the higher growth trajectory needed to achieve these goals may require attention to several challenges, including: ensuring macroeconomic stability; addressing the persistently high numbers of poor and food-insecure people despite double-digit economic growth and gains in poverty reduction; lagging quality of social services; and the weak capacity of the public sector.

50. **The development model adopted by GoE relies heavily on high levels of largely government-led investments (like the Asian model of development), but faces low saving rates and limited availability of domestic resources (unlike the Asian model).** Given the high investment requirements of the GTP, public investments which in the past years have been one of the major drivers of economic growth in Ethiopia, may not be sufficient on their own to maintain Ethiopia's high growth performance going forward. GoE needs to continue its efforts to complement its own financing with additional domestic and foreign investments and to increase the share of the formal private sector. Over-reliance on public sector investments could result in

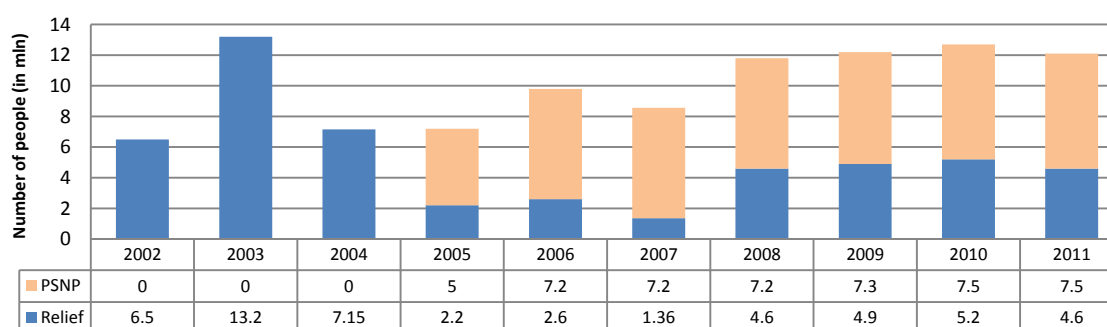
⁴¹ See IDA/SecM2011-0581, Report No. 63592-ET, for the Joint IDA-IMF Staff Advisory Note on the GTP. Appendix 1 provides GTP vision, pillars and selected targets.

an increasing deficit on the External Current Account over the medium to long-term with the possibility of increased external vulnerability. Since opportunities for external borrowing will be limited, high fiscal deficits may occur, which in turn may further crowd out private investment or contribute to increasing inflation rates, if the deficits are monetized.

51. **A major challenge for monetary policy will be to keep inflation subdued**, despite recent bouts of high inflation which could have reversed some of the positive poverty trends. The efficiency of current monetary policy is hampered by two main barriers: negative real interest rates, which limit demand for government bonds and Treasury Bills (T-bills) and thus the ability of GoE to finance its ambitious development plans; and direct central bank financing of the government deficit. At the same time, monetary policy instruments are very limited in Ethiopia relying mainly on interventions in the foreign exchange market (e.g., selling foreign currency to absorb domestic liquidity). High and persistent inflation also negatively impacts savings, which at current levels of 6-7 percent of GDP are insufficient to support GTP's growth targets.

52. **Another challenge facing Ethiopia is to ensure that poverty gains are sustainable and that high economic growth benefits the poor.** As discussed in paragraph 38, based on the 2010/11 HICE and Welfare Monitoring Surveys, the proportion of poor people in the country declined to 29.6 percent and food poverty to 33.6 percent. However, the number of poor in 2010/11 estimated at 25 million is still at the same absolute level as 15 years ago (25.6 million in 1995/96) and food poverty has increased in absolute terms from 27 million people in to 28.4 million, partially due to population growth. Despite strong real GDP and GDP per capita growth, the number of chronic and transitory food-insecure people remains persistently high, reaching the same absolute number of people in need as during the 2003 crisis (Figure 4). If the current high level of livelihood dependency on subsistence agriculture remains, food insecurity and vulnerability will likely increase because of the impact from climate change.

Figure 4: Food-insecure people assisted by PSNP or relief



Source: PSNP data

53. **While access to basic social services (especially health and education) and infrastructure has considerably improved, the quality of those services and public sector capacity has not kept pace.** This is partly due to the focus on increased access in order to achieve the MDGs, which has placed a strain on existing facilities. However, accelerated economic growth will increasingly require skilled labor that can respond to the changing demands of the real sector. In this context quality primary, secondary and tertiary education will

become progressively more important. Achievements of some of the MDGs (such as maternal mortality rate and the proportion of births attended by a skilled person) will also require a renewed focus on health care quality. **Delivering quality services will in turn require continued efforts to build the capacity of the public service, both its institutions and its human resources.** Decentralization will need to be deepened including by providing adequate resources especially for capital investments, and by allowing regions and woredas to exercise discretion in their utilization.

54. To address these key challenges and succeed in meeting the GTP goals of reducing poverty and becoming a middle income country within a decade **Ethiopia will need to succeed in transforming its economy in at least the following four dimensions:**

- Increased productivity and competitiveness of the industrial and services sectors for rapid and sustained job creation (GTP pillars 3 and 4);
- Transformation to modern and productive agriculture (GTP pillar 2);
- Strengthened systems to better respond to shocks and increase resilience (GTP pillar 5); and,
- Improved government effectiveness (GTP pillar 6).

The Government needs to pursue these objectives concurrently, as strong synergies exist between them.

55. **Experiences from a range of countries indicate that economic growth cannot be sustained unless there is also a structural transformation where people move from subsistence agriculture to higher productivity activities.**⁴² New and diverse job opportunities in urban, peri-urban and rural areas will draw the excess of unemployed and underemployed population (mostly youth) from overpopulated rural settings to where their skills can be utilized more productively. However, lowering population pressure on land will not on its own be sufficient to transform subsistence agriculture into modern and more productive agriculture. Complementary efforts are needed to diversify livelihoods, as well as to enhance agricultural growth (e.g., provision of key public infrastructure, stable regulatory framework, private sector engagement, leveraging mobile technologies to enhance productivity of farmers and businesses). Improving the effectiveness of GoE support will also be critical so that it can effectively and efficiently promote the transformation process through direct and indirect interventions. GoE also has a key role to play in providing basic social services (e.g., health and education), which will underpin people's ability to respond positively to new opportunities. In time, this virtuous circle will enhance social cohesion by creating positive economic and social spillovers for individuals as well as the country. Finally, as the urbanization process accelerates, important challenges will need to be addressed, such as adequate planning at the municipal level, and the provision of adequate infrastructure (especially transport and energy), housing and other services. In the absence of such provision, rising urbanization will lead to poverty, the creation of slums, and deteriorating environmental quality.

⁴² Light Manufacturing in Africa (LMS), Volume I, World Bank, 2012. The book was released in Addis Ababa in March 2012.

56. **Broad-based economic growth in all sectors of the economy will, in the long term, lead to a sustainable enhancement of resilience and reduction of vulnerabilities of the Ethiopian people.** Since the 1990s GoE and its development partners have sought to meet the challenge of food insecurity primarily through investments that directly targeted a large, chronically food insecure population. These programs have demonstrated benefits to bridge food gaps, reduce asset depletion, increase resilience to shocks, and modestly diversify and increase income. However experience to date suggests that sustainable graduation from food insecurity cannot be expected to be achieved with only safety net participation and limited assistance from food security focused interventions; it will require a more comprehensive support including programs that focus on increasing agricultural productivity, access to microcredit as well as improved delivery and quality of social services (especially health and education). While there is a need for a comprehensive social protection system that allows GoE to manage risks and respond to disasters (and indeed social transfers may be necessary for the chronic poor), for the majority of the population diversification of livelihoods and employment opportunities, in both rural and urban areas, and a comprehensive approach to agricultural growth, in both low potential and high potential areas, offers the only viable and sustainable solution to food-insecurity in the medium- to long-term.

A. Job Creation through Increased Productivity and Competitiveness

57. **Ethiopia needs to urgently address the needs of a rapidly increasing job-seeking population through accelerated growth of off-farm employment and labor intensive industries.** Around 85 percent of Ethiopia's population depends on small-holder agriculture, mostly in subsistence farming. Rural population growth is leading to a decreasing average size of holdings resulting in an increasing number of households for which subsistence farming is no longer a viable way of life. However, many young men and women in rural communities have limited or no formal employment prospects. This challenge will persist in the context of a high population growth rate. In addition, thousands of students graduating from universities and colleges have aspirations of not returning to their parents' farms, but instead moving into urban and peri-urban areas, to look for jobs. Between 2 and 2.5 million young people are entering the labor market every year. This contrasts with a total of 2.5 million people in paid employment in 2011, of which only 1.5 million were employed in the formal private sector. During the GTP period, the number of young people entering the urban labor market will be almost ten times the number of people retiring (CSA, 2011). As Ethiopia aspires to become a middle income country, urbanization is therefore not just inevitable, but it is also a key factor in delivering economic growth.⁴³

58. **To maintain GDP growth at double digits and create new jobs, industrial and export-led growth is critical,** as appropriately acknowledged by the GTP (p.22).⁴⁴ Accordingly during 2010-15 industrial growth is expected to double (from 10 to 20 percent) and export growth to accelerate from 12.5 to 19.4 percent. This will lead to a higher contribution of manufacturing to GDP and a larger share of light manufacturing in exports (currently 5.5 and 9

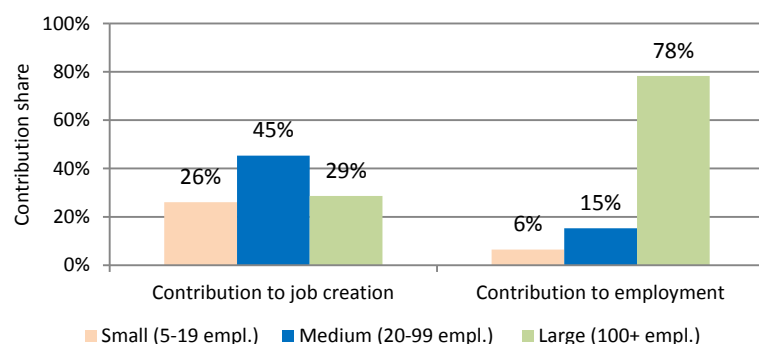
⁴³ As the 2009 World Development Report shows, no developed country has reached its current per capita income without the advantages of urbanization and vibrant cities.

⁴⁴ Agriculture sector is also singled out as a major source of growth, which is the focus of section B below.

percent respectively). The GTP (p.56-60) defines a two-pronged approach to ensuring faster and sustained development of the industrial sector. The main strategic direction is to support expansion and development of micro and small enterprises (MSEs), as well as to promote the establishment of medium and large scale firms.⁴⁵ Secondly, a special focus will be given to five sectors which, based on recent analysis, capitalize on the country's endowment and comparative advantage: textiles and garments; leather and leather products; sugar and related products; cement; and the metal and engineering industry.⁴⁶ In addition, GTP identifies tourism sector as a source of job creation particularly for MSEs and women (Box 2).

59. **GoE's focus on job creation is well-placed reflecting a challenge faced by Governments across the globe.** In this context the 2013 World Development Report (WDR) highlights that jobs are at the center of three transformations: living standards, productivity and social cohesion. Across the world jobs are a key source of household income and a prerequisite for poverty reduction. Employment growth is compatible with productivity growth as more productive jobs are created at the expense of less productive ones. Clustering of firms, participation in international and regional trade, and foreign investment all bring new ideas and support knowledge spillovers and specialization. However, while micro- and small enterprises account for the bulk of job creation in developing countries, they also account for the bulk of job destruction, resulting in job "churn" but not growth. Finally, jobs are more than just earnings and benefits as they are the main source of satisfaction with life and employment status across regions. In conclusion, jobs have important spillover effects – both economic and social for individuals as well as a broadly defined community.⁴⁷

Figure 5: Contribution to job creation and employment by firm size in Ethiopia



60. **Supporting enterprises across all sizes and sectors will be critical in creating new jobs in Ethiopia.** According to the preliminary results of the 2012 World Bank Enterprise Survey for Ethiopia,⁴⁸ during FY2008-10 Ethiopia experienced an overall employment growth

⁴⁵ Small enterprises employ 5-19 people; medium 20-99 people; large employ more than 100 people.

⁴⁶ In addition the GTP also singles out the chemical and pharmaceutical industry.

⁴⁷ Regarding social cohesion, jobs have an important role to play in terms of improving the well-being of individuals, influencing values and behaviors, and connecting people of different social and ethnic backgrounds thus increasing tolerance.

⁴⁸ This analysis is based on 2011-12 WB Enterprise Survey. Data collected thus far covered 301 firms located in Addis Ababa: 149 manufacturing and 152 services firms. Since the survey was still ongoing at the time of writing, weights, which are indispensable in making assertions about the whole economy, have not yet been computed.

rate of 11.1 percent.⁴⁹ Among enterprises, small firms had the highest employment growth rate of 14.4 percent, while medium and large firms experienced growth rate of 9.5 and 2 percent respectively. Firms in services had slightly higher employment growth (12 percent) compared to firms in manufacturing (10 percent). In terms of job creation, medium-sized firms generated 45 percent of the total of new jobs, while small firms generated almost as many new jobs as large firms (Figure 5).⁵⁰ However large firms remain the main contributor to total employment (78 percent of total jobs in 2010) compared to medium firms which contributed 15 percent of total employment in the same period.

Table 4: Structural constraints to light-manufacturing sectors in Ethiopia to grow and create jobs

	Apparel		Leather products		Wood products		Metal products		Agribusiness	
	Smaller	Large	Smaller	Large	Smaller	Large	Smaller	Large	Smaller	Large
Input industries	Important	Important	Critical	Critical	Critical	Critical	Critical	Critical	Critical	Critical
Land	Critical		Critical		Important	Important	Important	Important	Critical	Critical
Finance	Critical		Critical		Important	Important	Important	Important	Critical	Important
Entrepreneurship skills	Important	Important	Important	Important	Important	Important	Important	Important	Important	
Worker skills	Important				Important	Important	Important	Important		
Trade logistics		Critical		Important						

Source: World Bank, 2012, Light Manufacturing in Africa, Volume I.

61. While there are many ongoing initiatives in Ethiopia to promote labor intensive industries (e.g., recent success stories in the footwear and garment industries), **in order for Ethiopia to rapidly create jobs in the manufacturing sector a more systematic approach to investments is needed.** This would require GoE to tackle several structural and regulatory challenges. Recent analytical work on Africa's manufacturing experience, in comparison to China and Vietnam, provides insights and recommendations for developing Ethiopia's light manufacturing and labor-intensive industries. Accordingly, the availability and quality of inputs, access to finance and land seem the most critical constraints to improving competitiveness and accelerating growth in selected light manufacturing sectors in Ethiopia (Table 4). These results are also corroborated by the 2012 WB Enterprise Survey, which highlighted access to finance and land as two critical constraints across sectors in Ethiopia. Both constraints seem to be more acute for small and medium size firms. Finally it is important to recognize that frequent and abrupt changes to the

Caution is needed in interpreting the results for the global comparison as results for SSA and global averages are representative at the country level (i.e. survey weights are used to make inferences).

⁴⁹ Employment growth is measured as the ratio of the annualized change in employment over the average employment of the initial and final year (Haltiwanger index). This measure reduces the impact of a very low initial level of employment, which can produce very high rates of growth (i.e., a firm that grows employment from 1 to 10, would render a 900 percent growth rate). Employment growth rate is measured over FY 2008-10.

⁵⁰ Contribution to job creation is computed as the share of different sub-population groups (e.g. small, medium and large firms or manufacturing and services firms) to net job creation, where job creation is the change in the number of permanent, full-time employees between FY08-10. Changes in employment are derived by aggregating the changes reported by each firm in the sample. Size is defined using 2008 as the baseline year. Contribution to employment is computed as the share of different sub-population groups to total employment, where total employment is the number of permanent, full-time employees in 2010 and derived by aggregating the employment reported by each firm in the sample. Size is defined using 2010 as the base year.

regulatory framework heighten the perception of risk in the country and may negatively affect decisions by domestic as well as foreign investors.

62. **GoE has shown strong interest in addressing these key obstacles by implementing a range of financial and non-financial instruments.** As part of a broader industrial and trade development strategy, the GTP (p.61) plans to establish Special Economic Zones (SEZs) as a platform for catalyzing diversification, upgrading and growth. Similarly, to promote the Micro, Small and Medium Enterprise (MSME) sector, GoE intends to facilitate development of industrial clusters, which would connect firms in a particular field with links to related institutions such as financial providers, educational institutions, and various levels of government.⁵¹ These initiatives aim to enable firms to overcome constraints in the areas of capital, skills, technology, and logistics as well as to grow and compete by fostering production value chains and achieving efficiency gains.⁵² To ensure that the SEZ platform energizes MSMEs along with FDI and larger domestic investors, the Government recognizes that policies to support effective links between local SMEs and the globally-competitive firms anchored in the zones will be critical. Since specialized lending to MSMEs typically comes at a relatively later stage of banking sector development, GoE is considering using lines of credit as effective tools to build capacity in the banking sector and to improve access to finance by MSMEs. Simultaneously, there is a need for capacity building,⁵³ financial infrastructure development⁵⁴ and a proper corporate governance framework, so that commercial banks (state and private) can play their intermediation function in financing MSMEs (GTP, p.62).

63. While Government's efforts to alleviate some of the key constraints facing light manufacturing through the establishment of SEZs and clustering of firms are commendable, **the importance of strengthening the regulatory environment that will encourage entrepreneurship and innovation, and enhance earning opportunities for the vast majority working in the formal and informal sectors cannot be overstated.** Successful implementation of the GTP is predicated on finding a path to sustain its very high financing requirements.⁵⁵ Attracting more private inflows (domestic and FDI) into the targeted sectors will play an important role in leveraging public resources. However, as most jobs in Ethiopia are created by new and usually small enterprises, creating a positive overall business environment for the MSMEs operating in "other" sectors is critical to unleashing their potential, improving their productivity and facilitating their transition from informal-to-formal status (Box 1). Failure to do so would constitute a missed opportunity. In this context, improving registration, licensing, taxation and trade logistics seems to be of particular importance.⁵⁶ Strengthening public-private

⁵¹ In this context MSE development also contributes to the GoE's efforts to increase the economic empowerment of women, and the development of small scale income generating activities for women is a specific aim of the GTP.

⁵² Zeng, Douglas Zhihua, Knowledge, Technology and Cluster-Based Growth in Africa, World Bank, 2008

⁵³ Such as tailoring information requirements and monitoring practices to MSME clients; using credit scoring techniques in lieu of collateral; developing innovative ways of lending, including using stock as collateral, order financing and invoice discounting.

⁵⁴ Such as a national payment system at the wholesale and retail level, and credit information centre. Some of these initiatives were supported by the World Bank as part of the first phase of the Financial Sector Capacity Project.

⁵⁵ GTP financing requirements amount to US\$57.4 billion over 2010/11 based on an exchange rate of 17 Birr/USD.

⁵⁶ See Chapter III, section D on IFC ongoing and proposed program to improve investment climate in Ethiopia.

partnership and dialogue can also greatly contribute to GoE's job creation agenda (Box 5 in Chapter III).

Box 1: Entry and operation constraints to MSMEs

Registration: currently businesses need to renew their license every year as a commercial registration for the whole life span of a business does not exist. Moreover, there is a requirement to inform the register every time a registered business starts carrying out commercial activities in a new location as well as for permit for expansion and upgrading. Initial capital requirements for limited liability companies also represent a barrier to entry. Integration of commercial and tax registrations, introduction of the principle of the validity of commercial registration for the whole life span of a business, substituting annual renewal with annual information update would address some of these constraints.

Licensing: the lack of a unique "license to sell" for all registered business implies that businesses are required to comply with different licensing requirements (including the requirement for obtaining an export/import license) leading to an excessive and costly administrative burden.

Taxation: uncertainty related to the basis of criteria and turnover proxies used for the presumptive taxation for "small" taxpayers (Category C) below the 100,000 ETB/year (about US\$5,860/year) represent another significant barrier to MSME development. Appeals system is perceived to be costly and have limited independence.

Trade logistics: currently a large number of declarations and supporting documents are required for border clearance (import/export) leading to costly trade logistics (higher inland transport cost, higher port and terminal handling fees, letters of credit). Recognizing the poor performance in this regard, Ethiopian Revenue and Customs Authority is currently taking encouraging reform initiatives including the enactment of a new Customs Proclamation that is expected to improve the import/export environment in Ethiopia and streamline the documentation process.

64. **Regional integration and the boosting of intra-regional trade can play a critical role in driving productivity and growth** over a sustained period as happened in East Asia in the 1980s and 1990s and recently in China. As correctly noted by the GTP (p.63-64), implementing a less restrictive and more efficient trading regime would help Ethiopia deepen regional trade integration in goods and services within the African continent and beyond. There is substantial potential for Ethiopia to increase its share in regional trade, especially with the East African Community (EAC), the fastest growing regional group in the World after ASEAN. In 2010 only 0.3 percent of Ethiopia's export went to the EAC, compared to Uganda's 20 percent. GoE's plans to implement measures that would help Ethiopia's light-manufacturing industry become more competitive internationally would also improve its regional competitiveness. In addition, it may be worthwhile exploring the possibility of Ethiopia participating in regional supply chains and how this might encourage inward FDI. Ethiopia can also play an important role in cross-border trade in agricultural products (paragraph 77). Regarding services, a recent World Bank study found that Ethiopia had the most restrictive trade policy in the services sector of 78 developing and transition countries sampled (financial services, telecommunications, professional and retail distributions).⁵⁷ Exports of services appear to be of particular importance for land-locked countries, such as Ethiopia, for whom opportunities to diversify into the export of manufactures are more limited by the high costs of transporting goods.

65. **Entrepreneurship and technical skills development and technology upgrading are critical for rapid expansion of all firms, regardless of their size and sector.** In order to improve firms' productivity and competitiveness, it is important to adopt new and more efficient technologies and ensure the quality of products. To do so, a skilled and semi-skilled labor force is necessary. Unfortunately, currently the availability of training is limited and its quality is often low.⁵⁸ Institutions mandated with provision of training (e.g., Regional State Micro & Small

⁵⁷ De-Fragmenting Africa. Deepening Regional Trade Integration in Goods and Services. World Bank, 2012.

⁵⁸ Only 7 percent of all MSEs have access to training (Ethiopia Development and Research Institute EDRI, 2004) and training is not tailored well to the needs of managers (Triodos Facet 2011, Grunder 2010).

Enterprises Development Agency (REMSEDA), Technical and Vocational Education and Training (TVET) institutions and One Stop Shops) lack understanding and appreciation of demand driven approaches. While it is important to build their capacity, as planned under the GTP (p.86-91), it is equally important to shift towards market based approaches and partnership with industry so that firms' demands for aptly skilled labor are met. Support is also necessary to strengthen three government technical institutes mandated to provide technical support and technology transfer to selected manufacturing industries with high potential for export, income and employment growth (e.g., the Textile Industry Development Institute, the Leather Development Institute and the Metal Industry Development Institute). Upgrading of the institutes can benefit MSEs through transfer of technology and technical assistance especially to strengthen the clusters in the cities. **In addition to specialized training, GTP (p.86-91) recognizes the importance of improving quality of education, especially secondary and tertiary discussed in paragraph 81 below.**

Box 2: Tourism sector – an untapped source of jobs

Tourism sector in Ethiopia can become an important source of jobs benefitting many poor, particularly SMEs, women, and youth. Currently, the hotels and restaurants subsector alone employs over 408,000 people in urban areas compared to 22,000 people employed in leather industry and 35,000 in floriculture (CSA, 2011). Close to 88 percent of the people employed in restaurants and hotels are women, about 60 percent are self-employed, and more than 50 percent are less than 30 years old. Ethiopia's craft sector has the highest impact potential in terms of poverty reduction, with 55 percent of tourist expenditure benefiting poor households (ODI 2009). Ethiopia has clear advantages as the "All-of-Africa" in one country destination with a good mix of unspoiled culture and nature resources; it has a reputation as a safe and secure destination; and it has good opportunities to build on complementarities with well marketed neighboring countries such as Kenya, Tanzania, and Djibouti. Ethiopian Airlines offers good accessibility and competitive air fares. Addis Ababa is quickly becoming a diplomatic capital and a major regional hub for air transport.

The GTP recognizes this potential and establishes ambitious targets for the tourism sector including doubling of tourism arrivals (to 1 million) and a twelve-fold increase of tourists' expenditures (to Birr 3bn) during 2010-15. In order to achieve these goals, Ethiopia needs to address challenges related to the tourism-related regulatory framework and business environment; institutional management capacity; and cross-sectoral linkages. The WBG, in collaboration with the Ministry of Culture and Tourism, is actively supporting the implementation of the 2009 National Tourism Development Policy. Through the Ethiopia Sustainable Tourism Development Program and policy dialogue supported by the recently published analysis "Ethiopia's Tourism Sector: Strategic Paths to Competitiveness and Job Creation" (June 2012). IFC is currently organizing a Tourism Public-Private Dialogue Forum and is also planning to increase its investment activity in the sector.

Sources: CSA (2011) Statistical Report on Urban Employment Unemployment Survey; ODI (2009) Value chain analysis and poverty reduction at scale: Evidence from tourism is shifting mindsets; WB (2011) Towards a Globally Competitive Ethiopian Economy: The Role of Services and Urbanization. Case Studies-Rose and Polo Shirt Value Chains, prepared by Global Development Solutions for The World Bank.

66. Addressing gender inequality and gaps in women's and men's development opportunities will help advance the Government's job creation agenda. Global experience indicates that including women in economic activities brings substantial benefits to growth.⁵⁹ According to recent analysis, reducing gender inequalities in education and the labor market could increase the annual GDP growth in Ethiopia by 1.9 percentage points (World Bank, 2008). However, currently women in Ethiopia are mainly responsible for household duties; they lack economic opportunities, they have limited involvement in cash crop production, non-farm enterprises, and wage employment; and they face much larger barriers to doing business than men do. The unemployment rate among females is more than twice as large as that of males in

⁵⁹ See Appendix 6 for detailed analysis.

urban areas, so they are less experienced and the wage gap between men and women with a similar background, doing the same job, is around 50 percent. Tourism sector, which offers significant employment opportunities for women, is still relatively underdeveloped although GoE is taking important steps in promoting the sector (Box 2). There is also a pronounced gender gap in access to and control of productive resources. Although women contribute much of the agricultural labor, their access to land continues to be limited despite joint land certification efforts.

67. Government's focus on the job creation agenda through industrialization will inevitably lead to acceleration of urbanization. According to the most recent data, about 14 million Ethiopians lived in urban areas in 2011 (up from 9.8 million in 2000), of which about 3 million live in Addis Ababa.⁶⁰ The annual growth rate of the urban population is 4.3 percent and by 2020 cities are projected to be home to 20 percent of Ethiopia's population.⁶¹ The urban economy is emerging as a major driver of growth: urban areas are estimated to now account for close to 50 percent of GDP and about 60 percent of growth in GDP.⁶² However, for Ethiopia to realize the benefits of urbanization important challenges need to be addressed including, *inter alia*, limited capacity of urban local governments in the area of planning and budgeting; expansion and maintenance of good quality of infrastructure; and delivery of basic social services (GTP, p.24).

68. Despite good progress in improving access to infrastructure (as discussed in Chapter I) power disruptions and shortages, and high transport costs were identified among the top ten obstacles to firms' growth and job expansion.⁶³ To address problems related to electricity (Table 5) and to keep up with the expected 25 percent per year growth of domestic demand for electricity, GoE's Energy Sector Strategy envisages ambitious expansion of grid and off-grid connectivity⁶⁴ to 75 percent of towns and villages and to double the number of consumers connected to the grid to 4 million by 2015. The high cost of the planned energy sector investment program under the GTP (estimated at US\$11bn, of which US\$3.5bn has already been raised mostly through short term bonds) has created financial viability challenges for EEPCO, and will create an additional burden of about US\$2bn on GoE's budget in FY2012-20 (cumulatively) which is equivalent to 3-4 percent of GoE's annual budget expenditure. GoE, therefore, needs to develop and implement a medium term program of revenue enhancement and/or debt restructuring for EEPCO. Efficiency improvements (by reducing system losses) also may contribute, but only modestly, since operational efficiency gains would improve the financial performance by only about 1-2%. In addition, EEPCO needs to modernize its operations and build its capacity by investing in human resources and training in order to be capable of handling

⁶⁰ Population Size of Towns by Sex, Region, Zone and Wereda, Central Statistical Agency, July 2011

⁶¹ World Urbanization Prospects, the 2011 Revision. Department of Economic and Social Affairs, Population Division, United Nations, April 2012.

⁶² The challenge of urbanization in Ethiopia, Implications for Growth and Poverty Alleviation, World Bank, June 2007.

⁶³ According to the results of the 2012 Enterprise Survey, electricity was identified as the third most important constraint and transport as ninth.

⁶⁴ GOE plans on expanding grid intensification programs as well as increasing the adoption of renewable energy and energy efficiency products and services in areas where grid is not present today and also to provide modern energy services to households in grid connected areas unable to afford grid connection.

current and forthcoming growth. This agenda will require upgrading the skills and strengthening the organization, including for planning, executing and operating the electricity network and services, as well as improving back-office operations, such as billing and accounting.

Table 5: Challenges and opportunities in infrastructure

Power	<ul style="list-style-type: none"> • Capacity constraints in managing current investments; Environment and Social Safeguards given the high sector growth. • Financing large investment program. • Address underpricing of power - financial viability of EEPKO is at high risk as EEPKO has borrowed short term loans to finance its long term investments. Debt service shortfall in FY2012-20 is expected to be about US\$2bn.
Surface Transport	<ul style="list-style-type: none"> • Capacity constraints at the Ethiopian Roads Authority (ERA). • Large delays and cost overruns of ongoing road construction projects. • Deficiencies in full compliance with environmental and social safeguards. • Improve rural accessibility (to be done through URAP). • Concession railway between Addis Ababa and the Port of Djibouti (ongoing).
ICT	<ul style="list-style-type: none"> • Modernize regulatory framework; award a second mobile license; rebalance ICT tariffs in line with costs.

Source, AICD, 2010; Bank's staff assessment

69. Ethiopia has vast potential renewable energy resources (about 45,000 MW hydro; 10,000 MW geothermal and 5,000 MW wind potential). **GOE intends to become the power hub of East Africa and play a critical role in the East Africa Power Pool (EAPP) area**, where demand is expected to increase by 69 percent over the next 10 years. Realization of this ambition requires organizational structures that can help plan and implement cross-border interconnection facilities, harmonize operational rules of practice for interconnected national power grids, and put in place a transparent, fair, and viable commercial framework for cross-border trading in energy services. Such trade will put East Africa on a cleaner development path in terms of carbon emissions and will also help balance loads when other renewable energy resources, such as concentrated solar and geothermal energy, are deployed on a large scale. Effective and viable modern utilities will be essential to support timely and effective implementation of these large investment projects.

70. For the past decade the Government, in collaboration with other partners (including the World Bank), has been heavily investing in expansion of the road network and to reform and modernize the sector in accordance with the Road Sector Development Program (RSDP). **The GTP (p.68) reconfirms GoE's commitment to increase the size and quality of the road network to keep pace with rising demand** and sets out ambitious targets. So far donors have mainly focused on federal roads (e.g., regional arterial and link roads). However, there is a great need for improved infrastructure and efficiencies within the rural and community road networks. To that end the Universal Rural Road Access Program (URRAP), one of the largest public works programs in Ethiopia, is focusing on building the necessary rural road networks and at the same time generating employment opportunities, both for skilled and unskilled labor. The Ethiopian Road Authority, which is responsible for overall network planning, road development and coordination in the country, needs capacity support so that the timeliness and quality of road construction projects is improved.

71. International best practices show that **a vibrant local ICT industry creates jobs, improves productivity and fosters innovation.**⁶⁵ The National ICT for Development (ICT4D) Action Plan for Ethiopia (2006-10) aims to build an ICT-driven economy. While some progress has been achieved, GoE should consider leveraging opportunities presented in the global and domestic IT-based services market for the Ethiopian economy. To facilitate this process, steps need to be undertaken to improve policy, legal, regulatory and institutional framework; facilitate development of a highly skilled talent pool and adaptation to new technologies; and improving access to finance and ICT infrastructure.

B. Transformation to Modern and Productive Agriculture

72. **Agriculture is Ethiopia's largest area of private sector activity and a major source of economic growth.** The sector employs the vast majority of Ethiopians, makes up most of the country's exports, and is at the center of Ethiopia's development challenges, whether related to poverty and food security or to the environment, natural resources management and climate change (as discussed in paragraphs 25 and 26). Rapid industrialization and urbanization will be necessary to achieve Ethiopia's growth goals, but the dominance of agriculture in the economy and employment—combined with high population growth—means that the performance of the sector will remain central to overall growth and poverty reduction for many years to come.

73. **The GTP (p.45) sets out GoE's intention to transform the sector from subsistence to more market-led production.** Notwithstanding high growth rates over past years, agricultural productivity is still at low levels and most of the food produced on the farm remains consumed by the farm household. Transformation requires a significant increase in agricultural production, driven by an increase in productivity, as well as development of more effective and efficient markets. Building on experience with the implementation of previous strategies,⁶⁶ the GTP (p.45-55) outlines a three-pronged approach: (i) small-holder agriculture development, the mainstay of Ethiopia agriculture, dominating overall production and employment; (ii) pastoral development; and (iii) large-scale commercial farming development (including horticulture). Agricultural commercialization is reflected in an emphasis that increased agricultural production can provide the inputs for the development of agro-based industries as well as being a basis for becoming commercially viable in international markets.

74. **Farms, businesses and smallholder farmers have needs similar to MSEs and face similar constraints to their growth,** such as limited access to markets, land, finance, and skills and technology (as discussed in paragraphs 60-64).⁶⁷ Therefore, addressing these constraints and creating a favorable regulatory environment would also benefit farming as a business (whether small- or large-scale), agribusiness and other related sectors, thereby impacting the profitability of primary agriculture itself. **However, agriculture would also require reforms in areas specific to the sector** including seeds, soil fertility and fertilizer, and the role and functioning of

⁶⁵ Every single job created in IT-based services is estimated to create indirect employment for 3 to 4 people in other sectors. Everest analysis; National Association of Software and Services Companies, NASSCOM, 2011

⁶⁶ Namely, the long-standing Agricultural Development-Led Industrialization (ADLI) Strategy and the previous five-year development strategy, PASDEP.

⁶⁷ Although some of the constraints are exacerbated given factors such as remoteness from financial center with services, high risks and seasonality of production, or weak land administration and management.

cooperatives. To address these issues, in 2010 GoE established an Agricultural Transformation Agency (ATA). This new institution, in close coordination with the Ministry of Agriculture, is working on some of the most crucial reform areas specific to agriculture as well as new initiatives to form public-private partnerships that encourage agribusinesses to invest and source from smallholder farmers.

75. Land is a factor of the business environment which is especially important for agriculture. For most farmers user rights to land is their biggest asset or production factor. As has been shown globally and for Ethiopia, land tenure security and the ease with which user rights can be transferred are important determinants of investments into agriculture. Ethiopia has remarkable land resources, but land is scarce in most of the densely populated highlands, and under threat from serious land degradation. More land for cultivation is available in other parts of the country, but the expansion of agriculture in these areas will require careful management to address serious social and environmental risks associated with it. The management of communal land – including pastoral land – including the protection of communal land rights is also critical for the return and sustainability of these resources.

76. Domestically, although cooperatives play a crucial role in input markets, the direct or indirect influence of the Government in key areas such as seeds, fertilizer, breeds and other agricultural inputs undermines competition and thus innovation and effectiveness. The agro-dealer sector, a vibrant part of most rural economies in Africa, is small and underdeveloped in Ethiopia. While GoE's strategy strengthens the uptake of agricultural inputs and technological innovations, the private sector role in these activities has so far been limited. Recent initiatives, however, to involve agribusiness enterprises, including international ones, through public-private partnerships (PPPs) promise to change this situation over time. These PPPs can strengthen agricultural value chains from the farm producer to the consumer of food and other agricultural products. Linking farmers to markets through such supply chains will be critical in transforming Ethiopian agriculture from subsistence to production. This requires re-thinking and strengthening of producer organizations, in particular cooperatives, and the promotion of linkages between smallholders and larger commercial farms. ICT, primarily mobile technology, could also provide a useful platform to enhance productivity of farmers by delivering just in-time extension services, weather and market prices information and connecting them to external markets as well as to facilitate more effective seeds and fertilizer management, tracking the distribution.

77. Great benefits for the agricultural sector can also be realized through international trade in the context of regional collaboration. Improved cross-border trade in agricultural products is particularly important given the problems of food security in the region and the demand for food staples from growing urban centers. Although a member of COMESA, Ethiopia only partially participates in the Free Trade Agreement and has not reached agreement with neighboring countries on the COMESA Simplified Trade Regime, which is designed to grant simplified certificates of origin to an agreed list of products to enable them enjoy duty and quota free access. Barriers to trade along the value chain prevent Ethiopia from realizing its potential in the agriculture sector. For example, it is estimated that in Ethiopia only about one quarter of the demand for improved seed is being satisfied. But the use of improved hybrid maize could

quadruple productivity. Even if just half the farmers achieved the productivity associated with using hybrid seeds, domestic production could replace commercial imports.⁶⁸

78. **Commercial agriculture is a challenging business, requiring knowledge in areas as diverse as agronomy, economics, finance, and marketing as well as project management.** Consequently, the needs to be addressed by the research, education and extension systems are changing. Traditional agricultural research, which mainly focuses on crops, needs to diversify and specialize at the same time. It also needs to be complemented with an education system that teaches future farmers and other professionals working in the sector relevant skills. Finally, it requires an extension system that provides diversified and specialized information and knowledge on demand. Consequently, these agricultural innovation systems need to evolve from ones dominated by a public sector with limited capacity towards a more pluralistic approach, in which the public sector continues to provide a strong role where needed, but is complemented by the private sector, either farmer-controlled or through private firms and institutions.

79. **Finally, climate change is particularly important for the agricultural sector** as farmers are most vulnerable to climate change and agriculture (in particular livestock, forests and soils) has the bulk of the potential to reduce green-house gases (GHG) in Ethiopia. It is estimated that unless steps to build climate resilience are effective, climate change will reduce Ethiopia's GDP growth by between 0.5 and 2.5 percent each year.⁶⁹ GoE recognizes the importance and urgency of the situation as well as the country's significant mitigation potential and aims to put Ethiopia on a carbon neutral growth trajectory. The Climate Resilience Green Economy (CRGE) Strategy is based on four pillars including (i) improved crop and livestock practices; (ii) forestry; (iii) renewable energy; and (iv) "leapfrogging to modern and energy-efficient technologies in transport, industrial sectors, and buildings." A major emphasis will be on agriculture and forestry, which "contribute around 45 percent and 25 percent respectively to projected GHG emission levels under business-as-usual assumptions and together account for around 80 percent of the total abatement potential." Given the ambitious CRGE agenda, changes will be required in policies, regulations, and institutions as well as program designs and financial support.

C. Strengthened Systems to Better Respond to Shocks and Increase Resilience

80. **Reducing vulnerability and building resilience to shocks is important for sustainable economic growth in Ethiopia.** While Ethiopia has significant opportunities for transformation and growth, many Ethiopians are subject to a large number of shocks, which have an immediate effect of lowering living standards, and in many cases can result in permanent stunting of the potential intellectual capacity of the next generation of Ethiopians. **GoE is currently drafting a comprehensive National Social Protection Policy that will provide a framework for the coordination and provision of social protection services in Ethiopia.** The Policy recognizes that effective social protection services contribute to social cohesion and achievement of broader national socio-economic development and security, making growth more effective equitable. It aims to address the imbalance in access to basic social services and facilitates investment in

⁶⁸ Alemu and Dawit, The Political Economy of Ethiopian Cereal Seed Systems: State Control, Market Liberalization and Decentralization, Future Agricultures, Working Paper 17, 2010.

⁶⁹ Economics of Climate Change in Ethiopia, World Bank, 2008.

human capital for poor households and communities. The policy commits GoE to prioritize additional provision for vulnerable groups through programs such as social safety nets, livelihood schemes, social pensions and those programs addressing inequalities in basic services. With regard to DRM, GoE's approach is shifting from response to shocks (saving lives and livelihoods) and recovery (immediate post-crisis assistance), to a multi-sectoral multi-hazard Disaster Risk Management (DRM) approach, as outlined in the draft National Policy and Strategy on Disaster Risk Management (May 2010). Accordingly, in a complete disaster management cycle more emphasis will be given to prevention, mitigation and preparedness. Enhancing *disaster prevention* is facilitated by addressing vulnerabilities and building resilience to shocks. This can be achieved, inter alia, by enhancing opportunities for income-earning employment (discussed in Chapter II, section A); improving productivity of agriculture and shifting towards more sustainable natural resource management (discussed in Chapter II, section B); and improved social services delivery, especially health and education, discussed below.

81. Over the past decade access to education services in Ethiopia has expanded considerably (paragraph 39), but **quality of education has been lagging** behind. There is commitment from GoE to improve the quality of education and accordingly there are ongoing programs with the support of development partners (including WB) complementing GoE efforts. Nevertheless, the bulk of those who have completed primary education may not have acquired basic literacy and numeracy.⁷⁰ In 2010, 38 percent of grade 10 graduates scored below 50 percent - a Ministry of Education (MOE) benchmark for minimum competency. The low level of education reduces people's prospects for finding or creating income-earning jobs and, by default, forces them to remain in a less-than optimal situation. This also presents opportunity costs. If Ethiopia is to achieve its goal to become a MIC in a decade, it will require a labor force with a significant share of secondary school graduates. However, the present situation is far from this goal. In 2010, 56 percent of the labor force did not have schooling, and 29 percent had only primary education. The problem of low pass rates and achievement levels is associated not only with quality of teaching and learning but also with the nature of the curriculum. Therefore, there is an urgent need to reform the secondary curriculum so that it responds better to the skills needed for employment rather than just focusing on building knowledge for higher education. For primary education, the focus should be on improving the quality of education and increasing completion rates.

82. Similarly, **while access to health services has considerably improved, some indicators remain stubbornly high**, such as maternal mortality or chronic under-nutrition. This demonstrates that access to services, while a necessary condition, is not sufficient. In order to make progress increased capital investments into the sector and focus on quality are required. The recent GoE shift under the framework of the latest health sector strategy, HSDP IV, is an important step in the right direction. The strategy prioritizes the MDGs and emphasizes concrete results over the next 5 years (2011-15) by identifying a list of high impact health interventions and measurable performance indicators. The "MDG Fund" is GoE's mechanism for providing more resources (government and donor funds) to the health sector, allocating them based on results and building stronger M&E systems. Finally, for improved quality of services (in health as well

⁷⁰ According to 2008 National Learning Assessments, 60 percent of those who have completed grade 8 did not acquire the basic competency in mathematics and English.

as education), is it important to ensure that the woreda-level platforms for service delivery rest on solid foundations of fiduciary, administrative, and information governance, as discussed in Section D below.

83. Regarding **disaster mitigation** the focus will be on minimizing potential disaster impacts through a flexible social safety net mechanism that can quickly scale up when crisis hits and scale down when it abates. During the recent 2011 drought in the Horn of Africa, Ethiopia was one of the few cases where a scalable safety net under the WB-funded PSNP was in place with an early warning system and a risk-financing mechanism, that facilitated increasing the coverage and volume of support to those in need in a timely manner, thus allowing the country to avoid a more acute crisis. GoE is also considering social insurance as another possible complementary mechanism to mitigate the impacts of a disaster on the vulnerable. Finally, GoE is committed to increase its focus on preparedness through strengthening early warning system, building logistic capacity, maintaining adequate resource reserves and other precautionary measures.

D. Increasing Government Effectiveness

84. For GoE to realize its vision of national and economic transformation and attainment of middle-income status through broad-based growth with a strong middle class, it needs a **government institutional framework which is effective**, staffed by civil servants who are dedicated to delivering quality services and providing an enabling environment for Ethiopia's transformation. The GTP (p.95) fully recognizes this, and sees the establishment of "... government structures with strong implementation capacity" as one of the key strategic directions needed to build capacity and establish good governance. The strategy "...aims to increase the efficiency, effectiveness, accountability and transparency of public sector service delivery". Whilst significant progress has been made over the last 20 years in building an effective state operating through a federal and decentralized architecture, significant challenges remain.

85. **To secure the GTP's aim, GoE will need to address severe capacity limitations, particularly at decentralized level.** In terms of service delivery, this has particular implications on quality. Whilst the overall coverage of basic services has increased, evidenced by sectoral data presented in previous sections, there remain serious questions about quality across sectors. Over the medium term this presents significant challenges to developmental effectiveness, particularly in education, health and agriculture, where potential gains secured by wider coverage are not fully realized. There are also capacity limitations in important institutions such as ERA and EEPCO. The limited implementation capacity of these organizations means that often mandates are not delivered upon, and support to large undertakings in infrastructural development is often insufficient.

86. **The GTP recognizes the need to continue to address human resource development systems.** This is fully appropriate, and builds on progress already made in civil service reform. Whilst reforms within the civil service have addressed some issues around functionality and mandate (through business process reengineering), and are creating a platform for more performance orientation (through the balanced score card approach) there appear to be human resource management challenges across the civil service evidenced by significant vacancies, high

staff turnover, and apparently movement across the civil service (or ‘churning’). There are particular challenges in the professions of engineering and accountancy and at decentralized level, especially in remote woredas. Whilst the phenomenon is not fully understood, it is agreed that it poses significant risks to the quality of service delivery, and to maintaining the hitherto positive progress made in civil service reform.

87. **GoE also recognizes the need to further strengthen governmental accountability and transparency.** The GTP notes (p. 97) that it is seeking “... to institutionalize systems ensuring transparency and accountability throughout the public service so that the attitudes and actions of civil servants are directed towards serving public interests”. As a result a number of initiatives relating to access to information, complaint handling, standard setting and the like have been integrated into the broader programs of civil service reform. Nevertheless, weaknesses in formal oversight institutions at different levels of government mean that service providers are less likely to be called to account over deficiencies in either service coverage or service standards. This applies to parliaments at federal and regional level, woreda councils, the Ombudsman, the Anti-Corruption Commission at both federal and regional level, and offices of Auditors General. Appropriate and strong oversight of the public service and public bodies needs to be in place to ensure governmental effectiveness.

88. **Related to this, there is a need to continue to address the challenges of corruption.** GoE has, from its outset, shown low tolerance to corruption, and the GTP sets out commitments to better educate civil servants in ethical matters, and to embark on practical measures such as asset disclosure for political leaders and public officials across all jurisdictions. Nevertheless there is a public perception that petty corruption, particularly at the point of service delivery, is rising (evidenced by Ethiopia’s Second National Corruption Survey, Federal Ethics and Anti-corruption Commission of Ethiopia FEACC, 2012). Effective measures need to be put in place to dispel these concerns, otherwise significant damage might be inflicted on the credibility of public administrations, particularly at decentralized level. Mobile and internet enabled platforms can serve as effective mechanisms for government to disclose information to a greater number of citizens, deliver new, innovative services, and allow for faster feedback from its citizens, including on the cases of corruption.

89. **Having in place a robust PFM system is vitally important for improving the use of and accountability over public funds as well as service delivery.** This is recognized in the GTP as one of its fundamental governance objectives, to “... establish an effective, efficient, transparent, accountable and modern governmental financial management system”. The GTP recognizes that while much has already been achieved in this area, a basic platform has been built on which a lot more needs to be built, including starting the next generation of PFM reforms in Ethiopia through developing a comprehensive PFM Action Plan, establishing the regulatory institutions that will manage the introduction and implementation of international standards of accounting and auditing, building tax institutions so that they can achieve the GTP target of doubling tax to GDP ratio, improving cash management, addressing the weak control environment in the country through nascent internal audit systems and weak procurement, as well as structuring the ad hoc PFM training as it currently exists to deliver better value for money. While improvements have been made in financial transparency and

accountability through citizen's empowerment, more needs to be done regarding legislative scrutiny of the budget and parliamentary oversight.

90. **A strong commitment to federalism and decentralization remains central to GoE's state-building agenda.** The establishment of a federal structure in the constitution of 1995 has subsequently been augmented by ongoing programs of decentralization, which have given woredas more powers and gradually pushed significant service delivery through kebeles. Commitment to this approach is not without its challenges; the issues of capacity, state effectiveness, PFM, oversight and regulation are all made more complex and demanding against the decentralized agenda. There is still work to be done with respect to some aspects of the architecture if regions and woredas are to deliver on the mandates envisaged for them, including issues around revenue assignment. The recent introduction of the MDG Fund by the federal government in its budget for FY12, where (in all but Somali and Afar regions) regional governments will manage capital expenditure on programs at woreda level, may have implications for the woreda-level government.

91. Another essential component of Ethiopia's transformation process is **greater public participation** in policy making and the holding of governmental administrations and agencies to popular account. In Ethiopia there is no long-standing culture of citizens holding government to account. GoE's philosophy that development is not possible without popular participation is clearly stated in the GTP (p. 97) which notes that "... public participation is central to ensuring citizens' own development and to the success of good governance initiatives... Citizens participate in development processes by expressing their demands and aspirations and so contribute to formulating policies and strategies, and to planning, monitoring and evaluation activities." Some progress in this area has already been made with initiatives such as the Good Governance Package and the Financial Transparency and Accountability (FTA), which have been a vehicle for building popular policy consensus. However, a difficulty moving forward will be to ensure ongoing participation of Community-Based Organizations (CBOs) and other bodies which might foster the demand for good governance.

III. Review of the Past WBG Assistance

92. As part of CPS preparation, the Ethiopia Country Team has prepared two documents that provided a retrospective view into the program implemented under the previous CAS; namely (i) a Country Assistance Strategy Completion Report (CAS CR) for the period FY08-12 (Appendix 4), and (ii) a Country Portfolio Performance Review (CPPR) covering FY09-mid FY12.

93. The CAS aimed to help sustain the "dual take-off" of growth and basic services by supporting the implementation of key elements of GoE's Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2005-10). The CAS had four main strategic pillars: (i) fostering economic growth, in order to help sustain the emerging economic "take-off"; (ii) improving access to and quality of basic service delivery, in order to sustain the emerging basic service "take-off"; (iii) reducing Ethiopia's vulnerability to help improve prospects for sustainability; and (iv) fostering improved governance with continued emphasis on institutional capacity building to support the first three strategic objectives and citizens' empowerment.

Overall, the CAS CR rated the performance of the CAS program Moderately Satisfactory; CAS outcomes were fully achieved only under pillar three, “Reducing Vulnerability”; outcomes under all other pillars were rated as partially achieved. Box 3 provides a short description of successful and innovative projects during the CAS period. The CAS CR drew the following lessons applicable to the Bank’s program under the new CPS:

CAS Focus

- The Bank needs to find ways to engage more effectively with GoE in policy dialogue on macroeconomic and private and financial sector issues through increasing the relevance of the Bank’s economic and sector work, offering the Government a menu of instruments available from across the World Bank Group (including the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA)) and strengthening partnerships. In this context, bridging the data and knowledge gap for evidence-based dialogue is key.
- There is a need for a more comprehensive and sustainable solution for food security. Thus, while the Bank should continue to support and strengthen social protection systems and invest in disaster risk management programs, it should also strengthen its support to GoE to increase opportunities for on and off-farm employment (including by supporting private sector and agribusiness).
- The Bank needs to more actively engage in improving the quality of basic services. A newly approved instrument – Program for Results – might provide a good opportunity to support this shift.

CAS Design and Implementation

- Monitoring the CAS results framework more regularly will help maintain realistic targets and flag deficiencies in outcome indicators. There should be better linkages between lending and non-lending instruments as well as with the indicators and the CAS outcomes.
- The Bank should be ready to resume budget support under the new CPS as it provides an important forum for dialogue, enhances donor harmonization, and reduces transaction costs. Despite the successful shift in financing modalities from budget support to Provision of Basic Services Program (PBS) in reaction to the 2005 crisis, the benefits of budget support have not been fully replicated by PBS.
- The CPS should promote scaling up of successful programmatic approaches as they leverage greater resources from partners, disburse faster, and have greater flexibility.

94. The CPPR (FY09-mid FY12) focused on key cross-cutting implementation and fiduciary issues; examined the quality of the project results frameworks and monitoring and evaluation (M&E) systems; and recommended specific short and medium-to-long-term actions to be implemented or initiated under the CPS.⁷¹ The following key cross-cutting and fiduciary issues were identified that affect the quality and riskiness of the Ethiopia portfolio:

⁷¹ In addition, a separate consultancy has been commissioned out to evaluate application of safeguard policies (environmental and social) across the Ethiopia portfolio, but the results have not been finalized at the time of the CPS writing.

Cross-cutting issues

- The most critical cross-cutting issue by far is the high and rapid staff turnover (including difficulties in attracting adequately skilled staff as well as their retention). It affecting the majority of projects in the Ethiopia portfolio and contributing to a slower than optimal pace of implementation and disbursements. This exacerbates already weak capacity at many levels of Government and across sectors, especially in the areas of financial management and procurement, but also in project management.
- Low ownership, slow implementation and weak follow-up at regional level due to limited early-on involvement of the regional counterparts in project preparation, implementation and monitoring.⁷²
- Insufficient sharing of knowledge and experience within the Bank, between the Bank and GoE and between project implementation agencies.

Fiduciary risk in Bank projects

- The fiduciary risk of the portfolio is “High”. The main reasons for these ratings, in addition to the cross-cutting issues identified above, arise from systemic weaknesses, the ineffectiveness of internal controls and internal audit, late financial reporting, inadequate capacity, significant unaccounted advances at various levels of implementation, long delays in bank reconciliations, insufficient controls over the usage of government property, excessive cash balances and lack of follow up on audit findings. The situation is further exacerbated by high staff turnover (over 25 percent on an annual basis at the woreda level), low fiduciary capacity and appointment of people to management positions without adequate financial management training. While the timeliness of reporting has improved, there are concerns regarding the quality of the information contained in these reports.
- In the area of procurement, in addition to a lack of staff with the right skills and experience at all levels, there are weaknesses in contract management capacity especially in the infrastructure sector (i.e., roads, power and water). Different and inconsistent procurement standards at the regions further increases the risk of misprocurement. The disconnect between the Work Plans and Procurement Plans results in ineffective procurement practices during implementation particularly at the Regional and woreda levels and delays in procurement actions.

95. **In addition, intensive consultations have been undertaken to gain a broad-based perspective on the Bank’s performance and future priorities.** A Client Survey was conducted soliciting inputs from close to 330 respondents. Workshops and discussion foras have been organized in Addis Ababa as well as in four regions (Oromya, Tigray, Amhara and SNNP); face-to-face consultations were organized with federal and regional government officials, private sector, CSOs, academia, sectoral and thematic associations and development partners; and a meeting with Ethiopian Diaspora was organized in Washington, DC. In addition, social media, including a dedicated online consultations facility and country office sites on Facebook and

⁷² Bank projects under preparation are often mostly discussed at the federal level with MoFED with limited or minimal upfront consultation with regional stakeholders. Such practice has created the perception that MoFED limits the role of regions and this has led to low ownership and affected their ability to effectively address project implementation concerns. The weak implementation follow-up also evolved around the same problem of weak up-front involvement by the region.

Twitter were used to reach out to those who were not able to take part in the face to face consultations. Over 830 people were able to provide their input online. Although the different stakeholders had various points of views, there were also areas of consensus, including:⁷³

- i) The majority of stakeholders indicated that Ethiopia has made significant progress towards achieving the MDGs and that life in general had become better in the last five years. Nonetheless, **the quality of services and quality of people's lives** has not kept pace. Both public officials as well as citizens at large underlined three reasons for an increasing gap between the quantity and quality of public services: (i) high and rapid staff turnover at all levels of government (federal, regional and woreda) coupled with the low capacity of public servants; (ii) limited space for private sector engagement resulting in over-reliance on public sector delivery, especially in the delivery of agriculture extension services but also, for example, the delivery of training; and (iii) significant gender inequalities hindering growth. Serious concerns also remain regarding macroeconomic stability, especially related to the eroding effects that high inflation has on people's wealth and wellbeing. The majority of participants requested the Bank to undertake a thorough analysis of the issues and to engage with the Government in addressing them.
- ii) **Role of the WBG.** Participants perceived the Bank as an effective catalyst for discussion on critical issues related to poverty and growth, including the Bank's role as a facilitator of discussions between the government and the private sector (e.g., through the Public-Private Dialogue Forum (PPDF)); as well as a coordinator among development partners. There was a demand for the Bank to significantly increase its engagement with the private sector and on job creation (e.g., MSE agenda, access to finance, PPPs in agriculture and agribusiness, land management in selected regions) and governance (e.g., citizens' empowerment and social accountability; regional and woreda PFM; strengthening legislative and judiciary branch of the government). Clearly, in addition to finance, the Bank brings a unique combination of analytical knowledge and round-the-world experience. However, knowledge creation is as important as its dissemination and both aspects should be strengthened going forward. Fostering learning and experience sharing should be promoted between Ethiopia and other countries as well as between regions. Finally, Bank could consider ways to facilitate flow of knowledge and finance from a large and diverse Ethiopian Diaspora.⁷⁴
- iii) **Demand for stronger partnership with the regions.** The regions strongly advocated for a much closer partnership with the Bank going forward, not only during the preparation of the CPS but also during its implementation. WBG programs should leverage greater emphasis on

⁷³ Also, as part of CPS preparation two workshops have been organized to inform and enrich the design and implementation of the strategy: GAC in the CAS Workshop in May 2012 and Supporting Job Creation in Ethiopia Workshop in June 2012.

⁷⁴ There are two ongoing initiatives that aim to facilitate exchange of knowhow and finance from Diaspora: Ethiopian Diaspora Health and Education Professionals Mobilization project and IDF Strengthening Capacity for Mobilizing and Engaging the Ethiopian Diaspora. Further, the WB Payment System Development Group is providing TA to the Universal Postal Union and the Ethiopian Postal Service under the African Institute for Remittances (AIR) project on the remittance system that connects post offices worldwide to process money transfers.

the regions' specific development needs. Broadening the range of stakeholders to include non-government partners should be promoted. In this context, participants requested both GoE and development partners to recognize the role CSOs, NGOs and the private sector play in the development of Ethiopia and thus a need to create space and environment that would enable for a more meaningful and active partnership in the decision making process. Continuous support to PPDF was requested.

Box 3: Selected projects under 2008-12 CAS

Urban Local Government Development Project (ULGDP) – how empowered local governments and local communities can transform cities and generate local employment. ULGDP (IDA \$300mln, effective since Nov 2008) supports improved performance in the planning, delivery and sustained provision of priority municipal services and infrastructure by urban local governments. The performance-based grant is having a transformative effect on 17 cities in which the project is implemented. For the first time, these cities have access to transparent, predictable funding, as long as they meet objective performance criteria. Citizen participation in investment planning has more than doubled in participating cities, and investment plans are now closely aligned with the expressed priorities of citizens. Quality and timeliness of external audits has dramatically improved. The introduction of appropriate standards, particularly in the case of labor-intensive cobblestone road construction, has greatly improved access and drainage while also creating approximately 90,000 of jobs specifically targeted to the urban poor, including women and the disabled.

The Agricultural Growth Program (AGP) – how partnerships can provide basis for strengthened, comprehensive and more harmonized support to agricultural growth. The AGP (IDA\$150mln, effective since March 2011) aims to increase agricultural productivity and market access in selected relatively high-potential woredas with particular focus on women and youth. This approach presents an important shift in thinking and support that complements the traditional (and still existing) focus of channeling most public investments, in particular from donor resources, to directly help the most food-insecure living in the most marginal areas. While it is too early to have measurable impacts in terms of AGP's development objectives, the project has already realized several strategic objectives. First, the participatory planning approach ensures that farmers, in particular women and youth, determine the development of their communities and themselves. Second, the AGP as a multi-stakeholder program ensures that various government agencies and DPs, each contribute in a coordinated manner in line with their comparative advantage. As such, the AGP provides a framework for strengthened, comprehensive and more harmonized support to agricultural growth and a platform for policy discussions. In addition to creating linkages between agriculture, private sector and market development, AGP supports new institutional arrangements and private-public partnerships with the aim of integrating small farmers with high-value agricultural markets.

The Productive Safety Net Program (PSNP) – how a flexible instrument can help mitigate the effects of natural disaster. PSNP (IDA\$850mln under APL III) was launched in 2005 to complement the existing humanitarian support system and to assist chronically food insecure people in rural Ethiopia. The PSNP helps to reduce household vulnerability, improve resilience to shocks and promote sustainable community development in food insecure areas. To mitigate the risk of economic and climate related shocks the PSNP has adaptive measures such as soil and water conservation activities, small scale irrigation and integrated watershed management. In addition the program also supports the Public Work activities to build Social Infrastructure such as schools, health clinics and roads. The effects of the 2008 food crisis in the Horn of Africa have been mitigated in Ethiopia to a great extent by PSNP, which was able to scale up its support to those affected. Currently the project benefits more than 7.5 million.

Road Sector Development Program (RSDP) – how consistent support over long-term to the government's priority area can bring good results. In 1997, GoE formulated the 10-year Road Sector Development Program (RSDP 1997–2007), a two-phased integrated package of investments, reforms, and institutional reorganization. The program was later extended and is now in its fourth phase. The Bank has provided more than US\$1.4 billion to the GoE to support its efforts in improving and expanding Ethiopia's roads network. Currently, IDA\$818mln is still committed under APL2, 3 and 4. Over the past fifteen years of implementation, the WB projects have helped Ethiopia to double its roads network from 26,550 km in 1997 to over 54,000 in 2011. The WB program has also helped in strengthening the institutional capacity of the institutions responsible for transport development in Ethiopia (e.g., the Ministry of Transport and the Ministry of Urban Development and Construction) as well as institutions in charge of road sector development and maintenance (e.g., the Ethiopian Road Authority as well as roads authorities at the regional municipal and woreda level).

IV. New Partnership FY13-FY16

A. Key Principles

96. The CPS is strongly anchored within GoE's GTP which has been under implementation since late 2010. Following the passing away of the Prime Minister in late August 2012, GoE reconfirmed its concurrence with the main thrust and focus of the CPS, which is strongly anchored in the GTP and has been developed through a highly consultative and collaborative process. Areas of World Bank Group (WBG) engagement have been selected based on their priority for the country and relevance for growth and poverty reduction as well as WBG's comparative advantage reflected in the combination of partnerships, knowledge and finance. WBG engagement will be driven by a principle of partnering with GoE to look for pragmatic solutions. The CPS uses GoE's "transformational approach"; it builds on what has been achieved so far (by using existing knowledge and portfolio as well as cross-country good practice and experience) and continues its support in areas where there is strong government ownership (e.g., infrastructure and social protection). However, learning from the previous CAS and in order for the WBG to more effectively support GoE's medium to long term development agenda there are several elements in the CPS that are new:

- i) ***More effective partnership with Government*** in three areas: (i) macroeconomic issues by gradually establishing a dedicated dialogue mechanism and providing financial support to support macroeconomic stability through budget support; (ii) the job creation agenda by offering, in collaboration with other development partners, a comprehensive package of possible solutions from IDA,⁷⁵ IFC and MIGA as well as strengthening dialogue with the Government on regional integration issues; and (iii) improving the effectiveness of the Government, by assisting GoE to strengthen the human capacities of the civil sector and building country systems (including PFM and procurement).
- ii) ***Extending partnerships with non-state stakeholders.*** In addition to strengthening already good collaboration with the traditional donors, WBG will endeavor to reach out to non-traditional partners, including sources of FDI. WBG will seek more active engagement with the regions through specific analytical work, closer engagement in portfolio management and building their capacities. Finally, more systematic ways of engaging with non-government partners will be pursued, including through the PPDF (Box 5).
- iii) ***Instruments.*** Learning from the results of the CAS CR, WBG will deploy to a larger extent its analytical work to inform its own as well as other partners' work and to ensure that the dialogue with GoE is evidence-based. In this context the Bank will support capacity building of the Central Statistical Agency,⁷⁶ to ensure better quality and reliability of data and M&E systems. Moreover, as soon as macroeconomic framework allows, the budget support agenda will be resumed (most likely starting with sectoral development policy lending and over time moving towards multi-sectoral Development Policy Operations (DPOs)) to deepen policy dialogue and support GoE's focus on achieving macroeconomic balance, fostering use of

⁷⁵ Including potential use of IDA guarantees.

⁷⁶ See Section F below for details.

country systems and increasing the predictability of aid.⁷⁷ Finally, in line with GoE's focus on quality of basic services, the Bank plans to gradually increase its utilization of the recently approved Program-for Results (PforR) instrument, commencing with the health and possibly education sector. WBG will strive to allow greater in-built flexibility into the program (lending and non-lending) so that it can be opportunistic and pragmatic in providing solutions to GoE.

B. CPS Design: Pillars and Outcomes

97. The CPS Pillars are consistent with the key focal areas of the GTP (i.e., supporting job creation in agriculture and industry; enhancing quality of social services; and increasing government effectiveness).⁷⁸ In line with the GTP, gender and climate change have been elevated to cross-cutting issues in the CPS and WBG will strengthen their mainstreaming into the portfolio. The CPS framework is also consistent with the World Bank Africa Strategy. Based on the existing project portfolio as well as the abovementioned CPS principles, the CPS will focus on achievement of the following key strategic objective under its main pillars.⁷⁹

98. **Pillar One: Fostering competitiveness and employment by supporting a stable macroeconomic environment; increasing competitiveness and productivity; increasing and improving delivery of infrastructure; and enhancing regional integration.** Based on the key constraints analyzed in Chapter I, Section B and in Chapter II, Sections A and B, this pillar will focus on the following outcomes:

- Supporting structural and macroeconomic policies to sustain internal and external balance and increase domestic resource mobilization;
- Increasing agriculture productivity and marketing in selected areas;
- Increasing competitiveness in manufacturing and services, and MSE access to financial services;
- Increasing access to and quality of infrastructure – electricity, roads, and water and sanitation;
- Improving regional integration by supporting the Eastern Africa Power Pool Mechanism and enhanced involvement in regional agriculture technology generation and dissemination.

99. **Pillar Two: Enhancing resilience and reducing vulnerabilities by improving delivery of social services and developing a comprehensive approach to social protection and risk management.** Based on the key constraints analyzed in Chapter II, Section C, this pillar will focus on the following outcomes:

- Increasing access to quality health and education services;
- Enhancing the resilience of vulnerable households to food insecurity;

⁷⁷ The DAG Group in collaboration with the Government agreed to increase usage of country systems from the baseline of 52 percent in 2010 to 69 percent in 2014. Since many, especially bi-lateral, donors have limited scope for moving towards Channel 1 disbursements (e.g., using country systems), greater burden will fall on multilateral institutions including the WBG.

⁷⁸ See Appendix 2 for CPS results chain.

⁷⁹ Appendix 2 provides a result chain for translating GTP into CPS framework.

- Increasing adoption of Disaster Risk Management (DRM) systems;
- Strengthening sustainable natural resource management and resilience to climate change.

100. **Foundation: Good governance and state building.** Based on the key constraints analyzed in Chapter II, Section D, this foundation would focus on the following outcomes:

- Improving public service performance management and responsiveness;
- Enhancing space for citizen participation in the development process;
- Enhancing public financial management, procurement, transparency and accountability.

101. **Cross-cutting themes in CPS.** Gender will continued to be mainstreamed in the WBG program through including activities focused on women in the design of projects (e.g., AGP, ULGDP: Box 3) as well as through individual projects focused on women (e.g., WEDP: Box 4).⁸⁰ WBG will build on the experiences from WEDP and the emerging research to further support growth-oriented women MSE owners. WBG will also intensify its Analytical and Advisory Activities (AAA) to create (to the extent possible) a full gender disaggregated poverty profile for Ethiopia. A series of gender-focused policy notes will be prepared based on research to: evaluate policies supporting female income generation; assess the effects (on school children) after including a module on the basic gender rights and responsibilities in their school curriculum; analyze constraints to access to justice of the poor and vulnerable groups (a follow-up to the study on the effectiveness of "domestic violence preventive actions" undertaken in FY12).

Box 4: The Women Entrepreneurship Development Program – unleashing the growth potential of urban women entrepreneurs

Recognizing the large economic potential of promoting female entrepreneurship, since May 2012 the Government is implementing an IDA funded (\$50m) Women Entrepreneurship Development Program (WEDP), which aims to address the two most severe constraints to business growth as reported by growth-oriented women-owned MSEs: lack of access to finance and of entrepreneurial and technical skills together with usage of low-productivity technologies. Through provision of microfinance loans and other suitable financial instruments through MFIs to individual growth-oriented women entrepreneurs, WEDP aims to provide at least 17 thousand loans over the 5 year. MFIs will benefit from a substantial Technical Assistance (TA) to build their capacity to provide tailored financial products to female entrepreneurs. WEDP is expected to deliver entrepreneurship skills enhancement to 20 thousand women entrepreneurs, together with technology diffusion and cluster development where growth-oriented women entrepreneurs will get training and support in most basic aspects of developing, running and growing a business.

In addition to being a key element in the gender strategy of the Bank in Ethiopia, WEDP also serves as an entry point for discussing private sector policies concerning the country's MSE segment, which is the most important source of employment outside of agriculture. To contribute to the future policy dialogue, WEDP has a built-in impact evaluation that is designed to measure the exact number of jobs created by the program and by different sub-components. The WEDP thus complements the Bank's efforts in the job creation agenda including regulatory concerns, business climate knowledge work and the overarching policy framework including macro policies by providing evidence on employment creation.

102. WBG considers climate change as an important part of the development process. Therefore, a focus on climate change will be mainstreamed into ongoing and future operations to make them more "climate-smart."⁸¹ Consequently, WBG will (i) support key sectors of crucial importance to climate change (e.g., agricultural and pastoral development, sustainable land

⁸⁰ See Appendix 5 for details.

⁸¹ See Appendix 7 for details on mainstreaming the Climate Change agenda into the Ethiopia portfolio.

management and food security, and renewable energy); (ii) engage in specific studies and trials under ongoing or future projects and programs with the aim to modify their design for an increased climate change impact; (iii) strengthen the systematic and enhanced treatment of climate impacts at the strategic level building on the IDA16 framework currently under development, and based on selected case studies; and (iv) through its engagement with line agencies, WBG will support the development of the Government's Climate Resilient Strategy. Finally, WBG will continue engaging in few climate change-specific tasks such as climate information systems or other specific AAA products or supporting the agenda on Reducing Emissions from Deforestation and Forest Degradation.

C. Existing Portfolio and New Program

103. **Existing Portfolio.** Much of what the WBG will achieve during the CPS will depend on the existing portfolio. As of July 1, 2012 (i.e., the start of the CPS, see Annex 9) the Bank had 25 active IDA-only projects in Ethiopia (two regional), of which 6 were added in FY12 (including 3 additional financing and one regional) for a total of US\$1.12 billion. Twelve projects were co-financed with other development partners. Total IDA commitments were US\$5.1 billion (the second highest in the Africa Region) and an undisbursed balance of US\$2.26 billion. The disbursement ratio in FY12 was 34.2 percent with disbursements amounting to US\$727.6 million. Close to a half of the active IDA Portfolio supports infrastructure development (48 percent), mostly roads and electricity; there are two programs in social protection (PSNP and PBS) which account for 39 percent of total commitments; and the remainder is distributed among projects supporting private sector and finance, agriculture and public sector capacity building and governance (2, 7 and 9 percent respectively). The existing portfolio is relatively well aligned with the CPS strategic objectives (Table 6). Commitments at risk accounted for 10 percent of the total portfolio (less than half of the average in the Africa Region) and two projects (Tourism and Tana & Beles) were rated marginally unsatisfactory for Implementation Progress and Development Objectives (suspension for the Tourism project was lifted in July 2012). However, the Realism Index for Ethiopia, as determined by the Independent Evaluation Group (IEG), stood at 40 percent, which is well below that for the World Bank and the Africa Region. The Country Team is working jointly with GoE to address this issue through, inter alia, more systematic and regular joint reviews of the portfolio and implementation issues arising.

Table 6: Existing lending program and its impact on CPS Strategic Objectives

Existing IDA and IFC portfolio at start of CPS FY13-16	FY appr oved	FY close	Country Strategic Objectives under CPS						
			Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Irrigation & Drainage Project	FY07	FY18			X			X	
Pastoral Community Development Project - PCDP	FY08	FY14						X	
Eastern African Agricultural Productivity - EAAP	FY09	FY15		X		X			
Agricultural Growth Program - AGP	FY11	FY16		X	X				
General Education Quality Improvement - GEQIP	FY09	FY14					X		
Energy Access	FY03	FY13			X				
Nile Basin Initiative: ET/SU Interconnection	FY08	FY13				X			
Electricity Access (Rural) Expansion	FY06	FY13			X				
Electricity Access Rural II	FY08	FY14			X				
Elect. Network Reinforcement & Expansion – ENREP	FY12	FY17			X				
East Africa Power Pool (APL 1) - EAPP	FY13	FY19			X	X			
Sustainable Land Management - SLMP	FY08	FY14						X	
Private Sector Develop. Capacity Building - PSDCB	FY05	FY13		X					
Tourism Development Project	FY09	FY15		X					
Nutrition Project	FY08	FY14					X		
Public Sector Capacity Building - PSCAP	FY04	FY13							X
Protection of Basic Services Phase II - PBS	FY09	FY13	X				X		X
Productive Safety Nets III - PSNP	FY10	FY15			X		X	X	
RSDP Stage III Project APL3	FY07	FY15			X				
RSDP Stage IV APL4	FY09	FY16			X				
Water Supply and Sanitation – WSS	FY04	FY13			X				
Urban Water Supply & Sanitation - UWSS	FY07	FY13			X				
Urban Local Government Development – ULGDP	FY08	FY15			X				X
Tana & Beles Int. Water Res Dev Project	FY08	FY14			X				
Women Entrepreneurship Development - WEDP	FY12	FY17		X					
Ethiopia PPDF Initiative (IFC)	FY11	FY13		X					
Warehouse Receipt Financing Advisory Project (IFC)	FY09	FY12		X					

104. **New Lending.** The total volume of lending is based on Ethiopia's IDA allocation, which is determined annually by the Country Performance Rating (CPR) that takes into account the country's policy performance and governance environment (as measured by the Country Policy and Institutional Assessment – CPIA) and the performance of existing IDA portfolio. Although over the past few years Ethiopia's CPR has been relatively stable (e.g., between 3.35 in 2006 to 3.37 in 2011), its provisional IDA16 allocation of US\$3.38 billion (e.g., US\$1.1bn per year) is close to 28 percent higher than IDA15 allocation due to the increased overall size of IDA16.⁸²

⁸² IDA15 covered period of FY09-11; IDA16 covers FY12-14 and IDA17 will cover FY15-17. IDA resource envelopes are provided for 3-year replenishment cycles. The FY13 allocation for Ethiopia of Special Drawing Rights SDR759.2 million (equivalent of US\$1.2bn) is firm while the FY14 allocation of SDR 664.5mln (US\$1.1bn) is indicative and can change depending on: (i) total IDA resources available in the respective fiscal year; (ii) Ethiopia's performance rating; (iii) the terms of IDA's assistance to the country (grants or credits) in the respective fiscal year based on Ethiopia's debt sustainability position; (iv) MDRI debt relief and the redistribution of the MDRI compensatory resources as applicable; (v) the performance and assistance terms of other IDA borrowers; and (vi) the number of IDA-eligible countries. Note that Ethiopia's IDA envelope was provided in SDR terms, and the US dollar equivalent amounts are converted using the IDA16 replenishment rate of 1SDR=US\$1.50233; however, the exchange rate for each IDA operation depends on the applicable prevailing rate at the time of project approval.

The CPS will span the last two years of IDA16 (FY13-14) and the first two years of IDA17 (FY15-16). In FY12 Ethiopia's new commitments amounted to US\$1.12 billion.⁸³ The lending program for the first two years of CPS (FY13-14) has been designed with a buffer of about 19 percent (US\$1.5bn in FY13 and US\$1.2bn in FY14). Given that the IDA allocation for the two outer years of CPS (FY15-16) is not available, the CPS program is indicative and will be reconfirmed based on the IDA17 allocation and discussions with the Government.

Table 7: Indicative new lending program and its impact on CPS Strategic Objectives

Indicative new IDA and IFC lending and non-lending under CPS FY13-16	Country Strategic Objectives under CPS						
	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
FY2013							
Regional Eastern Africa Power Pool Project APL1 - EAPP			X	X			
Transport Sector Project In Support of RSDP4			X				
Health MDG Support (PforR)					X		
Promotion of Basic Services (PBS) Phase III					X		X
Education MDG Support (follow-up to GEQIP)		X			X		
Eastern Africa Pastoral Livelihoods Recovery and Resilience				X	X		
Pastoral Community Development (PSDP) III		X				X	
Ethiopia Investment Climate Project (IFC)		X					
FY2014							
Water Supply, Sanitation and Hygiene (WASH) II			X				
Transport Sector Project In Support of RSDP4 (Project 2)			X				
Renewable Energy Project			X				
Urban Local Government (ULGDP) II			X				X
Sustainable Land Management (SLMP) II						X	
Competitiveness and Employment Project		X					
FY2015-16							
Macro DPO	X						
Sector-specific DPOs		X	X				
Agricultural Growth Program (AGP) II		X	X				
Halele-Werabesa Hydropower Project			X	X			
Rural Infrastructure Support (PforR)			X				
Strengthening Public Expenditure Management Project							X
Regional Drought Response Program					X	X	
DRM Program/Scalable Safety Nets						X	
Additional financing to successful operations							

105. **Lending selectivity and focus.** The focus of the new lending program for the CPS period relative to the CPS strategic objectives is presented in Table 6. Ethiopia's new lending will most likely remain heavily focused on infrastructure for two main reasons: (i) the Government perceives IDA to bring high value addition in infrastructure sectors; and (ii) large part of IDA support is provided through APLs (e.g., roads and water) or supporting multi-year Government programs (e.g., energy). A key constraint affecting selectivity is an expectation (especially from the donor community) for the Bank to engage more actively in the areas of macroeconomic

⁸³ This includes an additional US\$70 million from the IDA Crisis Response Window for the PSNP Additional Financing as well as the Regional Eastern Africa Power Pool Project (APL1) presented to the Board in July 2012.

development, private and financial sector support and public sector capacity building. Regarding social sectors, although they attract more than a quarter of overall Official Development Assistance ODA (2008-10, Development Assistance Group (DAG) data), there is an expectation for the Bank to stay engaged in these areas to provide a coordinating role even if WBG financing is declining (e.g., education). While acknowledging the constraints, the Country Team will maintain its good track record on selectivity⁸⁴ by opening up the budget support agenda (starting most likely with sectoral DPOs), utilizing additional financing for successful projects, and seeking opportunities for portfolio consolidation.

106. Addressing fiduciary risks in country portfolio. The CPPR provided several specific recommendations on how to alleviate some fiduciary concerns. While some of the proposed actions will require high-level interventions,⁸⁵ many can be undertaken at the technical level and within the CPS period.⁸⁶ The Bank will address fiduciary risks through a multi-annual program of fiduciary analytical work aimed at strengthening the policy dialogue in financial management and procurement sectors (particularly at the regional level) and raising general awareness. This program will consist of (i) Bi-annual federal level PEFA and Country Procurement Assessment Report (CPAR); (ii) Regional level PEFA and financial management Economic Sector Work (ESW) as required; (iii) policy notes on specific areas of interest to the Government; and (iv) Accounting and Auditing Report On The Observance of Standards and Codes (ROSC) updates. These analytical products will be conducted in close coordination with other donors and GoE among all relevant sectors. To complement this program, management is implementing a series of regular meetings with GoE, and internal measures to ensure more effective portfolio monitoring and evaluation. Finally, GAC filters will be introduced for all projects in the pipeline for FY14.

107. Addressing safeguards risks in the country portfolio. The ambition of the GTP targets, particularly for large-scale infrastructure and other initiatives such as large-scale agriculture development which may require significant land-use change, present environmental and social risks. At the same time, there is limited capacity in government at all levels (e.g., national, regional and local) to manage effectively such risks, and this limited capacity is further undermined by the high rate of staff turnover in the civil service. While legally the Environmental Protection Agency (or the Regional Environmental Authorities for small, local projects) is responsible for review and clearance of assessments of potential environment and social impacts of proposed projects, in practice this role has been delegated to sector agencies, such as the Ministry of Agriculture, EEPCO and ERA. Moreover, quality review of environment

⁸⁴ During the CAS period (FY09-11), the number of projects in the Ethiopia portfolio has decreased from 31 to 26 despite net commitments growing by US\$800 million. As a result, the size of the new projects approved during this period has increased reaching on average US\$234 million.

⁸⁵ For example, civil service reform, more active and early-on engagement of the regions, agreement with MoFED and implementing agencies to start advanced procurement prior to WB loan approval.

⁸⁶ For example, provision of regular (bi-annually or quarterly) training/FM and procurement clinics for PIU staff as well as dedicated institutions (e.g., the Public Procurement Agency) in the areas of procurement, FM and safeguards; establishment of Managers Network (PSCAP), Sectoral Groups and Finance Managers Club for information and experience sharing; more consistent and rigorous application of Bank's readiness filters to projects under preparation; standardization of the FM Manuals; simplification of reporting at local level; development of service delivery standards; piloting joint preparation of Annual Work Plans, Annual budgets and Procurement Plans.

and social safeguards for a proposal is undertaken more consistently if the proposal involves donor financing. The Bank will take a two-pronged approach to address the related risk. First, to ensure consistency of application and compliance with Bank safeguard policies, a high-level policy dialogue on safeguards issues will be continued and the supervision of environmental and social safeguards implementation in Bank financed projects will be further strengthened.⁸⁷ This strengthening will be complemented by additional training from the Bank for environmental and social safeguards specialists and consultants, dissemination of resource materials on environmental and social due diligence, and other broader capacity-building activities aimed at building up expertise on environmental and social management. Second, the capacity of the government system for environment and social safeguards implementation will be strengthened in key sector agencies, such as EEPCO and ERA, through project components which focus on the modernization of these agencies (see paragraph 69 on EEPCO), as well as broad-based training on safeguards for these and other agencies.

108. Use of Country Systems (Channel 1 and 2). Ethiopia uses a number of alternative mechanisms for channeling donor funds to spending units in the country.⁸⁸ A recent review of the Use of Country Systems by donors in Ethiopia confirmed that around 67 percent of World Bank support is channeled through government systems, which is higher than the target set for all donors in Ethiopia for the next reporting period. CPPR review has confirmed that World Bank funds disbursing through Channel 1 (e.g., PBS and PSNP) have an average disbursement rate of 30 percent compared to 15 percent for Channel 2 projects (traditional Specific Investment Lending). Consequently, during the CPS period, the World Bank will be proactively exploring ways to moving its portfolio towards Channel 1 (for example though increasing use of DPO and PforR instruments). A systemic assessment for this is underway which involves analyzing the quality of country PFM systems with a specific focus on risks and the mitigation measures that need to be put in place. While there is clearly commitment to improving PFM systems in Ethiopia the approach has been fragmented and there is a need for addressing the major weaknesses identified in various diagnostics at different levels of government if donors are to

⁸⁷ A particular risk arises because the Bank's Operational Policy on Indigenous Peoples (OP 4.10) has not been applied in Ethiopia, in part because of GoE concerns, but also because of uncertainty as to its compatibility with the country context. To address the situation, discussions with GoE on how to apply the policy have been ongoing since mid-2009. To enhance GoE familiarity with the policy, a joint World Bank-GoE workshop was held in early March 2011. GoE remains uncomfortable with the policy's potential application in Ethiopia and progress has been slow in reaching a joint understanding. The issue was again discussed with the Ethiopian Delegation at the 2011 Annual Meetings, following which Bank management sent a letter to GoE with a proposal which remains under discussion. At the 2012 Spring Meetings the GoE delegation reiterated its difficulties with the policy, but noted the need for GoE and the Bank to jointly resolve this issue. Since February 2012, a note appearing in the MOP of each Board package for Ethiopia has summarized the situation as: (a) dialogue between GoE and the Bank on OP 4.10 is ongoing, (b) when agreement is reached, but in any event starting with operations considered by the Board after December 2012, the policy would be applied to the extent that it is found to be relevant to the areas of operation of the proposed projects; and (c) relevant operations presented to the Board in the meantime will endeavor to contain features that approach functional equivalence with the policy even when it is not formally triggered. In lieu of agreement with GoE on application of OP 4.10, in some projects, task teams have been able to achieve much of the intent of OP 4.10 without triggering the policy (through the Environmental Assessment or Involuntary Resettlement policies and procedures).

⁸⁸ The most common are Channel 1a – viz. full use of government systems across all levels of Government though MoFED; Channel 1b which uses Government systems only at the Federal level and Channel 2 viz. project aid that bypasses MoFED and goes directly to a sector or a government entity at the sub national level.

increasingly move to country systems. The Bank will also work with GoE to increase the use of country procurement systems.

Table 8: Selected proposed CPS non-lending activities and their impact on CPS Strategic Objectives

Selected proposed IDA and IFC non-lending activities during CPS FY13-16	Country Strategic Objectives under CPS						
	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Semi-annual Economic Updates	X						
Poverty Assessment, Poverty Mapping	X				X	X	
Country Economic Memorandum	X	X	X				
Debt Sustainability Analyses, Debt Management and Performance Assessment, MT Debt Management Strategy TA	X						
Diagnostic Trade Integration Study		X					
Statistics for Result Trust Fund	X						
Public Expenditure Review (including sectoral PERs, e.g., water)	X	X	X				X
Strengthened RED&FS portfolio management		X					
Land Administration TA		X					X
Climate-smart agriculture		X				X	
Ethiopia Investment Climate Project (IFC), Ethiopia PPDF Initiative, Ethiopia Credit Information Center (CIC)Project (IFC)		X					
Competitiveness and Job creation (NLTA), Series of FPD Policy Note(s), incl. micro-insurance, Skills Development AAA		X					
Gender-focused policy and research notes		X			X	X	
Climate Innovation Center (InfoDev)		X					
Enhanced Regulatory Framework for Remittances		X					
Hydropower Center of Excellence TA, Hydraulic Lab for Dam Modeling/Safety TA, Geothermal Sector Strategy, Decentralization			X	X			
Social Protection TA, Disaster Risk Management					X		X
Climate Change AAA		X				X	
Access to justice for poor and vulnerable groups in Addis							X
Analysis of civil service staff turnover and options for reform	X						X
Woreda and City Benchmarking Survey					X		X
PEFA Update (federal & regional), Woreda level PFM Reports							X
AAA Into Increasing Road Construction Costs, Urban Transport		X	X				
PPIAF ICT AAA		X	X	X			
Health Results Innovation TF, IE of the health facility performance incentives					X		X

109. **Non-lending assistance.** As clearly indicated by the CAS CR and feedback from the Client Survey and multi-stakeholders consultations, the Bank needs to ramp-up its knowledge products (including analytical, advisory and technical assistance) especially in terms of its relevance and timeliness. Non-lending assistance can take a variety of forms, including standard Economic Sector Work (ESW), study tours, facilitation of knowledge and experience sharing between Ethiopia and other countries (e.g., Rwanda, which shares a similar development strategy), informal brainstorming, just-in-time studies and regular updates/policy notes. In determining the focus of future non-lending assistance priority will be given according to three criteria: (i) part of the core country diagnostics that needed regular updates; (ii) on-demand policy notes to aid the Government's policy making discussions; and (iii) covering innovative or difficult areas of development. In addition, WBG will strive to engage more actively with the

GoE as well as local think tanks and academia in the process of designing and conducting the analytical work. Table 8 provides some of the major non-lending activities (ESW and TA) planned during the CPS period; for a complete list see Annex 11.

110. Ethiopia Trust Funds (TFs) portfolio is one of the largest in the Africa Region with US\$642 million in commitments allocated in 68 TFs as of June 1, 2012.⁸⁹ Recipient-executed TFs account for 38 percent of the total number of active TFs and 95 percent of the total commitments. Two donors, UK and EU, provide almost three quarters of total contributions (61 and 12 percent respectively). Ethiopia TF portfolio is well aligned with the WB program with a clear focus on social sectors: at the beginning of the CPS period, 86 percent of TF portfolio was contributing to CPS Pillar 2 (resilience and vulnerability) and 13 percent to Pillar 1 (competitiveness and employment). Further, more than a half of all TF commitments (52 percent) were co-financing one multi-donor education project (GEQIP); another 17 percent of TF supported water and sanitation sector, 13 percent went to support social sectors (PBS and PSNP) and 10 percent went to agriculture.

111. While TFs are relatively well aligned with CPS objectives, there is still a need to shift towards a more programmatic and less fragmented trust fund portfolio. The average size of a grant under a Bank-Executed trust fund was US\$774,000; however close to a half of such grants were smaller than US\$250,000. Recipient-Executed trust funds tend to be larger in size (US\$24million on average) particularly those associated with the education, PBS and PSNP operations. Ethiopia also has a large portfolio of Financial Intermediary Funds (FIFs), where the Bank only acts as a trustee and transfers funds to implementing agencies outside the Bank. The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)⁹⁰, the largest FIF in the Bank, had Ethiopia as its largest beneficiary in FY10.

D. IFC and MIGA Programs

112. IFC Program. IFC has been “open for business” in Ethiopia since 2008 and its program supports particularly the first pillar of this strategy with a focus on three areas: (i) project development in key strategic sectors (e.g., agribusiness, infrastructure, financial services, tourism and manufacturing); (ii) removal of investment climate constraints; and (iii) building entrepreneurial capacity. Since FY08, IFC has committed a total of US\$83.6 million including investments in the Ethio Cement project that helped to establish a green-field integrated cement plant; equity investment in the Saudi German Hospitals Group, which will construct a hospital in Addis Ababa, the Group’s first venture in Africa; equity investment in Nyota Minerals Ltd for its Tulu Kapi Gold to support gold exploration and in Allana Potash to help explore potash reserves; and the Ethiopian Coffee projects (with TechnoServe) that provide financing to specialty coffee farmer cooperatives under the Ethiopian component of the East Africa Coffee Initiative. IFC’s advisory services provide support to improve the investment climate, encourage entrepreneurs,

⁸⁹ See Annex 12 for portfolio of active TF. Calculations exclude HIPC TFs.

⁹⁰ In addition to the GFATM, Ethiopia is a major recipient of other FIFs such as the Consultative Group on International Agricultural (CGIAR), the Climate Investment Fund, the Global Alliance for Vaccines and Immunization (GAVI), the Global Agriculture & Food Security Program (GAFSP), the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Global Environment Facility (GEF), the Special Climate Change Fund (SCCF), and the Least Developed Countries Fund for Climate Change (LDCF).

and promote better access to finance, especially SMEs. Establishing the Public Private Dialogue Forum and Warehouse Receipts Finance Program are among the most noteworthy IFC engagement to improve Ethiopia's investment climate (Box 5).

113. In the coming years IFC's portfolio is expected to grow with a particular focus on opportunities in power, mining, manufacturing and tourism:

- IFC in collaboration with the WB and potentially other donors is focusing on the development of geothermal resources in Ethiopia starting with exploring the possibilities for establishing a geothermal development fund.
- As part of its engagement in the mining sector, IFC will work with other parts of WBG to assist GoE in modernizing Ethiopia's mining regulatory framework and raising investor interest in the Ethiopian mining sector.
- IFC is strongly interested in assisting GoE in development of industrial zones. IFC China and Ethiopia Offices are actively engaged in developing a structure under which IFC could invest in the companies that setup operations in the Ethiopia Industrial Zone in coordination with China Africa Development Fund (CAD Fund).
- IFC is keen to help Ethiopia to realize its potential as a significant tourism destination (Box 2).

Box 5: IFC initiatives to improve business environment in Ethiopia

Warehouse Receipts (WHR) Finance Program: IFC partnered with the Ethiopia Commodity Exchange (ECX) and selected Ethiopian commercial banks to develop Warehouse Receipts Finance markets in Ethiopia, through a combination of advisory services and investments package. The program is funded by IFC (US\$1mln) and four other partners from Netherlands, Spain, Belgium and Japan (US\$2.5mln). Under the investment component, up to US\$10 million of financing is allocated to the participating banks in the form of guarantees (risk-sharing) or short-term lines of credit (co-financing) on their WHR lending portfolio of up to US\$20 million. IFC has committed its first WHR finance facilities in March 2011 to the United Bank and NIB Bank. WHR-based loans (covering mostly sesame and pea beans) grew to US\$1.5 million in FY11 from US\$50,000 in FY10. This amount is expected to grow to US\$ 6million by the end of the current harvest season. The advisory service component is also progressing well and ECX is now ready to launch the program with the United Bank and CBE.

Ethiopia Public Private Dialogue Forum (PPDF): On July 8th 2010, GOE, the Ethiopian Chamber of Commerce and Sectoral Associations signed a Memorandum of Understanding to guide the PPDF. The first PPDF meeting was organized on February 22, 2011 bringing together representatives of the private sector and the Government in a structured dialogue to discuss and ultimately address key obstacles to firms' growth and competitiveness as well as to establish mutual trust and understanding between the public and private sector. So far the Forum has facilitated improvements in tax and trade logistics legislations. IFC jointly with UNDP have been instrumental in helping structure and lead this process and the two institutions have recently agreed to fund the first year of the PPD process at the federal level for a total of US\$650,000.

114. The pipeline of IFC knowledge-based activities includes ramping up its support to GoE to improve the country's business environment. In addition to continued support to the PPDF, the program would focus on simplification of business registration and tax administration, supporting industry specific investment climate reforms (including investment policy and promotion), and trade logistics. There are ongoing discussions in developing IFC's Global Trade Finance Program as well as potential support that IFC could provide to the development of Alternative Dispute Resolution as a means to alleviate the burden on the court system and improve speedy, amicable resolution of commercial disputes. Finally, there is an ongoing process under the Access Leasing project, where IFC would provide a combination of equity

investments and advisory services to establish the first leasing company in the country, sponsored by Access Capital.

115. **MIGA Program.** MIGA is also supporting the objectives of pillar one, and is currently insuring three projects in Ethiopia (two in agribusiness and one in cement) with total net exposure of US\$16.8 million (see Annex 10). The first agribusiness project supports an investment by Africa Juice BV of the Netherlands which, in Africa, is represented by Juice Tibila Share Company. Africa Juice Tibila Share Company is a producer and exporter of tropical fruit juices. The second agribusiness project involves the privatization, rehabilitation, and expansion of an existing farm which will result in a 600 hectare plantation of yellow passion fruit, an additional 600 hectares of other tropical fruits such as mango and papaya, and the construction of a new fruit-processing facility. The manufacturing project supports a minority equity investment by Schulze Global Investments (SGI) into the National Cement Share Company of Ethiopia (NCSC). The investment by SGI will help NCSC to expand its operations in Dire Dawa, through supporting the construction of a new 3,000 tpd clinker plant. In order to accelerate the construction of the new plant, NCSC engaged SGI for a round of equity financing. The expansion of the plant is expected to result in additional significant tax revenue to the government and the creation of up to 600 new local jobs directly, and potentially an additional 2,500 indirect jobs. It will also provide an increased supply of domestic cement to meet the growing demand in Ethiopia, thereby reducing the country's reliance on expensive imports and reducing the drain on foreign exchange reserves.

116. In addition, MIGA remains open for business in Ethiopia across all of its Political Risk Insurance product lines, including Transfer Restriction, Expropriation, Breach of Contract and War and Civil Disturbance, as well as the Non-Honoring of Sovereign Obligations. MIGA has also made use of its more streamlined Small Investment Product (SIP) where more streamlined procedures have allowed smaller projects to be supported.

E. Partnerships

117. Official Development Assistance to Ethiopia has been growing fast over the last decade, more than quadrupling from US\$ 0.7 billion in 2000 to US\$2.9 billion in 2009, before declining to US\$2.6 billion in 2010.⁹¹ Although there has been a significant proliferation of donors (from 25 in 2006 to about 36 in 2010, including non-traditional donors), the US and IDA accounted for close to a half of all ODA disbursements, followed by the UK, EU, Global Fund and AfDB. Nonetheless, aid to Ethiopia has a strong multilateral dimension as almost 80 percent of ODA (2011) is administered through multilateral institutions from own resources or through multi-donor arrangements (MDTFs). Non-traditional donors⁹² are increasing their presence with new modalities of development finance linked to specific trade and investments deals. Over a third of ODA received by Ethiopia is humanitarian assistance over which GoE has little influence (most is delivered through multilaterals and NGO, less than 10 percent through GoE). Support to

⁹¹ Appendix 8 provides detailed donor mapping.

⁹² Non-traditional donors in Ethiopia include private donors such as Bill and Melinda Foundation, donors from China, India, Arab countries, and Global Programs, among others.

infrastructure accounts for 11 percent of total ODA (6 percent excluding IDA) and to the private sector (including agriculture and finance) for 8 percent (5 percent excluding IDA).

118. Donor collaboration in Ethiopia has a long track record. It includes a High Level Forum with GoE, several joint donor: GoE Sector and Technical Working Groups (SWGs, TWGs), some of which work more effectively than others, with a direct correlation with a functioning funding mechanism (see Appendix 8 for dialogue structure between the GoE and Development Partners (DPs)). Currently there are ongoing discussions between GoE and development partners on the overall dialogue structure including finalization of the ToRs for the main SWGs, definition of common operational procedures, reporting lines and links among SWGs, with funding programmes and task forces. Recently there has been a renewed interest in the Aid Management Platform (AMP) as a management and M&E tool.

119. Out of 25 IDA projects in Ethiopia portfolio at the start of the CPS, 12 were co-financed with other donors, including the two largest IDA programs (PBS and PSNP) as well as AGP, GEQIP, PSCAP, WASH and WDEP. A recent quantitative data assessment of Ethiopia's compliance with the Paris Declaration principles on aid effectiveness concluded that many of IDA projects were in compliance with the Paris Declaration principles of aid effectiveness and showing significant progress over the years in areas such as coordinated technical cooperation, use of country systems, and untying aid.⁹³ Going forward, the Bank will continue with the practice of joint financing of projects wherever possible; resuming the budget support agenda would also assist in increased donor collaboration as well as use of country systems. In addition to strengthening already good collaboration with the traditional donors, the WBG will endeavor to pursue co-financing opportunities with non-traditional partners; seek more active engagement with the regions as well as with non-government partners.

F. Results-based Monitoring and Evaluation

120. **The CPS Results Framework (CPS RF) presents the priorities of the Bank in Ethiopia in alignment with the strategic goals of Ethiopia, and was developed in collaboration with GoE and Development Partners.** The CPS RF (Appendix 3) uses Ethiopia's GTP as its starting point, and narrows down the range of outcomes to those that the Bank intend to influence directly through its interventions over the CPS period. GoE, development partners, and other stakeholders provided detailed inputs that were incorporated into the CPS RF. In addition, the CPS outcomes are aligned with the sector strategies for the country. The CPS RF illustrates the overarching national goals from the GTP to which the CPS outcomes, milestones, and related interventions seek to contribute. As mentioned before, the results targets during the CPS period will be largely achieved with the program already under implementation

121. **To the extent possible, the CPS M&E system will be linked with national M&E systems.** The GTP requires a comprehensive M&E system to collect data to track its progress and report results. Hence, the CPS M&E system will focus on complementing and enhancing the government's results management capacities. Toward that end, the Bank in developing the

⁹³ Aid Effectiveness: Ethiopia, MoFED 2012

CPS M&E system, will work to increase demand for M&E information at national, regional, and local levels through linking planning, budgeting, and reporting with results. It will work towards strengthening M&E and national statistical systems through improvement of data quality for basic service sectors and by supporting specific M&E studies and surveys.⁹⁴

122. **Efforts will continue to strengthen Ethiopia statistical capacity**, which is a key to ensuring availability and timeliness of quality data to monitor high-level country outcomes and producing the national accounts statistics. The capacity challenges will primarily be addressed through TA programs to address gaps in national and sub-national statistical capacities, including through ongoing collaboration between the Central Statistical Agency of Ethiopia and the World Bank Living Standards Measurement Study team (LSMS) on the Ethiopia Rural Socioeconomic Survey.⁹⁵ Recently, GoE has requested assistance from the WB Statistics for Results Facility (SRF) – Catalytic Fund. The Ethiopian SRF is expected to support the implementation of National Strategy for Development of Statistics (2019/10-2013/14) through, *inter alia*, infrastructure capacity development at the CSA and key Ministries; data development and management; methodological research and analysis; information dissemination; and M&E capacity building.⁹⁶

123. **To develop a results-oriented M&E system for the Ethiopia CPS, the new Results Integration and Management System (RIMsys) tool, developed by the World Bank, will be used** to systematically capture and consolidate information on CPS targeted results and monitor the progress toward their achievement. The key feature of the RIMsys includes the ability to link the performance of Bank operations and the achievement of CPS results. In addition, the tool produces portfolio management and results reports on a periodic basis. A CPS progress report will be prepared in FY14, or earlier if needed, to report on progress toward CPS outcomes and adjust the strategy and program if necessary and update the results framework.

G. Managing Risks

124. Ethiopia faces a range of external and internal risks, the potential impacts of which can be mitigated in part by WBG. Other risks may not be susceptible of mitigation but WBG nevertheless needs to be aware of them so that we can respond appropriately to the extent that the risk arises.

125. Ethiopia is vulnerable to **external economic shocks**, including the negative economic impact from a protracted slowdown in the EU and other high income economies, as well as natural disasters. A slowdown of remittances, standing at around 9 percent of GDP, could reduce domestic consumption, one of the main drivers of recent growth. The high concentration of exports in commodity and primary goods and the significant share of exports going to OECD

⁹⁴ E.g., the Bank will supporting the Woreda and City benchmarking survey for monitoring local developments in local governance.

⁹⁵ This work program is a multi-year program that encompasses the design and implementation of a household survey integrated with the Agricultural Sample Survey, a panel component of this new survey, capacity building and cross-country knowledge sharing, and efforts to improve survey methodologies.

⁹⁶ Statistical capacity building is also supported by DFID, Gates-Melinda Foundation, UN and Irish Aid.

countries also pose a risk. And the recent spike in global food prices is also a cause for concern. A strong and resilient framework of macroeconomic policies can help GoE manage for such a risk, and WBG can assist GoE in the context of the proposed stronger engagement on such issues, and possible development policy lending.

126. There is a potential **trade-off between economic growth and overall debt sustainability**. This is particularly important in a state-led development model which relies on large public investment (double digits, above 20 percent in terms of GDP) in an environment of low levels of domestic savings (single digits in terms of GDP). The gap will, to a large extent, be shouldered through the accumulation of debt (domestic and external). Given the authorities' intention to keep to a low risk of external debt distress, the amount of non-concessional borrowing will be limited. So there may be a trade-off between the low risk rating desired by GoE and the implementation pace of the GTP, which may require lengthening of the GTP implementation period to smoothen the non-concessional financing requirements for the planned investments. This may have growth implications for the economy at large, given the large role of investment in GDP expansion at the moments. WBG has already expressed a view about this risk, in the context of the IDA-IMF staff Joint Advisory Note on the GTP. In terms of managing for this risk WBG needs to ensure the implementation schedules for operations are robust and allow for such fluctuations in the overall pace of public investment in Ethiopia.

127. **For a number of years Ethiopia has been perceived as having a culture that inhibits corruption** and levels of corruption have been thought to be significantly lower than for its regional comparators. However, worldwide experience shows that even countries with such a culture face increasing challenges when rapid economic growth is coupled with significant government intervention in the management of the economy. This combination can feed the emergence of unhealthy relationships between politicians and bureaucrats on the one hand, and entrepreneurs and investors on the other. Experience also shows that the discipline that comes with a vibrant private sector can help mitigate this risk. Achieving a balanced equilibrium along these lines will apply to relations both with the domestic private sector, and with foreign investors. Accountability and transparency in the oversight of FDI will be just as important as in the domestic sector, if the developmental benefits of entrepreneurialism – including those associated with broad-based growth and job creation – are to be maximized. WBG lending and non-lending assistance on fostering competitiveness and employment will offer help to GoE in striking this balance correctly, while the strong foundation of the WBG program in good governance should minimize the risk that WBG operations are exposed to risks from economic capture.

128. **Natural disasters**, of which droughts have been the most frequent occurrence in Ethiopia, may cause serious setbacks to economic advancements and jeopardize achievements in reducing poverty and vulnerability of Ethiopian poor. As the impact of climate change is increasingly felt in Ethiopia, the economic effects of such events are likely to grow. However, growth and diversification of the Ethiopian economy (supported under Pillar 1) together with a range of interventions supported under Pillar 2 will help to increase the resilience and decrease the vulnerability of Ethiopian people and thus help mitigate or manage this risk.

129. An essential building block of Government's vision of economic and social transformation is a capable public service at all levels of government (at federal, regional, woreda level, and increasingly in kebeles). A public service which is appropriately capacitated to take forward service delivery of appropriate quality, whilst ensuring universal access, is fundamental to the change processes at the heart of government's agenda of fighting poverty. That this public service acts with integrity is also critical, particularly given that the development of formal processes of checks and balances is still very much work in progress. There is a risk, however, that **capacity development and probity of the public service may not be able to keep pace with the broader reform agenda**. High turn-over within the public service and the expansion of the number of woredas will exacerbate this challenge. The risk of the potentials of inadequate capacity is one which has been identified by Government itself, and it has invested much effort already in building capacity and local leadership. The foundation of our CPS and the proposed lending and non-lending activities, including those supporting work on safeguards (see paragraph 107) are designed to provide the support to GoE to help them manage this risk.

130. The following are risks of which WBG needs to be aware, but for which the main available mitigation available is likely to be close participation in the arrangements for coordinating development partners in Ethiopia. These are:

- **Regional security risks.** Relations with Eritrea have been problematic, including localized tension along the border. The ongoing tensions between Sudan and South Sudan also present challenges; whilst Ethiopia is seen as an 'honest broker' by both sides, conflict between the governments in Khartoum and Juba, have the tendency to spill over into Ethiopia's borders, either by way of people fleeing conflict or, occasionally, when competing armed groups cross borders resulting in instability within Ethiopia itself. Finally, instability fed by Islamic fundamentalists in Somalia also presents problems, as the porous borders with Ethiopia's Ogaden result in unrest being transplanted to within Ethiopia itself. The dangers of all these potential hotspots present challenges to Ethiopia on at least two accounts: (i) they represent a significant distraction and make the delivery of services in certain parts of the country more difficult; and (ii) through the spill-over of localized conflict, they carry risks for Ethiopia's internal security.
- **Political transition risk.** There is a risk associated with the sudden passing away of the Prime Minister and ensuring a smooth transition in the coming months. To this end, GoE has indicated that the government continues to work as usual and has expressed its confidence that the existing public institutions will continue to function normally despite the transition. Furthermore, GoE has confirmed that the GTP remains the centerpiece of the country's development strategy, its commitment to the vision and goals stated in the GTP and that it will pursue its implementation as planned. GoE also reaffirmed its concurrence with the main thrust and focus of the CPS, which is strongly anchored in the GTP and has been developed through a highly consultative and collaborative process. Since the WBG Strategy is firmly anchored in the GTP, the risk of its implementation will be closely linked to that of the national program. In the longer term there is also a risk associated with the next elections scheduled for 2015.

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Appendix 1: GTP – Vision, Pillars and Selected Targets

GTP Vision for Ethiopia's Transformation

“Become a country where democratic rule, good-governance and social justice, upon the involvement of free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of 2020-2023.”

GTP Vision on Economic Sectors

“Build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy, sustaining economic development and securing social justice and increasing per capita income of the citizens so as to reach the level of those in the middle-income countries.”

GTP Objectives

1. Maintain average GDP Growth rate of 11%;
2. Attain MDGs in social sectors (health & education);
3. Creation of a stable democratic and developmental state;
4. Maintain a stable macroeconomic framework.

GTP Pillars

1. Sustaining rapid and equitable economic growth;
2. Maintaining agriculture as major source of economic growth;
3. Creating conditions for industry to play key role in the economy;
4. Enhancing expansion and quality of infrastructure development;
5. Enhancing expansion and quality of social development;
6. Building capacity and deepen good governance;
7. Cross-cutting issues:
 - Promote gender and youth empowerment and equity
 - Environment & climate change
 - HIV/AIDS prevention and control
 - ICT

Selected GTP Targets

Sector/Indicator	Baseline 2009/10	Plan Target 2014/15
The Macro Economy:	11	11.2
Real GDP growth rate (%)	401	698
Per Capita GDP at Current Market Prices (USD)	90.6	85.0
Gross Domestic Saving as % of GDP	23.7	30
Export of Goods and Non-Factor Services as % of DGP	10.5	31.2
Imports of Goods and Non-Factor Services as % of GDP	27.3	45.7
Domestic revenue as % of GDP	12.9	17.3
Tax revenue as % of GDP	9.7	15.3
Total poverty-oriented expenditure as % of GDP	12.5	15.7
Capital Expenditure as % of GDP	10	13.0
Recurrent Expenditure as % of GDP	8.5	8.6
Poverty & Welfare		
Total poverty Head Count (%)	29.2	22.2
Food poverty Head Count (%)	28.2	21.2
Key Sectors		
Agriculture and allied activities	6.4	7.3
Agriculture value added (in billion Birr)	58.4	86.2

Sector/Indicator	Baseline 2009/10	Plan Target 2014/15
Number of extension service beneficiaries (thousands)	5090	14640
Coffee export (Ton)	319,647	600,970
Meat Export (000 Metric Ton)	10	111
Number of household participating productive Safety net program (million)	7.8	1.3
Industry	13.7	21.4
Sugar product (000 ton)	17,712	42,516
Growth Rate of Industry Value Added (%)	13.3	19.1
Textile and garment industry export (in million birr)	21.8	100
Total capacity to produce cement (million ton)	2.7	27
Infrastructure Development		
Roads:		
Road network	49,000	136,000
Average time taken to all-weather road (hours)	3.7	1.7
Road density (km/1000 km2)	44.5	123.7
Road density (km/1000 population)	0.64	1.54
Roads in acceptable condition (%)	81	86.7
Proportion of Area further than 5 km from all weather roads (%)	64	29
Power		
Electricity coverage	41	75
Power generating capacity(mg wt)	2,000	8,000
Water		
Potable water coverage (%)	68.5	98.5
Urban potable water coverage (within 0.5 km)	91.5	100
Rural potable water coverage (within 1.5 km)	65.8	98
Developed irrigable land (%)	2.5	15.6
Telecom:		
Mobile density (per 100)	1.5	8.5
Telephone service coverage with in 5 km (%)	49.3	90
Fixed telephone subscribers (in millions)	1.2	8.6
Mobile telephone subscribers (in millions)	7.6	64.4
Internet service subscribers (in millions)	0.20	7.17
Urban Development & Housing		
Reduce urban unemployment rate in towns under integrated housing development (000)	176	400
Provision of housing and basic services (Number of Housing Units)	213,000	700,000
Education		
Gross Primary Enrollment Ratio (1 to 8) (%)	94.2	100
Primary school ratio of girls to boys	0.93:1	1:1
Primary Pupil: text book ratio	1.25:1	1:1
Primary Net enrollment ratio	87.9	97
Secondary school gross enrollment ratio	38.1	75
Government higher institution intake capacity (under graduate)	185,788	467,000
TVET intake capacity	430,562	1,127,330
Adult literacy rate (%)	36	95
Health		
Primary Health Services Coverage (%)	89(2008/09)	100.0
Under Five Mortality Rate (per 1000)	101	67
Maternal mortality rate (per 1000)	590	267
Contraceptive Prevalence Rate (CPR) (%)	55	80
Proportion of Births Attended by Skilled Health personnel (%)	25	60
DPT 3 vaccination coverage (%)	81.9	90
Percentage of Households in Malaria Prone Areas with INTs (%)	100	100

Appendix 2: CPS Results Chain

Figure 6: Translating GTP into the CPS Framework

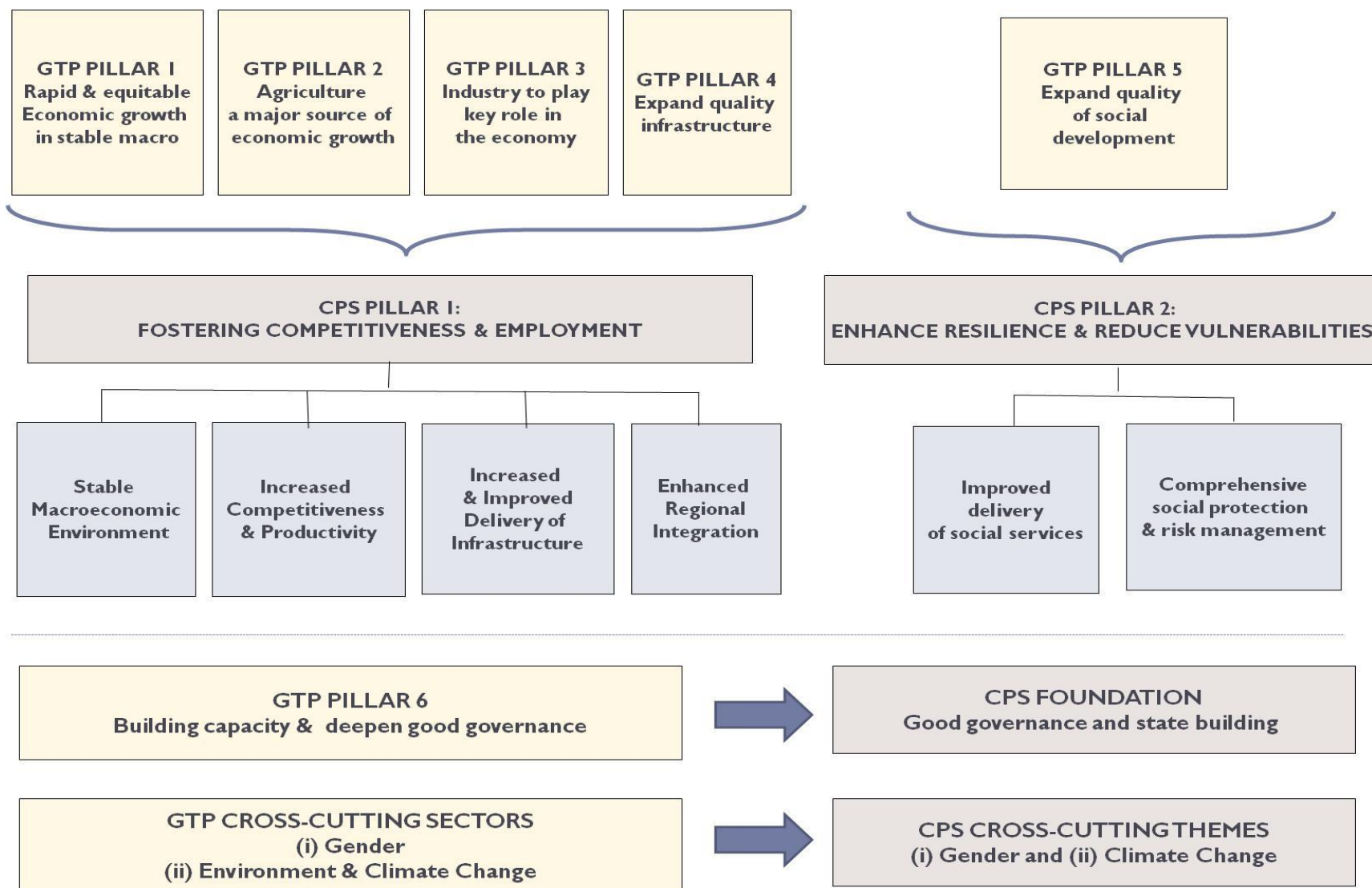
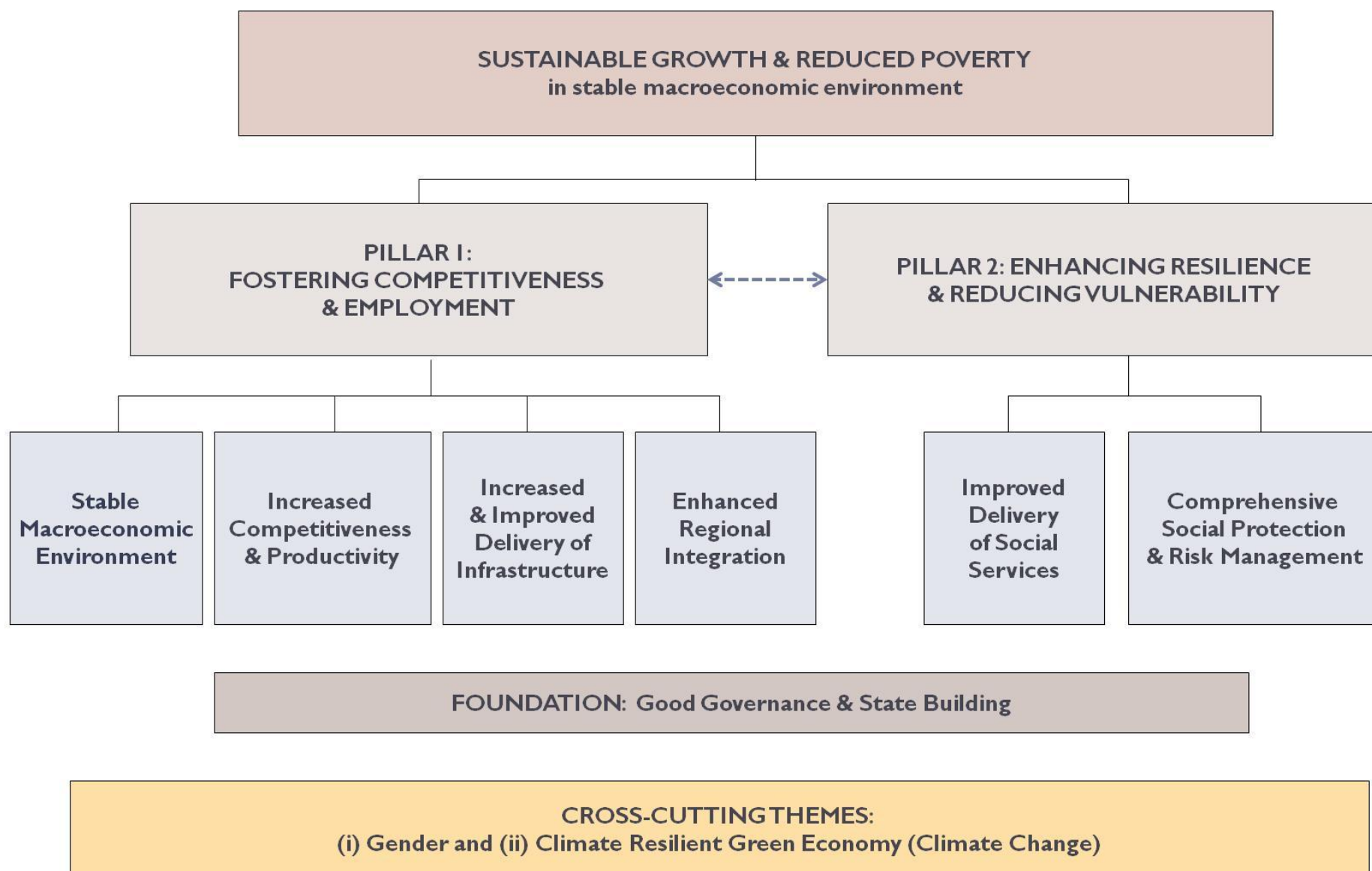


Figure 7: Ethiopia CPS Results Chain



Appendix 3: CPS Results Framework⁹⁷

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
Overall CPS Theme: Sustainable Growth and Reduced Poverty GTP Goals: <ol style="list-style-type: none"> 1. Maintain average GDP Growth rate of 11%. 2. Reduce total poverty headcount from 29.2% in 2010/2011 to 22.2% in 2014/15. 3. Attain MDGs in social sectors (health & education). 4. Create stable democratic and developmental state. 5. Maintain a stable macroeconomic framework. 			
PILLAR 1: FOSTERING COMPETITIVENESS AND EMPLOYMENT			
CPS Strategic Objective 1: Stable Macroeconomic Environment			
GTP Goals: <ol style="list-style-type: none"> 1. Contain inflation. 2. Strengthen revenue generation capacity (tax revenue/GDP increased from 9.7% in 2010/11 to 15.3% in 2014/15). 3. Raise domestic savings (share of gross domestic savings to GDP increased from 5.5% in 2010/11 to 15% in 2014/15). 4. Maintain fiscal deficit at a sustainable level (maintain budget deficit share to GDP at less than 2%). 5. Disclose and maintain off budget public investments (quasi fiscal operations) at a sustainable level. 			
<ul style="list-style-type: none"> • Rapid growth could pose risks to macro stability, in rising inflation and external imbalances. • Inflation has been high and non-subsiding since June 2011 • Weak dialogue mechanism to develop policy options to discuss emerging issues 	Outcome 1.1 - Structural and macroeconomic policies are conducive to sustain internal and external balance <i>Indicator 1: Sound monetary and fiscal policies to control inflation implemented</i> <u>Baseline:</u> 21.6 (end of 2011/12) <u>Target:</u> < 10%	<ul style="list-style-type: none"> • Timely preparation and monitoring of an integrated and consistent Macro-Economic and Fiscal Framework • Establishing a system (database) to monitor off budget investments and contingent liabilities in the public enterprises • Establishing a mechanism for discussing macroeconomic issues between the GoE and development partners (IMF, WB) 	Indicative New Financing <ul style="list-style-type: none"> • DPOs General or Sectoral Indicative AAA/TA/TF/Others <ul style="list-style-type: none"> • Semi-annual Economic Updates • Poverty Assessment, Poverty Mapping • Country Economic Memorandum • Debt Sustainability Analyses • Diagnostic Trade Integration Study • Statistics for Result TF Partners <ul style="list-style-type: none"> • IMF
<ul style="list-style-type: none"> • Revenue growth has fallen short of GDP growth recently and constrains the fiscal space. 	Outcome 1.2 - Increased domestic resource mobilization	<ul style="list-style-type: none"> • Continued increase of taxpayer registration using biometric systems (1.8 million in 2011) 	On-going Financing <ul style="list-style-type: none"> • Public Sector Capacity Building (PSCAP)

⁹⁷ For contribution of Trust Funds to CPS pillars and specific projects/programs please see Annex 12.

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
<ul style="list-style-type: none"> Domestic resource mobilization has been weak. Revenue to GDP is low compared to Sub-Saharan Africa's average. 	<p><i>Indicator 2: Share of tax revenue in GDP</i> <u>Baseline:</u> 9.7% <u>Target:</u> 15%</p>	<ul style="list-style-type: none"> Equipping tax collection institutions with adequate enforcement power (information and tax-auditing systems) at federal and regional levels Enhancing the capacity of tax collection and administration 	<p>Indicative New Financing</p> <ul style="list-style-type: none"> Macro budget support/DPO Public Sector Reform & Capacity Building Program (incl. PFM) <p>Indicative AAA/TA/TF</p> <ul style="list-style-type: none"> Public Expenditure Review (including sectoral PERs) Debt Management and Performance Assessment Medium-Term Debt Management Strategy TA <p>Partners</p> <ul style="list-style-type: none"> IMF
CPS Strategic Objective 2: Increased Competitiveness & Productivity			
<p>GTP Goals:</p> <ol style="list-style-type: none"> Agriculture: Intensify production of marketable farm products for domestic and export markets by small farm holders and private agricultural investors <ul style="list-style-type: none"> Increased cereal productivity (qt/ha) from 17 qt/ha in 2010 to 22 qt/ha in 2015 Increased value of agricultural sector export (in \$US) from 1.55bn in 2010 to 6.58bn in 2015 Private Sector and Improved Competitiveness: Raise the efficiency and competitiveness of trade sector and establish a favorable environment for productive investors <ul style="list-style-type: none"> Total exports as % of GDP increased from 13.6% in 2010 to 22.5% in 2015 3mln new jobs created through MSEs; 40,000 jobs in textile and garment; 200,000 jobs in sugar industry Financial sector: Strengthen the financial sector with the aim of establishing an accessible, efficient and competitive financial system <ul style="list-style-type: none"> Access to finance increased from 20% currently to 75% by the end of the GTP period. 			
<ul style="list-style-type: none"> Low productivity of crop and livestock in many geographical areas Weak land and water management practices and institutions Fragmented and uncoordinated agricultural public services 	<p>Outcome 2.1 – Increased agriculture productivity and marketing in selected areas</p> <p><i>Indicator 3: Average yields of selected crops in targeted woredas (index, see AGP PDO)</i> <u>Baseline:</u> 9.9 <u>Target :</u> 11.5</p> <p><i>Indicator 4: Value of marketed agricultural products (in US\$ mln) in targeted woredas</i> <u>Baseline:</u> 7,176 ETB per household <u>Target:</u> 8,731 ETB per household</p>	<ul style="list-style-type: none"> Land areas with improved technologies in targeted woredas Additional irrigation areas developed or rehabilitated (ha) Km of feeder roads constructed or rehabilitated 	<p>On-going Financing</p> <ul style="list-style-type: none"> Agricultural Growth Program (AGP) Eastern Africa Agricultural Productivity Project Protection of Basic Service (PBS) II Irrigation and Drainage Project Warehouse Receipts Financing Program (IFC) Ethiopia- Nib Bank Coffee Cooperative Risk Sharing Facility (IFC) Pastoral Community Development (PCDP) II Productive Safety Net Project (PSNP) Tana & Beles Integrated Water Resources Development Project <p>Indicative New Financing</p> <ul style="list-style-type: none"> Agricultural Growth Program (AGP) II Pastoral Community Development (PSDP) III

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
			<ul style="list-style-type: none"> Promoting Better Services (PBS) Phase III <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> Strengthened RED&FS portfolio management Land Administration TA Climate-smart agriculture Disaster Risk Management Skills Development AAA Climate Change AAA <p>Partners</p> <ul style="list-style-type: none"> USAID, CIDA, Spain, AFO, Netherlands, UNDP
<ul style="list-style-type: none"> Business regulations and policies in need of improvement. Weak public-private dialogue. Shortage of Business development services including skills. Poor trade logistics. 	<p>Outcome 2.2 – Increased competitiveness in manufacturing and services</p> <p><i>Indicator 5: Number of new jobs created in targeted manufacturing and services firms</i> <u>Baseline:</u> zero <u>Target:</u> 200,000</p>	<ul style="list-style-type: none"> Regularly convene Public-Private Dialogue Forum (PPDF) with recommendations provided to the government for adoption Streamlined registration and licensing requirements Number of firms supported in selected manufacturing and service sectors through business development services (BDS), by owner gender Average number of trade logistic documents and steps reduced “Ethiopian Cities Day” to promote competition conducted on annual basis 	<p>On-going Financing</p> <ul style="list-style-type: none"> Private Sector Development Capacity Building (PSD CB) Project Tourism Development Project (ESTDP) Women Entrepreneurship Development Project (WEDP) Urban and Local Government Development Project (ULGDP) Electricity Network Reinforcement and Expansion Project (ENREP) <p>Indicative New Financing</p> <ul style="list-style-type: none"> Competitiveness and Employment Project Urban Local Government (ULGDP) II
<ul style="list-style-type: none"> Lack of medium and long term finance Micro and small enterprises (MSEs) currently having limited access to financial services. 	<p>Outcome 2.3 – Increased MSE access to financial services</p> <p><i>Indicator 6: Volume of bank funding: Lines of credit to MSEs</i> <u>Baseline:</u> zero <u>Target:</u> US\$28mln</p>	<ul style="list-style-type: none"> Coverage of the Credit Information Center (CIC) increased to include also MFIs’ clients Line of credit to support MSEs established 	<p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> Ethiopia Investment Climate Project (IFC) Ethiopia PPDF Initiative (IFC) NLTA on Competitiveness and Job Creation Series of FPD Policy Note(s), incl. Regulatory and Supervisory Framework for Micro-insurance Climate Innovation Center (InfoDev) Gender-focused policy and research notes Enhanced Regulatory Framework for Remittances <p>Partners</p> <ul style="list-style-type: none"> DFID, EU, AfDB, GTZ, IMF, IFC, CIDA

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
CPS Strategic Objective 3: Increased and Improved Delivery of Infrastructure			
GTP Goals: <ol style="list-style-type: none"> Power: (i) Electricity coverage increased from 41% in 2010 to 75% in 2015; (ii) Power generating capacity (MW) increased from 2,000 in 2010 to 10,000 in 2015. Transport: (i) Road network increased from 49,000 km in 2010 to 136,000 in 2015; (ii) Roads in fair and good conditions increased from 81% in 2010 to 86 % in 2015. Water and Sanitation: (i) Potable water coverage increased from 68.5% in 2010 to 98.5% in 2015 (ii) Water sanitation coverage increased from 52.4% in 2010 to 84% in 2015 (Source: Sanitation Action Plan) 			
<ul style="list-style-type: none"> Low access rates in areas already connected to the grid. Major network bottlenecks due to rapid growth in demand require reinforcement of transmission network. Low access to off-grid renewable energy Weak implementation and management capacity of Ethiopia Power Cooperation (EPCO) to manage large and complex projects. 	<p>Outcome 3.1 – Increased Access to Electricity</p> <p><i>Indicator 7: Number of people provided with access to electricity in selected areas</i></p> <p><u>Baseline:</u> On-grid: 12 million Off-grid :16.5 million</p> <p><u>Target:</u> On-grid: 24 million Off-grid: 60 million</p>	<ul style="list-style-type: none"> Increased household electricity connection in selected areas that are already connected to grids and that are newly connected to grids Number of newly electrified towns and villages in selected areas Number of EEPCo Staff trained. 	<p>On-going Financing</p> <ul style="list-style-type: none"> Energy Access Electricity Access (Rural) Expansion Electricity Access Rural II GOPBA Electricity Access Electricity Network Reinforcement & Expansion (ENREP) Nile Basin Initiative: ET/SU Interconnection <p>Indicative New Financing</p> <ul style="list-style-type: none"> Halele-Werabesa Hydropower Project Renewable Energy Project <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> CIF/SREP Aluto Langango Project Geothermal Sector Strategy Hydropower Center of Excellence TA Hydraulic Lab for Dam Modeling/Safety TA GPOBA Biogas Program GEF Solar Lighting Program <p>Partners</p> <ul style="list-style-type: none"> IFC, AfDB, AFD (France), SNV, Japan, Iceland
<ul style="list-style-type: none"> Low road density - only 10% of rural population lives within 2km of an all-weather road. Low Ethiopia Road Authority (ERA's) capacity for design review assessment, quality assurance, contract management, safety enforcement, and safeguards compliance. ERA needs to be modernized to deliver high quality roads at competitive cost. 	<p>Outcome 3.2 – Improved roads, transport infrastructure</p> <p><i>Indicator 8: Additional km of roads constructed (new or upgraded with asphalt) or rehabilitated to fair and good condition</i></p> <p><u>Baseline:</u> Federal Constructed: zero Rural Constructed: zero</p>	<ul style="list-style-type: none"> ERA Quality Assurance System implemented ERA Maintenance Management System improved ERA Cost Monitoring System implemented Increased routine maintenance contracts implemented 	<p>On-going Financing</p> <ul style="list-style-type: none"> Road Sector Development Program APL III Road Sector Development Program APL IV Urban Local Government Development (ULGDP) Protection of Basic Service (PBS) II Productive Safety Nets III (PSNP) Pastoral Community Development Project (PCDP) Agricultural Growth Program (AGP) <p>Indicative New Financing</p>

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
	<p>Federal Rehabilitated/Upgraded: zero <u>Target:</u> Federal Constructed: 4,330km Rural Constructed: 11,215km Federal Rehabilitated/Upgraded: 5,750km</p> <p><i>Indicator 9: Additional km of rural access roads constructed and/or rehabilitated to fair and good condition</i> <u>Baseline:</u> 800km <u>Target:</u> 71,500km</p>		<ul style="list-style-type: none"> • Transport Sector Project In Support of RSDP4 • Transport Sector Project In Support of RSDP4 (Project 2) • Urban Local Government (ULGDP) II • Rural Roads Support (PforR) • Pastoral Community Development (PSDP) III • Promoting Better Services (PBS) Phase III <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> • Study Into Increasing Road Construction Costs <p>Partners</p> <ul style="list-style-type: none"> • AfDB, EU, JICA, DFID, China, BADEA
<ul style="list-style-type: none"> • Low coverage rates, particularly in emerging regions • Utility inefficiencies largely due to underpricing and distribution losses (typically around 40% compared with 33% in other LICs in Africa) and above good practice levels (below 23%) for developing countries (AICD, 2008). • Inadequate assessment, development and management of groundwater potential 	<p>Outcome 3.3 – Increased access to improved water and sanitation services in urban and rural areas</p> <p><i>Indicator 10: Additional people provided with improved water resources in selected urban and rural areas</i> <u>Baseline:</u> zero <u>Target:</u> 4.2 million</p> <p><i>Indicator 11: Additional rural/urban households with improved sanitation (latrines)</i> <u>Baseline:</u> zero <u>Target:</u> 4.5 million</p>	<ul style="list-style-type: none"> • User groups' capacities to operate and maintain water sources strengthened • Urban water utilities' capacities to manage and implement business plans strengthened 	<p>On-going Financing</p> <ul style="list-style-type: none"> • Water Supply, Sanitation and Hygiene (WASH) I • Urban Water Supply & Sanitation (UWSS) • Urban Local Government Development (ULGDP) • Protection of Basic Service (PBS) II • Productive Safety Nets III (PSNP) • Pastoral Community Development Project (PCDP) <p>Indicative New Financing</p> <ul style="list-style-type: none"> • Water Supply, Sanitation and Hygiene (WASH) II • Urban Local Government (ULGDP) II • Pastoral Community Development (PSDP) III • Promoting Better Services (PBS) Phase III • Eastern Africa Pastoral Livelihoods Recovery and Resilience <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> • PER in Water Supply <p>Partners</p> <ul style="list-style-type: none"> • WSP, Finland, DFID, Italian Cooperation, UNICEF, AfDB, EU, France
CPS Strategic Objective 4: Enhance Regional Integration			
<p>GTP Goals:</p> <ol style="list-style-type: none"> 1. Export power to neighboring countries 2. Produce sufficient food crops and high value products for international markets 			

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
3. Integrate into the multilateral trading system through, <i>inter alia</i> , completing WTO accession, strengthening regional trade integration with IGAD and COMESA, conclude EPA with EU.			
<ul style="list-style-type: none"> Limited generation capacity for power export to region 	<p>Outcome 4.1 – Improved Eastern Africa Power Pool Mechanism</p> <p><i>Indicator 12: MW hydropower generation capacity for potential export</i> <u>Baseline:</u> 2,000 MW <u>Target:</u> 10,000 MW</p>	<ul style="list-style-type: none"> Transmission line from Ethiopia power grid to Kenya designed and under construction by 2016. Halele-Werabesa Hydropower Project begin construction by 2015. 	<p>On-going Financing</p> <ul style="list-style-type: none"> Nile Basin Initiative: ET/SU Interconnection <p>Indicative New Financing</p> <ul style="list-style-type: none"> Regional Eastern Africa Power Pool Project (EAAP) Halele-Werabesa Hydropower Project <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> Hydropower Center of Excellence TA Hydraulic Lab for Dam Modeling/Safety TA <p>Partners</p> <ul style="list-style-type: none"> AfDB, AFD (France)
<ul style="list-style-type: none"> Inefficient dissemination of agricultural technologies across countries Weak regional capacity of the regional centers of excellence High impact of transboundary pests and diseases. 	<p>Outcome 4.2 – Enhanced involvement in regional agriculture technology generation and dissemination</p> <p><i>Indicator 13: Number of existing and new technologies from Ethiopia disseminated in more than one EAAPP country compared to plan</i> <u>Baseline:</u> zero <u>Target:</u> three</p>	<ul style="list-style-type: none"> Regional Center of Excellence in Wheat established in Ethiopia. Continued cooperation of Ethiopia agricultural research and extension with regional agricultural institutions (ASARECA). 	<p>On-going Financing</p> <ul style="list-style-type: none"> Eastern African Agricultural Productivity (EAAP) <p>Indicative New Financing</p> <ul style="list-style-type: none"> Eastern Africa Pastoral Livelihoods Recovery and Resilience <p>Partners</p> <ul style="list-style-type: none"> USAID/VOCA (wheat value chain), Japan (rice), CGIAR (wheat, rice and cassava).
PILLAR 2: ENHANCED RESILIENCE AND REDUCED VULNERABILITIES			
CPS Strategic Objective 5: Improved Delivery of Social Services			
<p>GTP Goals:</p> <ol style="list-style-type: none"> Improve access to and quality of health services: <ul style="list-style-type: none"> Maternal mortality rate (per 100,000) decreased from 590 in 2010 to 267 in 2015 Under five mortality rate (per 1000) decreased from 101 in 2010 to 67 in 2015 Improving access and quality of education: <ul style="list-style-type: none"> Secondary gross enrollment ratio increased from 38.1 % in 2010 to 75% in 2015 			

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
<p>Despite some good progress in reducing child mortality, Ethiopia is facing significant challenges in scaling up evidence based interventions to reduce maternal deaths. The gains made in child mortality reduction also need to be sustained and further enhanced.</p> <ul style="list-style-type: none"> Lack of 24/7 delivery services in most health facilities, especially, health centers Shortage, high turnover and insufficient skills of midwives and delivery attendants High unmet need for family planning 	<p>Outcome 5.1 – Increased Access to Quality Health Services</p> <p><i>Indicator 14: Penta 3 vaccination coverage</i> <u>Baseline:</u> % to be established by the ongoing cluster survey <u>Target:</u> 10% point increase from baseline</p> <p><i>Indicator 15: Proportion of births attended by skilled health personnel</i> <u>Baseline:</u> 10% <u>Target:</u> 18%</p> <p><i>Indicator 16: Contraceptive Prevalence Rate</i> <u>Baseline:</u> 29% <u>Target :</u> 35%</p>	<ul style="list-style-type: none"> Increase in Health centers having functional cold chain equipment (%) Increase in Health Centers providing round the clock delivery services (%) Reduced stock out of long acting contraceptives at health facilities (%) Growth, monitoring, promotion (GMP) and community conversations conducted regularly 	<p>On-going Financing</p> <ul style="list-style-type: none"> Protection of Basic Services (PBS) Phase II Nutrition Project <p>Indicative New Financing</p> <ul style="list-style-type: none"> Promoting Basic Services (PBS) Phase III Health MDG Support (PforR) <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> Health Results Innovation TF to support performance assessment using Balanced Score Cards IE of the health facility performance incentives. <p>Partners</p> <ul style="list-style-type: none"> All partners supporting the Health Sector Development Program IV and in particular those financing the MDG performance fund (DFID, Spanish Corporation, Italian Corporation, Irish Aid, UNFPA, UNICEF and WHO).
<ul style="list-style-type: none"> Low quality of education resulting from, inter alia, inadequate number of teachers, insufficient number of qualified teachers, inadequate number of textbooks. 	<p>Outcome 5.2 – Increased Access to Quality Education</p> <p><i>Indicator 17: Percentage of students attaining basic competency</i></p> <p><u>Baseline (2006/07):</u> Grade 4: Reading in mother tongue 48%; Mathematics 46% Grade 8: English 40%; Mathematics 40%</p> <p><u>Target (2015/16):</u> Grade 4: Reading in mother tongue 58%; Mathematics 56% Grade 8: English 50%; Mathematics 50%</p>	<ul style="list-style-type: none"> Increased primary completion rate Improved primary pupil to textbook ratio Increased percent of primary teachers with appropriate qualification and pupil/teacher ratio 	<p>On-going Financing</p> <ul style="list-style-type: none"> General Education Quality Improvement (GEQIP) Protection of Basic Services (PBS) Phase II <p>Indicative New Financing</p> <ul style="list-style-type: none"> Promoting Basic Services (PBS) Phase III Education MDG Support (follow-up to GEQIP) <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> Russian Education Aid for Development TF II <p>Partners</p> <ul style="list-style-type: none"> Global Partnership for Education, DFID, Finland, Italian Development Cooperation, USAID, JICA, UNICEF, Russia.
CPS Strategic Objective 6: Comprehensive Social Protection and Risk Management			
<p>GTP Goals:</p> <ol style="list-style-type: none"> Reduced number of household participating in productive safety net program from 7.8 million in 2010 to 1.3 million in 2015 Reduce stunting prevalence among children from 46% in 2010 to 37% in 2015 			

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
3. Improved disaster management and mitigation, enhanced early warning information system, disaster risk profiling introduced at woreda level and improved assessment tools 4. Area under community based natural resource management increased from 3.7 to 7.7 million ha. 5. Food reserve increased to 3 mln metric tons			
<ul style="list-style-type: none"> High level of vulnerability for the rural poor, due to repeated climatic shocks, macroeconomic shocks, health and nutrition risks, conflict and environmental degradation coupled with climate change. This has resulted in a large number of people living below the food poverty line. 	Outcome 6.1 – Enhanced resilience of vulnerable households to food insecurity <i>Indicator 18: Average number of months PSNP households report being food insecure (data provided by program beneficiaries participating in public works (PW) and/or direct support (DS))</i> <u>Baseline</u> (2010): PW: 3.64 DS:3.80 <u>Target</u> : PW:3.24 DS:3.42	Increasing number of PSNP clients/households: <ul style="list-style-type: none"> able to plan ahead on the basis of program transfers reporting direct benefit from community assets reporting that they have developed an additional income generating activity attributable to the program with a consumption below 1800 Kcal/person/day (27% in 2010) 	On-going Financing <ul style="list-style-type: none"> Water Supply and Sanitation (WSS) Agricultural Growth Program (AGP) Pastoral Communities Development Program (PCDP) II Nutrition Project Sustainable Land Management Practices Project (SLMP) Tana and Beles Integrated Water Resources Development Project Productive Safety Nets (PSNP) III Protection of Basic Services (PBS) II GFDRR Programmatic Support to Ethiopia Disaster Risk Management Country Plan GFDRR Support of Ethiopia – Disaster Risk Management in Capacity Building for Disaster Preparedness Indicative New Financing <ul style="list-style-type: none"> Water Supply, Sanitation and Hygiene (WASH) II Pastoral Community Development (PSDP) III Promoting Better Services (PBS) III Eastern Africa Pastoral Livelihoods Recovery and Resilience Regional Drought Response Program Health MDG Support Program Sustainable Land Management (SLMP) II DRM Program/Scalable Safety Nets GFDRR Programmatic Support to Ethiopia Disaster Risk Management Country Plan Phase II Indicative AAA/TA/TF/Others <ul style="list-style-type: none"> Decentralization Social Protection TA Skills Development AAA Disaster Risk Management Climate Change AAA
<ul style="list-style-type: none"> Persistence of systemic limitations and gaps in the DRM system; Inadequate speed of the flow and exchange of early warning information and its quality Lack of disaster profiles of vulnerable Woredas for a design of relevant program interventions; Limited capacity of the government in the formulation of disaster recovery (rehabilitation and reconstruction) plan. 	Outcome 6.2 – Increased Adoption of Disaster Risk Management Systems <i>Indicator 19: Number of Woredas with functional connectivity, Disaster Risk Profiles and Contingency Plans</i> <u>Baseline:</u> zero <u>Target:</u> 100	<ul style="list-style-type: none"> WoredaNet service and LANs installed in Woreda, Regional, Strategic Warehouses and DRMFSS and connectivity functionalized; Improved speed of the flow and exchange of EW information; Woreda Disaster Risk Profiles developed, endorsed and posted online; Woreda level contingency plans prepared and endorsed. Number of Government Staffs(Federal and Regional) trained in Post Disaster Needs Assessment Baseline: zero Target: 50	
<ul style="list-style-type: none"> In many parts of the country the land base has been severely degraded through erosion and unsustainable land use practices. As a consequence land productivity has declined and rainfall infiltration has fallen resulting in a significant negative impact on 	Outcome 6.3 – Sustainable natural resource management and resilience to climate change <i>Indicator 20: Area (ha) under sustainable land and water management practices in selected</i>	<ul style="list-style-type: none"> Increasing percentage of public works reaching satisfactory standards and sustainability ratings Increasing percentage of public works with an established management mechanism at completion 	

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
agricultural GDP and food security.	<i>watersheds (PSNP, SLMP, Tana & Beles)</i> Baseline (2010): zero Target: 1,000,000		Partners • EU, UNDP, WFP, UNDP
FOUNDATION: GOOD GOVERNANCE & STATE BUILDING			
GTP Goals: <ol style="list-style-type: none"> 1. All government institutions improve their institutional setup and working systems (BPR, BSC) to become more effective. 2. All government institutions will fully implement effective and transparent financial systems including, auditing and accounting systems, and standards (program budgeting, IFMIS, standards on accounting and auditing and financial laws related with the reform). 3. The established system for participation and the level of citizens' and community-based organizations' participation in development process at all levels. 4. Clearance rate of courts meets international standards. 			
<ul style="list-style-type: none"> Capacity limitations at all levels of government, particularly at Regional, Woreda and Kebele level, impacting on ability of decentralized jurisdictions to deliver public services Under-developed culture of performance measurement, appraisal and management in the civil service at all levels 	<p>Outcome 7.1 – Improved Public Service Performance Management and Responsiveness</p> <p><i>Indicator 21: Balanced Score Card (BSC) implemented measuring both organizational and individual performance</i></p> <p><u>Baseline:</u> Federal ministries: zero Regions: zero</p> <p><u>Targets:</u> Federal ministries: all Regions: 4 big regions⁹⁸</p> <p><i>Indicator 22: Percent of citizens confident that local government will address their service quality issues in key areas</i></p> <p><u>Baseline:</u> Water: 65% Health: 58%</p> <p><u>Targets:</u> Water: 70% Health: 65%</p>	<ul style="list-style-type: none"> BSC studies completed for all ministries and regions <p><u>Baseline:</u> Federal: All ministries Regions: 4 big regions</p> <p><u>Target:</u> Federal: All ministries Regions: 7 regions</p> <ul style="list-style-type: none"> Municipal service standardization in place Strengthening complaint handling focal points Capacity development programs in basic service delivery for woredas and kebeles implemented 	<p>On-going Financing</p> <ul style="list-style-type: none"> Public Sector Capacity Building - PSCAP Protection of Basic Services (PBS) II Urban Local Government (ULGDP) <p>Indicative New Financing</p> <ul style="list-style-type: none"> Promoting Better Services (PBS) III Public Sector Reform & Capacity Building Program (incl. PFM) Urban Local Government (ULGDP) II Macro budget support/DPO <p>Indicative AAA/TA/TF/Others</p> <ul style="list-style-type: none"> Access to justice for poor and vulnerable groups in Addis Analysis of civil service staff turnover and retention and options for reform Woreda and City Benchmarking Survey PEFA Update (federal & regional level) Woreda level PFM Reports <p>Partners</p> <ul style="list-style-type: none"> DFID, Italy, EU, AfDB, EU, Irish Aid

⁹⁸ Four big regions include Oromia, Amhara, Tigray and SNNP.

ISSUES AND OBSTACLES	CPS OUTCOMES and INDICATORS (with 2011 baselines and end-FY16 targets)	INDICATIVE MILESTONES	WORLD BANK GROUP PROGRAM
<ul style="list-style-type: none"> Weak implementation of consultation framework on development needs between woreda and kebele administrations and citizens 	<p>Outcome 7.2 – Enhanced space for citizen participation in the development process</p> <p><i>Indicator 23: Percent of citizens reporting that administrative officials sought their views on development needs</i></p> <p><u>Baseline:</u> Rural and urban local Gov: 52%</p> <p><u>Target:</u> Rural and urban local Gov: 60%</p>	<ul style="list-style-type: none"> Regular kebele meetings held on planning and budgeting with citizens’ participation Cities prepare three-year rolling capital investment plans with participation of citizens 	
<ul style="list-style-type: none"> Limited public access to government information at all levels Oversight and Accountability institutions are weak. External audit coverage is weak at federal and regional levels. Internal audit is weak across the country and the oversight committees at the Federal Parliament and the Regional Councils have only recently been established and empowered. Lack of transparency in award of contracts by regions and woredas Weak procurement system at zonal and woreda levels Shortage of procurement and contract management capacity Lack of any formal accountability mechanisms between public institutions and citizens 	<p>Outcome 7.3 – Enhanced public financial management, procurement, transparency and accountability</p> <p><i>Indicator 24: Improved PFM performance at Federal & regions</i></p> <p><u>Baseline:</u> PEFA Score of 2.83 out of 4 in 2009 for the Federal Government</p> <p><u>Target:</u> PEFA Score of 3.1 (top 10% of countries in the Africa Region (2011))</p> <p><i>Indicator 25: Citizens’ Charters in place across public service at all levels of government</i></p> <p><u>Baseline:</u> Federal: one (Ministry of Civil Service) Regions: zero</p> <p><u>Target :</u> Federal : All federal Ministries Regions : 4 big regions</p> <p><i>Indicator 26: Percent of regional institutions (auditees) with annual financial audits</i></p> <p><u>Baseline:</u> 26%</p> <p><u>Target:</u> 35%</p>	<ul style="list-style-type: none"> Annual Financial Statement of Government of Ethiopia continues to be produced within six months after the end of the FY. Public Accounts Committees / Budget and Finance Committees are established and functional at the Federal Parliament / Regional Councils / Woreda and City Councils at least in the 4 big regions Ongoing programs for strengthening training institutions to deliver training in IT, PFM, procurement, revenue and taxation. IBEX system is rolled out to 800 woredas and cities. Format for citizens charter developed and training provided 	

Appendix 4: CAS Completion Report (CAS CR)

**Federal Democratic Republic of Ethiopia:
Country Assistance Strategy Completion Report
FY 2008 – 2012**

Date of CAS: April, 29 2008

August 6, 2012

Acronyms and Abbreviations

AAA	Analytical and Advisory Activities	IDA	International Development Association
AGP	Agricultural Growth Program	IEG	Independent Evaluation Group
APL	Adaptable Program Loan	IFC	International Finance Corporation
CAS	Country Assistance Strategy	IMF	International Monetary Fund
CASCR	CAS Completion Report	ISR	Implementation Status Report
CASPR	CAS Progress Report	MDG	Millennium Development Goals
CIFA	Country Integrated Fiduciary Assessment	MDTF	Multi-Donor Trust Fund
CPS	Country Partnership Strategy	MIGA	Multilateral Investment Guarantee Agency
CRGE	Climate Resilient Growth Economy	MoFED	Ministry of Finance and Economic Development
DFID	Department for International Development	NBI	Nile Basin Initiative
EACC	Economics of Adaptation to Climate Change	PASDEP	Plan for Accelerated and Sustained Development to End Poverty
ECX	Ethiopia Commodity Exchange	PBS	Provision of Basic Services Program
EFA-FTI	Education for All – Fast Track Initiative	PDO	Project Development Objective
EPPCF	Ethiopian Public Private Consultative Forum	PE	IBRD/IDA operations
ESW	Economic and Social Work	PEFA	Public Expenditure and Financial Accountability
FDI	Foreign Direct Investment	PRSC	Poverty Reduction Support Credit
GAP	Gender Action Plan	PSCAP	Public Sector Development – Capacity Building Project
GDP	Gross Domestic Product	PSNP	Productive Safety Nets Program
GEF	Global Environment Facility	SLM(P)	Sustainable Land Management (Project)
GoE	Government of Ethiopia	SME	Small and Medium Enterprises
GPOBA	Global Partnership for Output-based Aid	TLU	Tropical Livestock Unit
GTP	Growth and Transformation Plan	ULGDP	Urban Local Governance Development Project
ICA	Investment Climate Analysis	UNDP	United Nations Development Program
ICR	Implementation Completion and Results Report	UNICEF	United Nations Children’s Fund
ICT	Information and Communication Technology	WTO	World Trade Organization
ICTAD	Information and Community Technology Assisted Development Project		

Federal Democratic Republic of Ethiopia: Country Assistance Strategy Completion Report FY 2008 – 2012

Date of CAS: April 29, 2008

Date of CAS Progress Report: September 29, 2010

Period covered by CAS: FY08 – FY12 (extended one year)

Period covered by this report: April 2008 – March 2012

I. Introduction

A. Methodology

1. This Country Assistance Strategy Completion Report (CASCRC) presents an assessment of the International Development Association's (IDA) Country Assistance Strategy (CAS) for Ethiopia for FY08 – FY12. The CASCRC aims to evaluate two dimensions of the CAS program implementation: i) program performance in influencing the CAS outcomes as laid out in the results framework and ii) the Bank's performance in designing and managing the implementation of the program. In addition, this report offers lessons for the forthcoming Ethiopia Country Partnership Strategy (CPS).

2. The CASCRC draws on key reviews undertaken during the implementation period, most notably the 2010 CAS Progress Report (CASPR), project implementation completion reports (ICR) and project implementation status and results reports (ISR). The CASPR, which was discussed with the Government and other stakeholders, made formal adjustments to the strategy reflecting realities on the ground. These changes have been taken into account in this CASCRC. This report also benefits from a workshop undertaken with the country team and government counterparts in Addis Ababa, Ethiopia in February 2012.

B. Summary of performance

3. **The performance of the CAS program (FY08-FY12) is rated Moderately Satisfactory overall. The rating is an aggregate measure of progress made toward achieving CAS outcomes which were achieved in varying degrees.** Under pillar one of the CAS, 'Fostering Economic Growth', progress was made during the CAS period to invest in critical infrastructure for growth. However, there was limited success in achieving macro-economic stability, particularly inflation, and structural reforms. That said, the FY08 CAS had clearly acknowledged that these were areas of weak dialogue with the Government of Ethiopia (GoE). Consequently the program was less ambitious on macro-stability and structural reform. Under pillar two, 'Improving Access to and Quality of Basic Services', access to basic services increased significantly under the CAS but improving the quality of services was less successful. This is partly due to the focus on increased access in order to achieve the MDGs which placed a strain on existing facilities. Under pillar three, 'Reducing Vulnerability', the GoE's Food Security Program and its largest component, the Productive Safety Nets Program (PSNP), had a positive impact on securing the access to food for chronically food insecure households. PSNP and the emergency Food Crisis Response Program were important instruments through which the Bank helped mitigate the effects of the 2008 food crisis. Vulnerability to environmental degradation was reduced by investments in watershed rehabilitation and flood management. Nonetheless, environmental pressures will remain a long-term challenge in light of Ethiopia's fast rate of population growth. Under pillar four 'Fostering Improved Governance', the CAS program contributed to improved social accountability at the local level through citizen groups and participatory planning processes in *woredas* and targeted cities. Governance was also a cross-cutting theme in all pillars (see also para 39). At the national level, an anti-corruption policy has been prepared,

but has not yet been ratified by the Council of Ministers. Finally, under “Other Outcomes”, over 60% of IDA support was provided through program-based approaches, most notably PSNP and the Provision of Basic Services Program (PBS). New lending partially complied with the Africa Gender Action Plan criteria for gender mainstreaming in lending operations.

4. **Bank performance and implementation is rated Moderately Satisfactory.** CAS design and CASPR adjustments were relevant and aligned to GoE objectives. The majority of indicators in the CAS results matrix are appropriate to measure the CAS outcomes; however a few outlier indicators have been identified in the assessment. While the text of the CAS and the CASPR provided a realistic account of what the constraints and opportunities were under each pillar, this was not reflected in some of the indicators and targets which were overambitious.¹ The Bank scaled-up successful programs such as PSNP, PBS, Roads APL and the Urban Local Governance and Development Project (ULGDP). Partnerships with other donors were maintained and the Bank often took the technical lead. Risk management could have been stronger had mitigation measures been better identified during CAS design and the CASPR. Portfolio performance was satisfactory as the portfolio size and composition was well managed and disbursement levels were maintained at a high level. IEG evaluations of projects that closed during the CAS period noted that efficiency (value for money) could have been better and that M&E design, implementation and utilization also need improvement.

C. Economic context

5. **During the CAS period, Ethiopia continued to experience strong economic growth.** The main determinants of the sustained economic growth are the good performance of agricultural production (which comprises around 47.7% of the total economy)², the manufacturing and services sectors, as well as the expansion of the construction sector (mainly roads and hydroelectric dams and housing).³ Annual real GDP growth was 10.8% in 2008, declining to 8.8% in 2009, and it is projected to be 7.6% in 2011 (see Table 1), with a per capita GDP shy of US\$ 400 in 2011.

6. **Similarly to many other African countries, Ethiopia’s macroeconomic situation deteriorated after the onset of the global economic crisis in 2008.** The country’s end-of-period inflation rose to 64% in July 2008 and its foreign exchange reserves fell to less than US\$ 770 million (or less than four weeks of import coverage) by October 2008. Recovery was supported by a 14 months arrangement under the IMF’s High Access Component of the Exogenous Shocks Facility approved in August 2009 and concluded in November 2010. During this period, inflation declined to single digits but rose again reaching 32% in January 2012 and declining slightly to 29% in April 2012. According to the IMF, Ethiopia’s highly expansionary monetary policy, that has been highly inflationary, could undermine macroeconomic stability.⁴

7. **Structural impediments to growth remain to be tackled, namely, more room for private sector development and a better investment climate.** Ethiopia’s ranking in the *Doing Business* report declined from 104th in 2011 to 111th in 2012. Some of the constraints in the investment climate, as perceived by the private sector,⁵ include access to finance, tax administration, business licensing, reliability of electricity and a mismatch of skills in the labor market. Aside from these cross-cutting

¹ Notable disconnects include maintaining single digit inflation in light of the country’s soaring inflation over period 2008 – 2010, using increased private sector credit as a ratio of GDP as a proxy for private sector activity and reaching 87% school completion rates.

² World Bank: Ethiopia at a Glance (2010)

³ FAO/WFP Crop and Food Security Assessment Mission to Ethiopia (2010).

⁴ Joint IDA-IMF Staff Advisory Note on Ethiopia (August 2011).

⁵ Please refer to Doing Business Report 2011 and 2012 for more details.

constraints, abrupt policy changes in the regulatory environment may have undermined private sector confidence. Examples include changes to or the introduction of price caps, the trade licensing law, land leasing regulation, and a credit cap on the banking industry. Meanwhile, some positive measures to promote small and medium enterprises have been taken, such as lowering the administrative costs of entry for micro-firms.

Table 1: Key economic indicators

Indicator	2006	2007	2008	2009	2010	2011
Macroeconomic Stability						
Real GDP growth (%)	10.8	11.5	10.8	8.8	10.1	7.6
Real GDP growth, at factor cost (%)	11.5	11.8	11.2	10.0	8.0	7.5
CPI (%)	12.3	15.8	25.3	36.4	2.8	18.1
GDP deflator (%)	11.6	17.2	30.3	24.2	3.8	17.9
Investment (% of GDP)	25.2	22.1	22.4	22.7	22.3	24.7
Public fixed investment (% of GDP)	16.7	18.1	17.1	17.6	13.1	15.9
Private fixed investment (% of GDP)	8.5	4.0	5.2	5.2	9.3	8.8
Current account balance (% of GDP)	-9.1	-4.5	-5.6	-5.1	-4.4	-6.4
Merchandise Terms of Trade (2000=100)	111.9	110.5	107.9	117.6	152.2	147.5
Short term debt / reserves (%)	6.6	3.7	5.5	3.0	15.9	13.3
Fiscal Policy						
Primary balance (% of GDP)	-4.7	-4.2	-3.7	-1.8	-2.0	-3.6
Primary balance excluding grants (% of GDP)	-6.6	-7.3	-6.0	-4.7	-4.0	-5.9
Interest payments / GDP (%)	0.8	0.7	0.5	0.4	0.4	0.6
Public debt / GDP (%)	67.9	40.1	33.7	37.6	41.7	33.7
Debt Management						
Public Debt composition						
Foreign Exchange (%)	54.8	29.5	30.8	36.2	45.2	57.6
Domestic Currency (%)	45.2	70.5	69.2	63.8	54.8	42.4

Source: World Bank database and IMF

8. **Ethiopia has significantly invested in infrastructure for growth over the CAS period.** This has been particularly prominent in the transport and communication sector. Ethiopia's vast hydropower potential is being developed as the country prepares to become a regional power exporter. **Agricultural production and productivity** has increased for major crops such as barley, maize, sorghum, teff and wheat due to increases in investments in agricultural inputs and area coverage. . Exports of oil seed, livestock and legumes have also increased, however, **food prices** have not fallen.

9. Decentralization to the district and sub-district level is a focus of Ethiopia's strategy to improve responsiveness and flexibility in **service delivery and increase local participation**. Whilst in theory districts (*woredas*) have substantial powers, in practice limited resources have been a brake on budget discretion, despite significant increases in sub-national revenue raising. Public sector reform and capacity building continue at the national level.

10. **The worst effects of the simultaneous food and fuel crisis in 2008 were stabilized through a national food security strategy.** Towards the end of 2008 6.4 million people were dependent on emergency food assistance, in addition to 7.3 million chronically food insecure people. Similarly, the PSNP and the humanitarian response system were also able to address the 2011 Horn of Africa drought to avoid the severe impacts that were seen in neighboring areas. However, the developments over the past years have shown that Ethiopia is still far away from achieving the paradigm shift away from

humanitarian food aid. Humanitarian aid provided to Ethiopia in the period of 2008 to 2011 was extremely high, averaging about US\$ 807 million annually. Despite strong national growth in agriculture and food production as well as very significant investments to support food-insecure households, food insecurity increased compared to the period of the previous CAS. Based on figures from MoFED March 2012 (“Ethiopia’s Progress Towards Eradicating Poverty: An Interim Report on Poverty Analysis Study (2010/11)”), the absolute number of food-poor people in Ethiopia increased from about 27.0 million in 2004/05 to about 28.4 million in 2010/11. Given continued population pressure and increased weather volatility through climate change, a re-thinking of Ethiopia’s approach and the Bank’s support to achieve food-security might be needed.

11. **Ethiopia is making significant progress on all the MDGs and is projected to be one of the few African countries on track to meet goals relating to extreme poverty and hunger, combating HIV/AIDS and malaria and developing a global partnership for development.** Good progress has been made on increasing access to universal primary education, reducing child mortality and increasing access to safe drinking water. Tackling gender disparity in education and improving the quality of education and health services remain a challenge for Ethiopia.

II. CAS Program Performance

A. Overview and principles of engagement

12. **Ethiopia’s FY08-12 CAS supported the GoE to achieve many of the outcomes envisioned in its 2005-2010 Plan for Accelerated and Sustained Development to End Poverty (PASDEP).** PASDEP, finalized in 2007, was Ethiopia’s second poverty reduction strategy and placed rapid and sustained growth at its center. It also had strong emphasis on achieving the MDGs, particularly on increasing access to basic services. The key objectives of the CAS aimed to sustain Ethiopia’s rapid economic growth and improvement in service delivery. The four objectives of the CAS, i) fostering economic growth, ii) improving access to and improving quality of basic services, iii) reducing vulnerability and iv) fostering improved governance, were relevant and broadly aligned with the objectives of PASDEP. This was also Ethiopia’s first results-based CAS with clearly defined outcomes and indicators (discussed in detail in section B and annex 1).

13. **The Bank responded to GoE’s request to help mitigate the shocks related to the food, fuel and financial crises in FY09.** An emergency food crisis response program was included in November 2008 to avoid the worst effects of drought and rising food prices. Under this program two IDA credits were approved:

- Additional financing for the Productive Safety Nets Program (PSNP), which supported food and cash assistance to food insecure households (US\$ 25 million);
- Fertilizer Support Project providing foreign exchange to support the import distribution and sale of fertilizer (US\$ 250 million).

14. **The CAS period was extended by one year to FY12 due to slower than expected progress toward CAS outcomes and to allow sufficient time to prepare a full new CAS program, in cooperation with the GoE to support its 2010-2015 Growth and Transformation Plan (GTP, November 2011).** The GTP’s objectives are to (a) attain high growth within a stable macroeconomic framework; (b) achieve the MDGs in the social sectors; and (c) establish a stable democratic and developmental state. To accomplish its objectives, the GTP identifies the following strategic pillars: (i) sustained rapid growth; (ii) agriculture; (iii) industrialization; (iv) infrastructure investments; (v) enhanced social development; (vi) strengthened governance; and (vii) empowerment of youth and

women. The GTP shifts the focus towards industrialization and speeding up Ethiopia's structural transformation to become a middle-income country by 2025.

15. The FY08-12 CAS lending program was mostly comprised of programmatic sector investments and analytical and advisory activities (AAA). In keeping with the objectives of the CAS, a large portion of sector investments focused on provision of basic services (US\$1,205m, 27% of the total CAS program), infrastructure development (US\$1,055m, 24% of the CAS program) and social safety net programs (US\$875m, 20% of the total CAS program). A smaller portion of lending focused on agriculture (US\$590m, 13% of the total CAS program), governance and public sector development (US\$350m, 8% of the total CAS program), and private sector development (US\$235m, 5% of the total CAS program).⁶ The trust fund portfolio continued to be one of the largest in the Africa Region and disbursed US\$ 3.46 billion during the CAS period. The majority of trust funds were used to co-finance IDA lending operations primarily in the human development sector, ensuring there was adequate alignment. The AAA portfolio focused on promoting pillar one of the CAS, "Fostering Economic Growth" and pillars two and three, "Improving Access to and Quality of Basic Services" and "Reducing Vulnerabilities".

16. **Adjustments were made to the CAS program following the CASPR in FY10.** Additional financing was favored as the most efficient lending instrument. The CASPR made a number of suggestions for the remaining CAS period FY11-12. These include scaling up existing operations, discussing a new phase on Sustainable Land Management that focuses on land administration, women's economic empowerment and piloting results-based investment lending to support achievements in the health sector⁷. The CASPR suggested that the program could potentially include a PRSC if the Bank and the GoE reach an agreement on an agenda for structural change related to private sector development. This however, has not been achieved. The CASPR adjusted the timing of various operations and the Ethiopia/Kenya Interconnector was delayed until late FY12⁸, the Pastoral Community Development Project was not given additional financing and the Roads APL 5 remains pending until the completion of necessary analytical work. The CASPR also indicated that the FY11-12 non-lending program focus on improving decentralized service delivery, spurring private-sector led industrial growth and ensuring food security, most of which is planned or underway at the time of this report.

Table 2: IFC portfolio over CAS period

Client	Industry (Sector)	Exposure (US\$ m)
DMC	Manufacturing and Services	55.00
Ethiopian Coffee	Agribusiness/Financial Markets	7.29
Nyota	Oil, Mining, Gas and Chemicals	5.53
Access Leasing	Financial Markets	1.00
Allana Potash	Oil, Mining, Gas and Chemicals	5.09
TOTAL		73.91

Source: IFC

17. **IFC re-opened its offices in Ethiopia in FY10 with the appointment of a Resident Representative.** IFC is expanding its investments and advisory services in the country through a strategy based on three pillars: (i) improving the investment climate; (ii) pro-active project mobilization in priority sectors and (iii) support to SMEs through linkages, improved access to finance, and integrated

⁶ Note that classification of investments is not exclusive, for example governance being a cross-cutting issue is also addressed in other lending programs not classified as 'governance'.

⁷ Under preparation and planned to be delivered in FY13

⁸ Currently scheduled for approval by end FY12.

supply chain development. IFC investments as of date total US\$ 74m and cover five major sectors as shown in the table below.

18. IFC advisory services, which were designed and developed in collaboration with the Government of Ethiopia, focused on access to finance and investment climate issues. On access to finance, IFC partnered with the Ethiopia Commodity Exchange (“ECX”) and select Ethiopian commercial banks to develop Warehouse Receipts Finance markets in Ethiopia. The initiative’s main objective is to promote access to finance for farmers by leveraging their own production. IFC was instrumental in helping structure and lead the Ethiopia public-private dialogue process together with UNDP, including the establishment of a secretariat for the Ethiopian Public Private Consultative Forum (EPPCF).

B. Progress by strategic engagement theme (towards CAS outcomes)

19. **The assessment of Bank program is based on a set of specific CAS outcomes as laid out in the CAS results framework and updated during the CASPR.** The outcomes are assessed to be achieved, partly achieved or not achieved.⁹ The assessment is based on quantitative baselines and targets, with evidence compiled from available monitoring and evaluation arrangements. In some cases where outcomes cannot be measured quantitatively, the assessment considers additional information such as proxy indicators or progress on milestones. The assessment is corroborated with evidence gathered from the latest ISRs, ICRs, IEG evaluations of completed projects and interviews with the responsible project task team leaders. **The CAS and the CASPR clearly state that satisfactory performance will have been achieved if 70 -75% of the entire set of outcomes are fully attained.**¹⁰

Table 3: Overview of achievement of CAS outcomes (see Annex 1 for details)

Outcomes	Status at completion		
	Achieved	Partly achieved	Not achieved
Pillar 1: Fostering economic growth			
1. Structural and macroeconomic policies are conducive to sustain internal and external balance.			1
2. Strengthen road sector institutions and domestic road construction	1		
3. Enhance regional integration	1		
4. Increase agricultural productivity in selected intervention areas	1		
5. Improve financial sector performance			1
6. Reduce cost of internet services	1		
7. Improved investment climate helps Ethiopia benefit from increased globalization		1	
Pillar 2: Improving access to and quality of basic service delivery			
8. Increase girls’ enrollment in primary and secondary education	1		
9. Increase delivery of key health services: malaria control, HIV/AIDS prevention, vaccination, nutrition, contraception services		1	
10. Increase sustainable access to potable water and sanitation		1	
11. Improve quality of education			1
12. Roll out of <i>kebele</i> health extension package leads to improved services			1
13. Greater use of community radios for improved service delivery	1		

⁹ Indicator targets are considered substantially achieved if at least 70% progress towards the target has been made. An outcome is considered achieved if all relevant indicators are achieved. An outcome is considered partly achieved if some but not all relevant indicators are on track. An outcome is considered not achieved if the majority of indicators are not achieved. (See annex 1 for details).

¹⁰ Page 23 in CAS and page 15 in CASPR.

Outcomes	Status at completion		
	Achieved	Partly achieved	Not achieved
Pillar 3: Reducing vulnerability			
14. Reduce food insecurity	1		
15. Develop long-term strategy for food security and vulnerability to natural disasters	1		
16. Increased investment in community-based watershed management	1		
17. Accelerate demographic transition	1		
18. Increased voice of women within communities			1
Pillar 4: Fostering improved governance			
19. Improve performance of the public service		1	
20. Greater capacity of local government to engage with citizens for more responsive services	1		
Pillar 5: Other outcomes			
21. Increase donor partnership through IDA-supported multi-donor programs	1		
22. Mainstream gender in IDA-supported programs		1	
TOTAL	12	5	5
% ACHIEVEMENT	55	23	23

20. **Fostering economic growth:** the CAS program aimed to support Ethiopia's goal to foster economic growth through structural and macroeconomic policies that are conducive to sustaining internal and external balance, strengthening the road sector institutions and the domestic road construction industry, enhancing regional integration, increasing agricultural productivity in intervention areas, improving financial sector performance, reducing the cost of internet services and improving the investment climate. These outcomes were to be supported by the Public Sector Capacity Building Program (PSCAP), Roads Sector Development APL, the Energy Access Project, the Nile Basin Initiative Power Export Project, the Pastoral Community Development Program, the Irrigation and Drainage Project and the Sustainable Land Management Project, the Private Sector and Financial Sector Development projects among others, as well as a range of AAA, particularly for outcomes 1, 5, and 7.

21. The majority of indicators used to measure outcomes under this pillar were country outcomes for which CAS attribution was difficult. For example, increased agricultural value added was not measured and was replaced by increased agricultural productivity of major crops. Other indicators that measured higher level outcomes are maintaining single-digit inflation levels, increasing revenue-to-GDP ratios and the expansion of private sector credit to GDP.

22. Strong economic growth continued over the CAS period despite the fact that the space for free private sector development remains limited. Since 2010 Ethiopia has continued to run high inflation, recorded at 32% in January 2012 and averaging 38.1% between July 2011 and January 2012. The revenue to GDP ratio while improved (it reached 13.6% in 2011/12 from 12.1% in 2007/8), was nonetheless lower than expected and the target of 14.3% was missed. FDI patterns since 2007 are very volatile and generally weaker than in the pre-crisis years. Companies from India, Turkey and China are among the leading investors in Ethiopia; for the latter, the majority of investments focus on the manufacturing sector in Ethiopia.

Table 4: FDI inflows to Ethiopia (US\$ million)

2005	2006	2007	2008	2009	2010
265	545	222	109	221	184

Source: UNCTAD, *World Investment Report 2011*

Table 5: Composition of licensed capital of foreign investment projects (%)

Sector	2007	2008	2009	2010	2011
Agriculture	47.5	40.6	15.0	36.8	31.3
Manufacturing	16.7	31.3	72.0	38.6	39.6
Construction	1.8	1.7	4.9	7.3	23.4
Real Estate	28.0	16.0	4.1	6.8	2.9
Others	6.0	10.3	4.0	10.5	2.9

Source: Ethiopian Investment Authority

23. Strides were made in the road sector as road density per 1000 km² increased from 38.6 km in 2007 to 48.1 km in 2011. The share of domestic contractors increased to 77% in 2011 from 35% in 2008. Electrification rates reached 41% of rural towns and villages in 2011 and the number of consumers connected grew from 800,000 in 2005, to more than 2 million in 2011. A number of activities to enhance regional integration remain pending. Construction of power transmission lines between Ethiopia and Sudan is complete and the power trade between the two countries is set to begin following an agreement on prices. The Ethiopia-Kenya Interconnector project under the East Africa Power Pool is expected to be approved in 2012 and will also contribute to regional integration. Other critical investments for growth include the Information and Community Technology Assisted Development Project. The project constructed 65 community ICT centers that served over 70,000 customers per month, 7 community radios and 4 regional ICT business incubators with 55 startup company tenants. At the policy and institutional level the project developed a foundation of policies, standards and guidelines for use of ICT in Ethiopia.

24. According to official statistics, agricultural productivity of three major crops, wheat, teff and sorghum, increased by an average of 14% from 2007/8 to 2010/11.¹¹ This has increased the agricultural income of a number of farmers close to markets, main roads and urban areas. Rice growth around the Gondar region developed over the past few decades and recent new varieties of upland rice have become increasingly popular allowing farmers to dictate prices to millers.

25. Private sector development has followed three tracks over the CAS period. Privatization of state-owned enterprises reached their targets however an environment of free competition is not yet there. A number of companies in telecom, the airline industry and shipping are not to be privatized for the time being as they are perceived by GOE as strategic industries. Secondly, support was given to establishing a Competition Authority under the Ministry of Trade and the Trade Practices and Consumer Protection Proclamation was enacted in 2010. Analytical work on the transport, telecom and finance sectors was conducted to help the GoE with its WTO accession negotiations, however little has been done in this area in terms of actual progress. Finally, under the Private Sector Development Capacity Building Project matching grants schemes to SME for exports have been successful and supported 50-60 firms in textile, leather and agro-processing manufacturing to increase exports by 25%. A high-level study tour to China and Turkey is currently under preparation to learn about different approaches to SME development and line of credits. A number of IFC advisory services have also contributed to the development of the private sector and improving the investment climate as mentioned previously.

26. **Improving access to and improving quality of basic services:** CAS outcomes that contributed to the country-level goal of increasing access to and quality of basic services were increasing girls enrollment in primary and secondary education, sustainable access to potable water and sanitation services, delivery of key health services, improving the quality of education, rolling out *kebele* health

¹¹ However this data is not corroborated by other studies. According to the FAO/WFP Crop and Food Security Assessment Mission to Ethiopia (2010) “national cereal and pulse production in 2009/10 is some 4.7 percent below the all time record harvest in 2008/09 but still about 7 percent above the previous five years average. Sorghum and maize crops have been most adversely affected, while production of teff and barley is less affected and production of wheat is expected to increase.” p.4.

extension packages to improve services and greater use of community radios for improved service delivery. This pillar was predominantly supported by the PBS 2 Program and the associated Pastoral Community Development Project 2, the General Education Quality Improvement Project (GEQIP), the Nutrition Project, the Multisectoral HIV/AIDS Project, water supply and sanitation projects and ULGDP. A large portion of the knowledge portfolio focused on this area, for example a decentralized service delivery study, public finance reviews and a health financing policy note.

27. Indicators on increasing access to basic services were appropriate and targets were met for the large part. For long-term country level goal 2.3 ‘enhance citizen’s voice to improve quality of basic services’, the indicator on the number of community radio stations in operation is weak and insufficient. Results in this area are also demonstrated by the work on good governance under the Public Sector Capacity Building Project which established mechanisms for citizen’s participation in rural and urban *kebeles*. For example, the project supported the establishment of toll free call numbers that provide public information to citizens. Users of these toll free numbers have increased to over 900 per day.

28. The gender parity index increased to 90% in grades 1-4, 96% in grades 5-8, 83% in grades 9-10 and 71% in grades 11-12. Access to safe drinking water increased from 52% in 2007 to 73% in 2011 and 60% of rural households were using latrines in 2011. The proportion of malfunctioning water facilities was reduced from 25% to 20% in 2011. Health services increased as the proportion of children vaccinated against DPT3 reached 85% at the end of 2010.

29. Ethiopia has made good progress in achieving the MDGs. However, as defined in the CAS, progress on quality of services was less successful. Increasing access and simultaneously improving the quality of services were at times contradictory goals, as the supply of trained personnel was strained by increasing demand. Quality in education was measured by grade 5 completion rates which did not improve much from 65% in 2006 to 69% in 2011. However, completion rates in 2009 and 2010 were 79% and 76% respectively, indicating that some improvements in quality were made but are not stable. In terms of quality of health, the 2012 DHS shows impressive improvement in health outcomes. The CAS outcome, rollout of health extension packages, was measured by a single indicator: percentage of births attended by trained health personnel, which increased from 9% in 2004 to 16.6% in 2011 but missed the target of 27%. Relying on only two indicators to measure quality does not fairly capture this outcome. Some of the targets were also set too high, dampening a story of real progress in the area of basic services.

30. **Reducing vulnerability:** the CAS program contributed to decreasing vulnerability through containing food insecurity, developing a long-term food security and disaster risk management strategy and increasing investments in community-based watershed management. Results under this pillar were supported by investment in PSNP 3, the Sustainable Land Management project and the Tana and Beles Integrated Water Resources Development project. The knowledge portfolio supported this with Rural and Urban Safety Nets Notes, an Urban Poverty study and an Economics of Adaptation to Climate Change report. The CAS aimed to accelerate the demographic transition thus addressing population pressures - contraceptive prevalence rates doubled to 29% over the CAS period.

31. The indicators measuring the CAS outcomes are appropriate. The CAS outcomes provide logical contributions to the country level goals under this pillar, except for one outlier on increasing women’s voice within communities that does not provide a logical link to reducing population pressures (in fact this indicator can be used to supplement the above mentioned outcome on increasing citizen’s voice to improve basic services).

32. An impact assessment conducted in 2010 shows that food security of chronically food-insecure people targeted by PSNP was improved from 2006 to 2010 by 1.05 months for households participating

in PSNP public works.¹² Supporting proxy measures show that there is a statistically significant increase in children's meals consumed during the lean seasons between 2006 and 2010 and that five year participation in PSNP increased household livestock holdings by 0.38 TLU.¹³ However, the overall number of food insecure people has increased, and humanitarian assistance to so-called transient food-insecure and other beneficiaries reached very high levels of about US\$807 million per year between 2008 and 2011. This underlines the need for the GOE to focus its efforts on moving people out of poverty by increasing opportunities in relatively high-potential rural and urban areas and to focus on agricultural productivity increase as well as off-farm employment as more sustainable ways of improving food security.

33. PSNP has also played a large role in addressing land degradation through its public works investments. Community assets built under the program have contributed to increases in the water table, vegetation cover, species diversity, expanded use of small-scale irrigation and the construction of 119 farmer training centers. Under the Sustainable Land Management Project, 210,000 hectares of watershed were rehabilitated from 2008 – 2011, and a further 318, 212 hectares were constructed in the PSNP public works component. By June 2012, total investments in community-based flood management are expected to reach US\$ 5.75 million. The Federal and Regional Sustainable Land Management Platforms hold regular meetings to provide technical guidance in the implementation of SLM activities, as established by the TerrAfrica Initiative. Population pressure is being addressed by a doubling of the contraceptive prevalence rate from 15% in 2004 to 29% in 2011.

34. **Fostering improved governance:** CAS outcomes under this pillar aimed to improve the performance of the public sector and enhance the capacity of local government to engage with citizens for more responsive services. Local engagement at the *woreda* and *kebele* levels has been explicitly encouraged by the GoE and has been supported by PBS 2, PSCAP and ULGDP. A public finance review, Investment Climate Assessment, procurement reforms and a Country Integrated Fiduciary Assessment (CIFA) also supported this pillar.

35. Indicators on public sector performance were drawn from the *Woreda/City Benchmarking Survey*, a representative survey that is routinely conducted. Results show that from 2008 to 2012 the proportion of respondents satisfied with agriculture extension services increased from 82% to 94%, satisfaction with solid waste services increased from 69.9% to 74%, satisfaction with water services decreased from 60% to 58% and satisfaction with health services rose from 34% to 70%. The proportion of people who made extra payments for general services increased from 4.3% in 2008 to 6.5% in 2011, interpreted by some as the result of the strain that the recent crises placed on service delivery. Similarly, those reporting extra legal payments for government health services have also risen from 5.8% to 8.5% between 2008 and 2011.

36. Fourteen public expenditure and financial accounting (PEFA) indicators improved out of a total of 28, showing 50% improvement over the 2007 scores. Improvement in citizen engagement in local government can be seen by the 75% increase in the number of citizen groups participating in the planning process for Capital Investment Plans in 19 cities. Participatory planning of basic services is adopted in 80% of *woredas* that receive the Local Investment Grants in 2011. 83% of *woredas* have posted their Layperson's Budget and Service Facility Templates in 2011 and 19 cities have disseminated key information on budgets and expenditures for 2008/09, 2009/10 and 2010/11. Local accountability has also

¹² Berhane, G et al, *The impact of Ethiopia's Productive Safety Nets and Household Asset Building Programme: 2006-2010*, IFPRI, October 2011.

¹³ Tropical livestock unit.

seen improvements in financial reporting as all regions are now submitting their interim financial reports in a timely manner over the last two quarters.

37. **Other outcomes:** Over 60% of donor support was provided through program-based approaches, meeting the Paris Declaration target. The largest of these were PBS, PSNP and PSCAP. A CAS outcome on mainstreaming gender into project design was added in 2010. The indicator states that all new FY11-12 lending includes gender considerations in the PDO. Gender mainstreaming has now been made a regional priority with more appropriate measures which are used as a proxy to assess achievement of this outcome. The Africa Gender Action Plan identifies the criteria for detailed coverage in lending as “gender issues are discussed and presented with quantitative data and extensive background information.” A review of FY11-12 lending shows that four out of six projects comply with GAP criteria.¹⁴ Projects such as PBS, PSNP and Urban Local Governance promoted the participation of women in community or city committees and women were given the opportunity to accrue an independent income through PSNP public works.

C. Cross-cutting issues in CAS period

38. **Climate change:** Issues related to climate change were addressed throughout the Bank portfolio. Most interventions to promote development help address climate change adaptation and / or mitigation. Good examples are projects promoting sustainable land and water management, agricultural development including irrigation, food security and renewable energy (AGP, PSNP and SLMP). For the most part, however, the Bank made no specific efforts to make its portfolio “climate-smart”. Some analytical work on Climate Change was conducted in FY08 at the request of the Ministry of Agriculture and a report on Economics of Adaptation to Climate Change (EACC) in FY11 was a deliverable for the COP16 UN Conference on Climate Change. The analysis addressed the impact of climate change on key sectors in Ethiopia. The GoE’s investment in the development of the **Climate Resilient Green Economy (CRGE, 2011) strategy** is critical to climate change and overall development issues in Ethiopia and the region, and the Bank should significantly increase its engagement in this area.

39. **Governance and social accountability:** While some progress has been made, governance challenges at the Federal level remained persistent. Implementation of the CAS program, with financial management and procurement controls, did however ensure transparency, social gains and progress towards the MDGs. The PSCAP supported the establishment of citizen participation in local government processes, better service delivery, court reform and tax reform. Social accountability and citizen participation has played a greater role at the local level and was part of the CAS program. Significant components of PBS 2 are focused on a) accountability in decentralized financial services (US\$ 50.2m) and b) social accountability (US\$ 21m). Financial transparency activities such as budget literacy training to citizens and the dissemination of budgets have also created links with the PSNP and other major donor-funded programs. Awareness is not equal across all regions however, and female participation in budget literacy remains low. Due to higher-than expected performance of cities under the Urban Local Governance Development Project, Bank financing was doubled in 2011. The project provides a good model for how empowered local governments and local communities can transform cities and generate local employment.

¹⁴ PBS monitors maternal health, gender parity index in schools and women’s participation in community planning groups. The Urban Local Government Development project monitors jobs created for women and gender mainstreaming in urban local governments. A gender study commissioned under PSNP shows that the project had a positive impact on female beneficiaries. The Agricultural growth project explicitly addresses gender considerations in its design.

Overall CAS Assessment

40. The GoE assessed achievement of its national development strategy during this period, the PASDEP, as satisfactory. Indeed, there has been a visible increase in economic growth and investments in strategic infrastructure paving the way for future growth. Major efforts were also made in increasing access to basic services. The GoE's Food Security Program was able to lower the severity of the impact of the food crisis and Ethiopia was the only country in the Horn of Africa that did not experience famine. The CAS supported the PASDEP in select areas that reflect the Bank's priorities and comparative advantage. However progress under the CAS pillars varied. Improvements on macro-economic stability, investment climate and the quality of basic services were not as expected. **Overall CAS performance is therefore rated as Moderately Satisfactory due to uneven achievement of the outcomes under the CAS pillars.**

III. Evaluating Bank Performance

41. The evaluation of the Bank's performance focuses on two key dimensions: i) CAS design and ii) implementation of the CAS program.

A. CAS Design

42. **The CAS was well aligned with the GoE's priorities, namely the PASDEP, during the CAS period.** The Bank's flexibility to extend the CAS by one year up to FY12 ensured compatibility with the new GoE strategy, the GTP, which was under preparation during the CASPR. The additional year also gave the Bank sufficient room to conduct consultations with the GoE in order to prepare its upcoming CPS FY13-FY16. The CAS areas of engagement were based on the four main pillars which were aligned with Ethiopia's national development goals. The Bank pursued CAS outcomes through a mix of investment lending and analytical advisory assistance that reflected the realities of the CAS period. Areas of strong GoE interest (such as basic services, food security and infrastructure) were heavily supported with investments and trust funds and were scaled up. In areas of divergence or lack of consensus (such as structural and macroeconomic policies) support relied on AAA to maintain dialogue. A prospective PRSC was not used in the absence of agreement between the Bank and the GoE on changes in structural issues. The PBS Program became an alternative to direct budget support and has successfully channeled resources to the *woredas*. However, as recognized in the previous CASCPR, despite the successful shift in financing modalities from budget support to the PBS in reaction to the 2005 crisis, the benefits of budget support could not be fully replicated by PBS, being a more narrowly focused investment instrument. This argues for reconsideration of budget support agenda going forward under the new CPS.

43. **The CAS program deepened partnerships with other donors.** Trust Funds were well incorporated in lending. 91% of trust funds were used to co-finance IDA lending operations in FY11, 98% of which was used to fund CAS objectives 2 and 3 (improving access and quality of basic services and reducing vulnerabilities). In addition to creating multi-donor trust funds for PBS and PSNP, the Bank also housed the PBS Secretariat and the PSNP Donor Coordination Team and provided other in-kind support to the committees. The AGP, through its partnership framework, provides a basis for strengthened and more harmonized support to agricultural growth in Ethiopia. The program has leveraged more than US\$ 100 million in addition to IDA financing. Similarly, the GEQIP (General Education Quality Improvement Program) is financed by a group of development partners through pooled funding arrangements. IDA financing was used to secure more than US\$ 130 million for the National Nutrition Program and the Bank led the coordination along with UNICEF. The Bank also coordinated grants under global and regional programs such as the Global Environment Facility (GEF), Education for All – Fast Track Initiative (EFA-FTI), the Nile Basin Initiative (NBI), and the Global Partnership for Output Based Aid (GPOBA).

44. **The expected outcomes in the CAS results framework are overall realistic.** For the most part, there are good linkages between the strategic pillars, outcomes and indicators. Targets however were set too high given the role of the CAS as one of many contributions to the PASDEP. The inability to meet some of these targets dampened a story of real progress in some areas.

45. **The CAS examined four groups of risks that remained relevant during the CAS period:** i) Ethiopia's vulnerability to external shocks, in particular drought and possible regional conflict, ii) two governance risks related to the possibility of disputes over local elections in April 2008 (and parliamentary elections in 2010), and the ongoing military action in the Ogaden area of Ethiopia's Somali region to subdue separatist rebel elements, iii) macro-economic risks as a consequence of rising food and oil prices and iv) procurement and financial management risks as a result of weak capacity and shortage of skills at the local level. The CASPR heightened the risks related to vulnerability to external shocks and weak capacity in procurement and financial management, and lowered those related to governance and macro-economic stability over the period FY08 –FY10. Mitigation of risks is discussed in the following section.

B. CAS implementation

46. **The bulk of lending activities were done through a program-based approach and the Bank has acted as the technical lead for the majority of the activities,** along with DFID and UNICEF. A number of joint AAA have also been conducted, such as the CIFA report and the *Woreda/City Benchmarking Survey*.

47. **The Bank was highly supportive of the CAS program,** as evident by the high level of project staff decentralized to the country office in Addis Ababa. Successful projects such as PBS were scaled up to be implemented nationwide. Significant investments were also made in critical development areas such as infrastructure (namely roads and energy access) and agriculture. The country team explored innovative approaches, such as results-based lending, which has been welcomed by the GoE and the new Program for Results instrument is the basis for a health project currently under preparation. Output based lending was also used under the Energy Access project but results were delayed because of the moratorium on electricity connections. The country team demonstrated efficiency by having one of the lowest administrative costs to IDA allocation ratios in Africa, along with Nigeria.

48. **The Bank successfully engaged in a number of areas where the GoE has a strong program for development.** There is strong commitment and ownership to increasing access to basic services and reducing vulnerability, as the progress towards CAS outcomes clearly shows. On the other hand, very little traction has been made with the GoE regarding private sector development especially in policy sensitive areas or those that may require substantial sector reform such as the financial sector and land policy.

49. **Portfolio management and performance.** Bank portfolio performance maintained strong growth and a high disbursement ratio, while maintaining selectivity. The Ethiopia portfolio has nearly doubled since FY08: in April 2008 net commitments were US\$ 2.4 billion, compared to US\$4.4 billion in February 2012. The number of projects in the portfolio has been reduced to 25, from 30 in 2009. Since FY09, the disbursement ratio has exceeded 30% and is on track to do so in FY12. Although the impressive disbursement rate is unquestionably driven by fast-disbursing projects as the PBS and PSNP, the rest of the projects have also been disbursing reasonably well, with a few exceptions.¹⁵ Proactivity has

¹⁵ The Irrigation and Drainage SIL, Tana and Beles Integrated Water Reservation Development Project, Tourism Development Project, Urban Water Supply and Sanitation Project, and the Road Sector Development Stage IV APL Projects.

been 100% except for FY10 (67%), which is another indication of good portfolio management. Average project preparation time (IDA investments only - PE) for projects approved during the CAS period is around 14 months¹⁶ (better than the regional average – 16-18 months), although there is wide variation between individual projects (ranging from 4 to 27 months). As of February 2012, there were no overage projects in the portfolio, though the average project age has increased to 5 years. This is due to only two projects being approved since FY10. Formal restructuring, other than that carried out as part of the support under the global food crisis response, has been practically non-existent (3 restructurings altogether during the CAS period). IEG evaluations of completed projects concluded that some of the projects should have been restructured or, if they had been, the restructuring was too late or not deep enough. During the CAS period there were eleven additional financings, showing good use of the instrument. However, three of the additional financings were for projects whose funds had been previously deployed to the Global Food Crisis Response Project, which suggests that there was some trade-off between the affected projects and the emergency response.

50. Projects at risk have been relatively high, reaching 28% in FY08 and FY11, though associated commitments at risk have been comparatively lower (FY08 being an exception), indicating that risks are rather related with smaller projects. Actual problem projects, however, are 10% on average over the CAS period, which, if compared to outcome ratings in IEG evaluations of completed projects during the same period (8 projects evaluated, 37% unsatisfactory outcome ratings), suggests that ratings assessments during implementation may have been optimistic. That said, the net disconnect for Ethiopia (12.5%) is nearly half the AFR region's (22%), and effectively reflects a net disconnect for one project.

51. **IEG reviews of projects that closed during the CAS period highlighted shortcomings in the quality of M&E design, implementation and utilization.** To advance policy dialogue, maintaining and tracking data sources is a necessary condition. Ethiopia continues to have weak data collection and capacity. For this the Bank may need to engage collaboratively with the statistical agency in Ethiopia to improve country data systems and improve data collection for Bank projects.

52. The total amount allocated for core knowledge products over the CAS period was US\$ 5.2 million, 80% of which was for economic and social sector work (ESW) and 20% for technical assistance (TA). 46% of the analytical and advisory activities (AAA) supported the CAS objective 'fostering economic growth' and 45% was linked to the CAS objectives 'improving access and quality of basic services' and 'reducing vulnerabilities', the majority of which are linked to education and social services. Only 7% of AAA outside project budgets supported infrastructure lending. 39% of the knowledge budget was used to address public finance, macro-economic and private sector development themes however with limited traction on these topics. **There is little evidence that analytical advisory work was disseminated and discussed with stakeholders beyond the core GoE counterparts.**

53. **The Bank was quick to respond to the 2008 global food and fuel crisis through the Emergency Food Crisis Response Program.** The program had two parts, additional financing to the PSNP and the Fertilizer Support Project. The Fertilizer Support Project was designed to ensure an aggregate supply of chemical fertilizers for 2009 – 2010 in order to prevent a fall in agricultural output which would have exacerbated the food crisis. This was financed through re-deploying financing from 12 existing projects and additional Bank financing (total US\$ 250m). The project was approved in three months, an exceptionally quick response by the Bank. However, the IEG evaluation questioned the sole importer arrangement with the GoE, the logistics of fertilizer distribution, and the efficiency of having foreign exchange resources locked in fertilizer stocks.

¹⁶ Excluding additional financing and outliers such as the Global Food Crisis Response Project (2.7 months preparation time) and the Ethiopia - Sudan Interconnector Project (43 months).

54. **The Bank was slower to respond to the 2008-2010 moratorium** imposed by the GoE on electricity connections, halting the implementation of the entire energy portfolio for the duration of that period. In retrospect, it was difficult to foresee when the moratorium would have ended. The risk, however, was already present at the time of the CASPR and the document should have discussed the challenges facing the energy portfolio.

55. **The CASPR was used to reflect on the initial CAS period, to validate continued relevance of CAS objectives and identified risks.** No major course correction was made during the CASPR. Revisions to the results matrix were made, the number of core outcomes was reduced to 22 and 39 indicators (down from 26 and 51 respectively), including adding the core sector indicators. The CASPR attempted to mainstream gender considerations and dropped indicators on a regional road network, growth corridor and support to rural diversification due to slow progress in these areas.

56. **The mitigation of risks during the CAS period was mixed, with a few unforeseen risks arising.** To mitigate the risk of extreme weather events, the Bank supported the GoE to prepare a disaster risk management strategy. The worst effects of the recent (2008 and 2011) droughts were mitigated through the PSNP. Vulnerability to the food crisis was mitigated by portfolio restructuring to support urgent investments in food security and boosting fertilizer supplies to boost agricultural production. The sharp decline in fertilizer prices in 2009 could not have been expected and resulted in excess funds allocated to the Ethiopia Global Food Crisis Response Project, which were re-directed to PBS 2. Macroeconomic risk did not stabilize as anticipated and, following the conclusion of the IMF program in 2010, inflation peaked to nearly 40% in late 2011. Monetary policy remains a concern. The expected post-election violence in 2010 did not occur while the security risks related to operating in the Somali region meant that operations did not take place there over the CAS period. The CASPR anticipated that drought could affect hydropower generation but offered no mitigation measures.

IV. Lessons Learnt and Suggestions for New CPS

CAS focus

57. Realizing Ethiopia's full potential and achieving GTP economic and social targets would require stable macroeconomic framework and increased role of the private sector. **It is therefore important for the Bank to find ways to engage more effectively with GoE in policy dialogue on macroeconomic issues and private and financial sector issues.** The CAS acknowledged the limitations in policy dialogue and relied mostly on analytical advisory work to engage GoE on structural reform matters, which had limited impact. Increasing the relevance of the Bank's ESW, through providing more flexible/just in time policy pieces requested by the GoE, could contribute to improved dialogue. In terms of financial assistance, it might be important for the Bank to offer the Government a range/menu of instruments available to support private sector growth and facilitation, including guarantees, credit lines as well as a complementary package of services provided by the IFC and MIGA.

58. Additional suggestions for improving Bank Group engagement in the area of private sector development include: **(i) strengthening public-private partnership for advancing dialogue and (ii) leveraging on partnership with other development partners to align key messages to the Government in some of the challenging areas.**

59. GoE's efforts to stabilize the effect of the 2008 food crisis and 2011 drought through programs such as PSNP were relatively successful, but overall the absolute number of people who were food insecure has increased over the period 2006-2010. **This result indicates that a more comprehensive solution for food security is required,** which would include but not be limited to the GoE's current Food

Security Program. Given population pressure and the possible negative effects of climate change, it would be important for the Bank to support the GoE's efforts on moving people out of poverty by increasing opportunities for on and off-farm employment as a more sustainable way of improving food security in the medium to long term. Support to private sector and agribusiness would constitute an important part of this agenda going forward.

60. While recognizing the important role of employment generation as an additional way of improving food security in the medium to long-term, the Bank also acknowledges that there will be a portion of the population that remains highly vulnerable, particularly in the context of increasing uncertainties around climate change. **In terms of addressing the policy and program responses to vulnerability, the Bank should continue to support and strengthen social protection systems and invest in disaster risk management programs.**

61. **In addition to supporting GoE focus on access to basic services, the Bank needs to more actively engage in improving the quality of basic services.** The PASDEP was centered on achieving the MDGs which focused on access to basic services, creating a trade-off with the quality of these services. As experience showed, all focus during the CAS period was directed to increasing access, crowding out efforts to improve quality. Challenges to improving quality will be critical if the benefits from higher access are to be fully materialized in the longer term. Utilizing a newly approved instrument – Program for Results (P4R) – might provide a good opportunity for the Bank to shift its focus from access to quality.

62. **Bridging the data and knowledge gap for evidence-based dialogue:** An important and common challenge in Ethiopia is the scarcity and reliability of data sources. To advance policy dialogue, maintaining and tracking data sources is a necessary condition. Ethiopia continues to have weak data collection and capacity. For this the Bank may need to engage collaboratively with the statistical agency in Ethiopia to improve country data systems. At the same time, where possible, Bank projects should build in their design both rigorous impact evaluations and continuous monitoring to adjust design parameters as and when needed.

CAS Design

63. **Built-in flexibility and mitigations measures ensure more adequate response to identified risks at the project level:** PSNP was designed with the flexibility to anticipate and scale up in the possibility of a shock, through its risk financing mechanism. In comparison, the energy portfolio, while identifying solutions to the long-term challenges that face the sector, did not have an adequate response on hand for the moratorium. The diversification of activities under the energy portfolio and not solely focusing on access projects may reduce this risk.

64. **At the portfolio level better emergency responses need to be designed in countries that are prone to disasters such as Ethiopia.** The portfolio restructuring in response to the food crisis was quick but it was a time and labor-intensive exercise and funds may not always be available if a future crisis were to occur.

65. **Careful thought should be put into linking lending and non-lending instruments with the indicators and the CAS outcomes that form a logical results framework.** This will help to avoid disconnect between the outcomes and indicators. It is particularly important to avoid pitfalls in using high-level indicators that are beyond the scope of the CAS. This was most evident in the lack of achievement of outcomes under pillar 1.

CAS Implementation

66. **Monitoring the CAS results framework more regularly will help maintain realistic targets and flag deficiencies in outcome indicators.** The CPPR can be used as an opportunity to check progress on the future CPS results framework in preparation for the CASPR and CASC stages. This would ensure that data is available and efforts are being made to strengthen the quality of the results framework.

67. **Recognition of the unique advantages of budget support.** Despite the successful shift in financing modalities from budget support to the PBS in reaction to the 2005 crisis, the benefits of budget support could not be fully replicated by PBS, as a more narrowly focused investment instrument. Budget support provided an important forum for dialogue, especially on issues related to growth and structural reforms. In addition, the multi-donor dialogue fostered by budget support enhanced donor harmonization and reduced transaction costs. These factors argue for the resumption of budget support agenda going forward under the new CPS.

68. **Programmatic approaches which can be scaled up tend to be successful,** by leveraging greater resources from partners, disbursing faster, and having greater flexibility.¹⁷ Such models can also help build country systems in the sectors they are operating in. The future CPS should seek to replicate this model where possible.

¹⁷ Good examples include the Nutrition Project, PBS and PSNP.

Annex 1: FY08 – FY12 Ethiopia CAS Completion Report results matrix

- ✓ Achieved (70% achieved)
- ≈ Partially achieved (50% - 69% achieved)
- ✗ Not Achieved (below 50%)

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
Strategic Objective 1: Fostering economic growth					
1.1 Support macro-fiscal stability	1. Structural and macroeconomic policies are conducive to sustain internal and external balance I1. Inflation rate declines from 34% in 2007/08 to single digits by 2010/11 and is sustained through 2011/12.	M1. Prudent management of monetary policy to curb inflation. M2. Establishment of M&E system for investment and contingent liabilities in the public enterprises.	✗ I1. Inflation in January 2012 is 32% while the average inflation from July 2011 – January 2012 was 38.1%.	AAA Macro Fiscal Issues Growth Partners IMF	The target of single digit inflation by 2011 should have been modified during the CASPR.
	Increase domestic resource mobilization I2. Revenue/GDP ratio increases from 12.1% in 2007/08 to 14.3% in 2011/12.	M3. Timely preparation of an integrated and consistent Macro-Economic and Fiscal Framework. M4. Full implementation of ongoing tax administrative reforms.	≈ I2. Revenue to GDP ratio was 13.5% in 2010/11 and expected to marginally improve to 13.6% in 2011/12(IMF estimate).	AAA Public Finance Review (JBAR) Macro Fiscal Issues Growth Public Expenditure Review On-going Lending PSCAP Partners IMF, PSCAP Partners ¹¹⁷	There is a problem of attribution between the interventions and the indicator of revenue/GDP ratio. This is a higher-level outcome.

¹¹⁶ Data for indicators taken from latest project ISR unless stated otherwise. In a few cases where the CAS indicator was not measurable or where it was not sufficient to fully capture the CAS outcome, the authors have complemented the information with progress made on relevant milestones to provide a more accurate picture of achievements.

¹¹⁷ PSCAP Partners include DFID, CIDA, and Irish Aid, with Italy and EU support planned.

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
1.2. Accelerate the level and productivity of investment in infrastructure in a sustainable manner	2. Strengthen road sector institutions and domestic road construction industry I3. Volume of civil works contracts disbursed by Domestic Contractors increased from 35% of total in 2007/08 to 54% by 2011/12. I4. Road density per 1000 sq.km increases from 38.6 km in 2007 to 45.7 km in 2011/12.	M5. Domestic Construction Industry (DCI) policy formulated and comprehensive capacity building program launched. M6. Ethiopian Road Authority reformed on commercial basis and operational departments spun off from ERA.	✓ I3. The share of domestic contractors (volume of works done) increased to 77% in 2010/2011. ✓ I4. Road density per 1000 sq.km is 48.1 km in 2011. ✓ M6. Ethiopian Road Authority reformed on commercial basis and operational departments spun off from ERA.	AAA Strategic Review of Road Sector Development Lending Road Sector APLs 2-4 Partners EC, DFID, AfDB	
	3. Enhance regional integration I5. Power traded between Ethiopia, Sudan, and/or Djibouti. I6. Establishment of an East Africa Power Pool under the NBI framework by end-2011/12.	M7. Transmission line from Ethiopian power grid to Sudanese border completed. M8. Eastern Nile strategic basin assessment and assistance strategy completed and dissemination pending.	✓ I5. Power trade between Ethiopia and Sudan has been delayed but PPA with Djibouti signed and trade started in 2011. ✓ M7. Construction of power transmission lines between Gondar-Shehedi, Shehedi-Matema and Bhair Dar-Gondar are complete. Two shunt reactors and communication equipment in Shehedi substation are still to be installed. It is expected that project work will complete before June 2012. ✓ M8. Eastern Nile strategic basin assessment and assistance strategy completed and dissemination pending. ✓ I6. The East Africa Power Pool - Eastern Electricity Highway Project was approved by the Board in July 2012.	Lending Ethiopia/Nile Basin Initiatives Power Export: Ethiopia/Sudan Partners AfDB, NBI Partners	
	I7. Percent of towns with access through at least one connection to electricity increases from 16% in 2004/05 to 50% in 2010/11.	M9. Increase the pace of connections to the grid by 20% in electrified towns and villages, leveraging Output	✓ I7. Over 40% of towns and villages have access to electricity in 2011.	Lending Energy Access SIL Rural Access Exp'n 1 Rural Access Exp'n 2	Increased electrification is not directly relevant to the outcome of enhanced regional integration.

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
		Based Aid (OBA) instruments.		GEF Energy Access Partners EIB, EC, AfDB, Italy, China, India, Kuwait Fund, GPOBA	
1.3. Increase productivity of agriculture	4. Increase agricultural productivity in selected intervention areas 18. Average agriculture value added to increase by 5% per annum.	M10. Increase in area with land certification. M11. Results-based M&E system developed for agricultural extension, vocational education, and research. M12. Sustainable Land Management Project (SLMP) and Tana Beles Project actively implemented in a minimum of 35 <i>woredas</i> . M13. Feasibility studies completed for irrigation of 104,000 ha by end-2011/12.	✓ 18. Agricultural productivity of major crops increased by average of 14 % between 2007/8 - 2010/11. Teff increased from 11.7% to 12.6%, wheat increased from 16.2% to 18.4% and sorghum increased from 17.3% to 20.9%. ¹¹⁸ ≈ M10. Increase in level one certification across the country and level two certification expected to increase over 2012. ✓ M12. Sustainable Land Management Project (SLMP) and Tana Beles Project actively implemented in a minimum of 35 <i>woredas</i> . * M11. Qualitative evaluations of the ATVET and Agricultural Research undertaken but no comprehensive system developed. ✓ M13. Feasibility studies for 104,000 ha are now fully completed.	AAA Rural Investment Climate Assessment Rural Access Development Regional Growth Study Lending PBS 2 Pastoral Community Development Program 2 (PCDP 2) Irrigation & Drainage SIL Sustainable Land Management1 Specific Investment Loan (SIL) Tana Beles Eastern African Agricultural Productivity Capacity Building for Agriculture Service Agricultural Growth Program PSNP 3 Partners REDFS group ¹¹⁹	Agricultural value-added is currently not being measured in Ethiopia (past figures were collected by FAO and were 2007 (9.4%), 2008 (7.5%) and 2009 (6%)). Looking at value-added is also a higher level outcome that the interventions under this pillar cannot claim total attribution to.

¹¹⁸Value added in agriculture is not measured so increased productivity of major crops was used as a proxy.

¹¹⁹ Rural Economic Development and Food Security (REDFS) Group includes AfDB, Austrian Development Cooperation, CIDA, DFID, EC, FAO, German Development Cooperation, IFAD IFPRI, Irish Aid, Italian Cooperation, JICA, Norway, SIDA, The Netherlands, UNDP, USAID, WFP.

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
1.4 Strengthen supply responsiveness of industry and services sector	5. Improve financial sector performance I9. Credit to the private sector as a ratio to GDP increases from 12% in 2005/06 to 16% in 2011.	M14. Conclude the implementation of National Payments Systems (NPS) and the Credit Information Center (CIC)	* I9. Private Sector credit to GDP ratio is reported as 14% in 2011 (baseline was 18% at end of 2005/06 and declined to 9% of GDP in 2009). Absolute credit did grow at 4% during this period. ✓ M14. The National Payments Systems (NPS) and the Credit Information Center (CIC) are operational.	AAA Financial Sector Review Lending Financial Sec. Cap. Bldg. Partners IMF	A better measure that is more appropriate to the impact of the intervention under this outcome should be used to measure progress.
	6. Reduce cost of internet service I10. Cost of broadband and dial-up Internet services to decline by 40% and 20%, respectively, between 2008 and 2011.	M15. At least 5 private retail Internet Service Providers operational.	✓ I10. Cost of broadband and dial-up Internet services to decline by 33% and 98%, respectively, between 2008 and 2011.	AAA Telecom Reform Options Lending ICTAD	
	7. Improved investment climate helps Ethiopia benefit from increased globalization I11. Cumulative increase in FDI of at least 40% by the end of the CAS period.	M16. Public-Private Dialogue (PPD) Forum reinstituted and considered effective by private sector. M17. Revised Trade Practices Proclamation adopted to address current deficiencies.	✓ I11. FDI increased from \$894 million in 2008/09 to \$1033 million in 2010/11 and estimated to reach at \$1170 million in 2011/12. ✓ M16. Public-Private Dialogue (PPD) Forum reinstituted. ✓ M17. The Revised competition Proclamation - called the Trade Practices and Consumers' Protection Proclamation - was enacted in June 2010. A Competition Authority has been set up and staffing and capacity building for the Authority is under way.	AAA Investment Climate Assessment (ICA) Public Private Forum Tourism Competitiveness Service Trade and Growth Innovation for Development Lending PSD Cap. Building Tourism Dev. Project Partners US, EC, DFID, ADB, IMF	A milestone or an outcome measuring the increase in exports for the supported firms under the PSD Capacity Building project should have been included here.
	I12. Ethiopia's corporate sector follows accounting and auditing standards that are in line with International Financial Reporting Standards (IFRS) and International	M18. Satisfactory national accounting and auditing standards issued, and legal framework established to ensure compliance with these	≈ I12. All commercial Banks are required to follow IFRS. It is not mandatory to apply IFRS in the corporate sector, draft law is in place to be	AAA ROSC Accounting and Auditing EITI MDTF	

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
	Standards of Auditing (ISA) as assessed by the 2012 ROSC.	standards.	discussed at Council of Ministers in January 2012. Similarly, the same law requires all audit firms to apply ISAs when conducting the audit of corporate institutions- expected June 2012. ≈ M18. Satisfactory national accounting and auditing standards issued, and legal framework established to ensure compliance with these standards.		
Strategic Objective 2: Improving Access to and Quality of Basic Service Delivery					
2.1 Improve access/coverage of basic services	8. Increase girls' enrollment in primary and secondary education I13. Ratio of girls to boys in primary school increases from 89% in 2006/07 to 93% in 2011/12 in grades 1-4 (1 st cycle of primary), 76% to 93% in grades 5-8 (2 nd cycle of primary), from 63% to 75% in grades 9-10 (1 st cycle of secondary) and is 50% in grades 11-12 (2 nd cycle of secondary).	M19. Block grants to <i>woredas</i> continue to increase. M20. PCDP coverage increased to address special needs of pastoralist children.	✓ I13. Gender Parity Index for primary school grade 1-4 was 90%, in grade 5-8: 96%, in grade 9-10: 83% and in grade 11-12: 71% in 2011.	AAA Decentralized Service Delivery Lending PBS 2 Pastoral Comm. Devt. 2 GEQIP Partners PBS Partners ¹²⁰	
	9. Increase delivery of key health services: malaria control, HIV/AIDS prevention, vaccination, nutrition, contraception I17. Proportion of children vaccinated against DPT3 increases from 72.6% in 2006/07 to 83% by 2009/10. I18. Number of new malaria cases decreases from 370,000 in 2006/07 to 100,000 by 2011/12.	M23. <i>Woreda</i> governments receive increased funding for service delivery through block grants and increased amounts of centrally procured health commodities with PBS support. M24. 2.4 million replacement Insecticide Treated Nets distributed between beginning- 2009/10	✓ I17. Proportion of children vaccinated against DPT3 is 85% in December 2010. ≈ I18. According to the Ethiopia MDGs 2010 Report, morbidity due to malaria declined by 48%, hospital admissions by 54% and mortality by 55% in 2009/10. ✓ I19. Percentage of young	AAA Decentralized Service Delivery Health Financing Policy Note Education and Nutrition Linkages Lending PBS 2 Multisectoral HIV/AIDS 2 Pastoral Comm. Devt. 2 Nutrition SIL	

¹²⁰ PBS Partner Group includes World Bank, DFID, AfDB, EC, CIDA, KfW, Netherlands, Austria, Italy, Ireland, Spain.

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
	<p>I19. Percentage of young people (age 15-24) with understanding of how to prevent HIV/AIDS transmission increases from 67% of women and 54% of men in 2004/05 to 75% overall by 2011/12.</p> <p>I20. Percentage of pregnant women receiving iron and folate supplementation increases from 13% in 2009 to 28% in 2013.</p>	<p>and end-2011/12.</p> <p>M25. Donors and MoH make progress on implementation of IHP roadmap.</p> <p>M26. 95% of Multi-sectoral HIV/AIDS Program 2 (MAP 2) participating <i>woredas</i> implementing action plans on HIV/AIDS prevention targeting most-at-risk groups.</p>	<p>people (15 – 14) with understanding of how to prevent HIV/AIDS transmission increased to more than 75% for men and women based on survey conducted in 2011.</p> <p>* I20. Percentage of pregnant women receiving iron and folate supplementation was 17% in 2011 (DHS 2011).</p>	<p>Health MDG Fund</p> <p>Partners PBS Partners, USAID, Global Fund for Malaria, TB and HIV-AIDS, Global Alliance for Vaccines and Immunization</p>	
	<p>10. Increase sustainable access to potable water and sanitation services</p> <p>I14. Total population with access to safe drinking water (rural and urban) increased from 52% in 2007/08 to 74.5% in 2011/12.</p> <p>I15. % of rural/urban households using latrines increased from 39% 2007/08 to 60% 2011/12.</p> <p>I16. Proportion of malfunctioning rural water facilities reduced from 25% in 2007/08 to 16% in 2011/12.</p>	<p>M21. User groups organized to operate and maintain water points and promote hygiene and sanitation practices.</p> <p>M22. Autonomous urban utilities strengthened to operate with business plans and with improved management.</p>	<p>✓ I14. Total population with access to safe drinking water (rural and urban) increased to 73.33% in 2011/12.</p> <p>✓ I15. 60 % of rural/urban households using latrines in 2011/12.</p> <p>≈ I16. Proportion of malfunctioning water facilities is 20% in 2010. 7168 Improved community water points constructed or rehabilitated under the project in 2011.</p> <p>✓ M21. User groups organized to operate and maintain water points and promote hygiene and sanitation practices.</p>	<p>AAA Decentralized Service Delivery Public Finance Review-Water</p> <p>Lending Urban Water and Sanitation Water Supply & Sanitation SIL PBS 2 Pastoral Comm. Devt. 2 Urban Local Government Development</p> <p>Partners DFID</p>	<p>Good emphasis was placed on capacity building at the <i>woreda</i> level for staff working in the Water Supply, Sanitation and Hygiene Sector. This has helped address issues related to high staff turnover and project sustainability.</p>
2.2 Enhance quality of basic services	<p>11. Improve quality of education</p> <p>I21. Grade 5 completion rate increases from 65% in 2006/07 to above 87% in 2011/12.</p>	<p>M27. Primary grade 1-4 student-teacher ratio declines from 65:1 in 2006/07 to 54:1 in 2011/12.</p>	<p>* I21. Completion rate grade 5 is 69.1% in 2011. (Completion rates in 2009 and 2010 were 79% and 76% respectively.)</p>	<p>Lending PBS 2 GEQIP</p> <p>Partners PBS Partners, USAID</p>	<p>A target of 87% completion rates is not realistic. The 2011 figure needs to be further investigated to understand why it declined from 2010 and 2009.</p>
	<p>12. Roll-out of kebele health extension package leads to improved</p>	<p>M28. Substantially all rural <i>kebeles</i> have two trained</p>	<p>* I22. Percentage of births attended by trained health</p>	<p>AAA Decentralized Service</p>	<p>A target of 27% in this case is also not realistic.</p>

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
2.3 Enhance citizens' voice to improve quality of basic services.	services I22. Percentage of births attended by trained health personnel increases from 9% in 2004/05 to 27% in 2011/12.	health extension workers (an increase to about 30,000 workers total from the 2006/07 baseline of 17,600).	personnel is 16.6 in November 2011.	Delivery Health Financing Policy Note Lending Nutrition SIL PBS 2 Health MDG Fund Partners PBS Partners, USAID, WHO, UNICEF	The ambitious targets set have downplayed actual real progress that has been made on these outcomes. Furthermore, relying on only two indicators to measure quality does not fairly capture this outcome.
	13. Greater use of community radios for improved service delivery I23. At least 10 <i>woredas</i> with community radio station in operation.	M29. Regulatory and institutional framework for community radios in place covering licensing, training of trainers, and content development training.	✓ I23. 8 <i>woredas</i> with community radio station in operation.	Lending ICTAD project	The indicator used is a weak measure of the use of community radios for improved service delivery.
Strategic Objective 3: Reducing Vulnerability					
3.1 Reduce exposure to chronic food insecurity and shocks	14. Reduce food insecurity I24. Reduce the average number of days chronically food insecure households participating in PSNP public works activities (comprising 5.75 m people) report being food insecure from 110.6 days in 2006 to 98.5 days by end-2010.	M30. Proportion of PSNP program <i>woredas</i> completing 80% of transfer distributions by end-July annually increases from 12% in 2007 to 75% in 2010.	✓ I24. PSNP has improved food security by 1.05 months for households participating in public works activities between 2006 and 2010. (Impact assessment 2010)	AAA Urban Safety Nets Note Rural Safety Nets Note Urban Poverty Lending PSNP 3 Partners PSNP Partners	Using days as the unit of measure is not consistent with the available data, which uses months as its unit of measure. The available data is not so accurate to be measured in days.
	15. Develop long-term strategy for food security and vulnerability to natural disasters I25. A food security program and disaster risk management strategy that is coherent and consistent with macro outlook developed.	M31. Impact assessment of PSNP completed.	✓ I25. Food security program and disaster risk management strategy has been developed and expected to be approved by third quarter of FY12. ✓ M31. 2010 impact assessment of PSNP completed.	AAA Urban Poverty Rural Safety Nets Note Urban Safety Nets Note Lending PSNP 3 Partners PSNP Partners	
	16. Increase investment in community-based watershed management I26. 60,000 hectares watershed rehabilitated in 2007/08 and 2011/12. I27. Investment in community based flood management rises from 0 in 2007/08 to US\$5m end 2011/12.	M32. SLM and Tana Beles projects launched. M33. Flood preparedness and early warning system in Tana Basin launched.	✓ I26. 528, 212 hectares watershed rehabilitated in 2007/08 and 2011/12 (210,000 ha through SLM and 318,212 ha through PSNP public works) ✓ I27. Investment in community based flood	Lending PSNP 3 Sustainable Land Mgt SIL Tana Beles Partners RED&FS group IDA/GEF, KfW, GTZ	

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
			management is US\$ 1.4m at end of 2011/12. An additional US \$4.35 has been committed to ongoing construction of emergency shelters and procurement of heavy duty equipment to support dredging and embankment construction activities.		
3.2 Address environmental degradation and population pressures	I28. Federal and Regional SLM Platforms hold regular meetings to provide policy and technical guidance in the implementation of SLMP activities, including annual planning sessions to develop collaboratively annual work programs.	M34. Federal and Regional SLM Platforms established.	✓ I28. Platform meetings are continuing and guidance and directive are being provided by the SLM steering committees established by the TerrAfrica Initiative.	AAA Climate Change Climate Change Adaptation Land Administration Lending Sustainable Land Mgt SIL PSNP 3 Partners RED&FS group	
	17. Accelerate demographic transition I29. Contraceptive prevalence rate as measured by Demographic Health Survey (DHS) increases by 2 percentage points p.a. from 15% in 2004/05 to 25% in 2011/12.	M35. Hormonal contraceptives distributed to cover 8.75 million couple-years of protection in 2009/10, up from 6.1 million in 2006/07. M36. Annual distribution of male and female condoms increases from 80 m in 2006/07 to 140 m in 2009/10.	✓ I29. Contraceptive prevalence rate doubled to 29%. (DHS 2011)	Lending PBS 2 MAP II Partners UNFPA, WHO,	
	18. Increased voice of women within communities. I30. Participation of women in community meetings (social accountability interface meetings) related to PBS 2 increases by 30% between December 2010 and June 2012.	M37. PBS 2 social accountability interface meetings take place in 172 <i>woredas</i> .	✗ I30. No data available until July 2012 when implementation of sub-projects begins.	AAA Gender Study Lending PBS 2 Partners PBS partners 50-60 CSOs	There is evidence that the increased income for PSNP beneficiaries has done much to empower women, hundreds of thousands of whom now have their own incomes.
Strategic Objective 4: Fostering Improved Governance					
4.1 Improve government effectiveness and quality of	19. Improve performance of the public service I31. <i>Woreda</i> /City Bench-marking Surveys (WCBS) show improving	M38. Business process reengineering implemented in all federal and regional public institutions.	≈ I31. Percentages of people satisfied with Agriculture Extension Service, Solid-waste service, Water supply service	AAA ICA Public-Finance Review(JBAR)	

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
<i>public administration.</i>	perception of integrity and performance of public service: performance measured by percentages of people satisfied with Agriculture Extension Service, Solid-waste service, Water supply service and Health service, increasing from 82%, 69.9%, 60% and 34% in 2008 to 85%, 75%, 62% and 60% in 2012 respectively, and integrity measured by percentage of people who made extra payments for general service, decreasing from 4.3% in 2008 to 4% in 2012.		and Health service was 94%, 74%, 58% and 70% respectively in 2011. The percentage of people who made extra payments for general service was 6.5% in 2011.	Procurement Reforms Lending PSCAP PBS 2 Urban Local Government Development Partners PSCAP Partners, CIDA DFID	
	I32. Improvement in public financial management performance evidenced by at least 25% of the Public Expenditure and Financial Accountability indicators showing improvement over corresponding 2007 scores.	M39. Balanced score-card performance management system rolled out to all federal and regional institutions. M40. Functional public procurement oversight with annual procurement audits for 50% of procuring entities.	✓ I32. 14 Public Expenditure and Financial Accountability indicators improved out of a total of 28 from 2007 (50% improvement).	AAA: Country Fiduciary Assessment	
4.2 Enhance the accountability and responsiveness of government.	20. Greater capacity of local government to engage with citizens for more responsive services I33. Participatory planning of basic services adopted by 2011/12 in 30% of <i>woredas</i> that receive Local Investment Grants (from 0% in 2008/09). I34. 12 out of 19 selected cities will have reported a 75% increase (from the 2008 baselines reported by each city) in the number of citizen groups participating in the planning process for Capital Investment Plans by the end of 2011/12.	M41. Planning guidelines with procedures and formats for citizen engagement issued in <i>woredas</i> . M42. Capital Investment Plans in 19 selected cities prepared.	✓ I33. Participatory planning of basic services adopted by 2011/12 in 80% of <i>woredas</i> that receive Local Investment Grants (from 0% in 2008/09). ✓ I34. 17 cities out of 19 achieved 75% increase in 2010/11.	AAA Capacity Building TA Lending PBS 2 PSCAP Urban Local Government Development Partners PBS, PSCAP partners, CSSP, CSF, JGAM partners	

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
	<p>I35. Satisfactory implementation of targeted anti-corruption strategies to reduce corruption in key hotspots, as assessed at the end of FY2011/12.</p>	<p>M43. Knowledge and consensus developed over key corruption hotspots by end- 2010.</p> <p>M44. Strategies developed in selected areas by mid-2011.</p>	<p>✱ I35. A corruption study is being published in the next few weeks, after which a strategy for procurement in infrastructural development will be developed with the FEACC.</p>	<p>AAA Public Finance Review (JBAR) Partners DFID, Dutch, CIDA</p>	
	<p>I36. Layperson's Budget and Service Facility Templates posted in +50% of <i>woredas</i> by the end of 2011/12.</p> <p>I37. 19 selected cities disclose budget and expenditure information by the end of 2011/12 from 0 in 2007/08.</p>	<p>M45. All Regions encourage posting of Service Delivery Templates in service providers (schools, health clinics, etc.).</p>	<p>✓ I36. Layperson's Budget and Service Facility Templates posted in 83% of <i>woredas</i> by the end of 2011/12.</p> <p>✓ I37. All 19 cities have disseminated key information to the public on budgets and expenditures for 2008/09,2009/10and 2010/11</p>	<p>AAA Decentralized Service Delivery Lending PBS 2 PSCAP Urban Local Government Development Partners PBS, PSCAP partners, JGAM partners</p>	
Other Outcomes					
5.1 Deepen partnerships	<p>21. Increase donor partnership through IDA-supported multi-donor programs</p> <p>I38. Paris Declaration target for 66% of donor support to be provided through program-based approaches is met by 2010, as measured by OECD (Baseline: 53% in 2005).</p>	<p>M46. 66% of IDA support provided through programmatic approaches by 2010 (Baseline: 59% in 2005).</p>	<p>✓ I38. According to 2011 survey on monitoring the Paris Declaration coordinated by OECD-DAC, 61% of donor support was provided through program-based approaches in 2010.¹²¹</p>	<p>AAA Coordination through Development Assistance Group and Sector Working Groups Lending Especially PSNP, Roads, PBS, PSCAP, Water Supply and Sanitation, SLM, GEQIP, Energy Access, AGP Partners All development partners Regional initiatives including NEPAD/ Comprehensive Africa Agriculture Development Program</p>	

¹²¹ Indicator will be achieved in 2011 with the approval of Additional Financing for PBSII and PSNP ALP3

Strategic and Longer-Term Country Outcomes	CAS Outcomes	Milestones	Status and evaluation ¹¹⁶	Lending and non-lending activities that contributed to outcome	Comments and lessons for next CAS
5.2 Reinforce gender sensitivity in development activities.	22. Mainstream gender in IDA supported programs. I39. All new lending in FY11-12 includes gender considerations in the Project Development Objective (the baseline is 0 and target is 100%).	M47. All FY11 new lending includes gender considerations in the PDO.	≈ I39. 4 out of 6 new lending in FY11-12 includes gender considerations in the project design and results framework as per GAP criteria.	AAA Gender Study Lending PBS 2, AGP, Urban Local Development. Partners All development partners	The indicator is not an appropriate measure of gender mainstreaming in operations. The Africa Gender Action Plan has more detailed and nuanced criteria of how gender considerations are to be mainstreamed into lending operations.

Annex 2 – Planned lending program and actual deliveries (FY08 – FY12)

Original CAS Lending Program (IDA, US\$ mln)			Lending Status at Completion (IDA, US\$ mln)		
2008	Rural Electricity Access Expansion 2	133.5	2008	Rural Electricity Access Expansion 2	133.5
	Protection of Basic Services Add. Financing	215		Protection of Basic Services Add. Financing	215
	Ethiopia/NBI Power Export: Ethiopia/Sudan	41		Ethiopia/NBI Power Export: Ethiopia/Sudan	41
	Tana Beles Integrated Water Resources	45		Tana Beles Integrated Water Resources	45
	Urban Local Government Development	100		Urban Local Government Development	150
	Sustainable Land Management	20		Sustainable Land Management	20
	Nutrition	30		Nutrition	30
	Pastoral Community Development 2	50		Pastoral Community Development 2	80
	<i>Total FY08</i>	<i>634.5</i>		<i>Total FY08</i>	<i>714.5</i>
2009	Protection of Basic Services 2		2009	Protection of Basic Services 2	540
	General Education Quality Improvement			General Education Quality Improvement	50
	Sustainable Tourism			Roads APL 4	245
	Roads Adaptable Program Loan APL 4			East Africa Agriculture Program**	30
				Global Food Crisis Response Program:	250
				<i>Fertilizer Support Project</i>	25
				<i>Productive Safety Net APL 2 Add. Financing</i>	35
				Tourism Development Project	(\$137.5)
	<i>Total FY09</i>	<i>635¹²²</i>		<i>Total FY09</i>	<i>1,175</i>
2010	Productive Safety Net Program APL 3		2010	Productive Safety Net Program APL 3	480
	Rural Electricity Access Expansion 3			Electricity Access Expansion Add. Financing	180
	Rural Development			Public Sector Capacity Building Program AF	50
	PSD Support			Water Supply and Sanitation Add. Financing	80
	Public Sector Capacity Building Program			Roads APL2 Additional Financing	100
	<i>Total FY10</i>	<i>635</i>		<i>Total FY10</i>	<i>890</i>
Subtotal FY08 – 10		1,904.5	Subtotal FY08 – 10		2,779.5
2011	Agricultural Growth Program	150	2011	Agricultural Growth Program	150
	Protection of Basic Services 2 Add. Financing	340		Protection of Basic Services 2 Add. Financing	420
				Irrigation and Drainage Add. Financing	60
	<i>Total FY11</i>	<i>490</i>		<i>Total FY11</i>	<i>630</i>

¹²² Indicative IDA15 amounts were based on IDA FY08 allocations.

2012	NA	NA	2012	Urban Local Development Project Add. Financing	150
				PSNP APL3 Add. Financing	370
				Water Supply and Sanitation Add. Financing (pipeline)	150
				East Africa Power Pool (pipeline)	
				Electricity Network Reinforcement and Expansion	80.3
				Women Entrepreneurship Development	200
				<i>Total FY12</i>	50
					<i>1,000.3</i>
Subtotal FY11 – 12		490	Subtotal FY11 – 12		1,630.3
Total FY08 – 12		2,539.5	Total FY08 – 12		4,409.8

Annex 3 – Table of non-lending services and actual deliveries

CAS Plans		Status at Completion
2008	Investment Climate Assessment Health Financing Policy Note Rural ICA Public Finance Review (JBAR) Education and Nutrition Linkages ROSC Accounting and Auditing Climate Change Regional Growth Study (Amhara)	Completed Completed Completed FY09 Completed Completed Completed Completed FY08 Completed
2009	Gender Study (Previously Gender and Poverty Study) Regional Growth Study (Addis Ababa) Making Finance Work for Ethiopia Public Finance Review – Water Economics of Climate Change (Ethiopia) Policy Notes Macro-fiscal Issues Growth Telecom Reform Options Note (TA) Public Private Forum (TA) Strategic Review of Road Sector Development (planned FY09) ARD Public Expenditure Review	Completed FY08 Completed FY08 Financial Sector Review completed in FY08 Completed Completed Completed Completed Completed Completed FY10 Moved to FY12
2010	Eastern Nile Strategic Basin Assessment (Planned FY10) Land Administration Note Urban Poverty (Urban Vulnerability Note) Urban Safety Net TA (Urban Vulnerability Note) Design & Implement. a Rural Safety Net Capacity Building TA Financial Sector Review Portfolio FM Arrangement Sty:CIFA/PEF Procurement Reforms (included in CASPR) Development Policy Review (DPR) Joint Governance Assessment and Measurement (JGAM) Country Integrated Fiduciary Assessment (CIFA)	Completed FY11 Completed FY11 Completed Completed Completed Completed Completed Completed Completed FY10/11 Dropped Now a joint donor trust fund with DFID, CIDA and RNE Planned or underway (FY12)
CAS Progress Report Plans		Status at Completion
2011	Public Expenditure Review 2011 Roads Rural Access Development Climate Change Innovation for Development Land Administration Note Health Systems Note (converted to Health Systems for Outcomes TA)	Completed Planned delivery FY13 Completed Planned or underway Completed (from FY10) Completed Completed

	Mining Sector Support and EITI (TA) Economics of Adaptation to Climate Change	Completed FY11
2012	ICT for Transformation (TA) Tourism Sector Competitiveness Service Trade and Growth Rural Access to Solve Development Constraints A&A ROSC follow up (TA) Decentralized Service Delivery Secondary Education Review Health System Strengthening and Dialog (TA) Poverty and Migration (TA) Public Sector Capacity Building ARD Public Expenditure Review Professional Services Land Administration (TA)	Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway Planned or underway
AAA produced for investment lending and ongoing activities	Macroeconomic Scenario Analysis Note Quarterly Economic Monitoring Report Value Chain Analysis Notes Rural Economy Survey Service Delivery Quality and Decentralization PSNP Graduation Strategy Note TA for SLM Platform Policy dialog using FY07 Analysis of the Nature of Corruption Note Coordination through DAG and Sector Working Groups Energy Strategy	Produced as monthly updates Produced as monthly updates Conducted for the Agricultural Growth Project and the Rural Capacity Building Project Conducted for the Agricultural Growth Project and the Rural Capacity Building Project Conducted through PBS 2 Conducted as part of PSNP During CASPR scope changed to Climate Change and Climate Change Adaptation AAA Part of an engagement on health issues and demographic transformation Part of JGAM trust fund Ongoing activity Various pieces of work done over time as part of engagement with GoE

Appendix 5: Joint World Bank/IMF Debt Sustainability Analysis (DSA)¹

1. The DSA shows that Ethiopia remains at a low risk of external debt distress in 2012. However, vulnerabilities remain as the most extreme stress test indicates. The debt burden indicators remain below the policy dependent-thresholds for the whole projection period including all stress tests. Even though the external debt ratio remains within thresholds, it shows sensitivity to changes in the terms of new public sector loans. Although most of macro indicators and assumptions have slightly changed (downward) compared to the projections in the previous 2011 DSA, the present value (PV) of external debt to exports remains at similar levels (around 97 percent). The projection of new debt disbursement was lower than in last year's DSA estimate as disbursement of loans to public infrastructure investment is estimated to slow down. Furthermore, public infrastructure investment, as planned in the GTP, relies heavily on financing from domestic sources. Pursuing the full implementation of the investment plan in the originally envisioned time frame may lead to a large accumulation of public debt and could have implications of crowding the private sector. Ethiopia has substantial levels of foreign exchange receipts from remittances. Since the baseline and sensitivity tests without remittances do not breach any of the country specific thresholds, the analysis of DSA focuses on the method that does not consider remittances.

2. The 2012 DSA baseline scenario shows a rising path of public and publicly guaranteed external debt over the next few years, but will remain well under the various thresholds (see figures below). The PV of external debt in percent of exports will slowly increase peaking at 106.7 percent in 2017 and continue declining over the projection period. A similar trend is observed for the PV of debt to GDP and revenue. The debt service to exports is projected to remain well below the threshold; it will peak at 8.9 percent in 2019 and declines afterwards on account of the expectation of servicing non-concessional borrowing by public enterprises.

3. Under the historical scenario, the debt stock indicators are lower than under the baseline scenario in the short term but would rise slightly above those of the baseline scenario over time. The PV of debt to exports is projected to fall over the next five years by 23 percentage points from current levels before beginning to rise to a peak of 94.8 percent. The most extreme test which is characterized by new public sector loans negotiated on less favorable terms (200 basis point higher interest rate during the forecast horizon), would show a substantial increase to a peak of 145.7 percent (very close to the threshold), but decline after 2020. This is the result of the recent and further expected disbursement in non-concessional terms for public infrastructure investment.

4. With regard to total public sector debt (external and domestic sources), under the baseline scenario, the total public sector debt-to-GDP ratio would rise in the medium term. In addition to an accumulation of external public and publicly-guaranteed debt, a significant amount of domestic financing is projected to occur through major public enterprises, particularly the state-

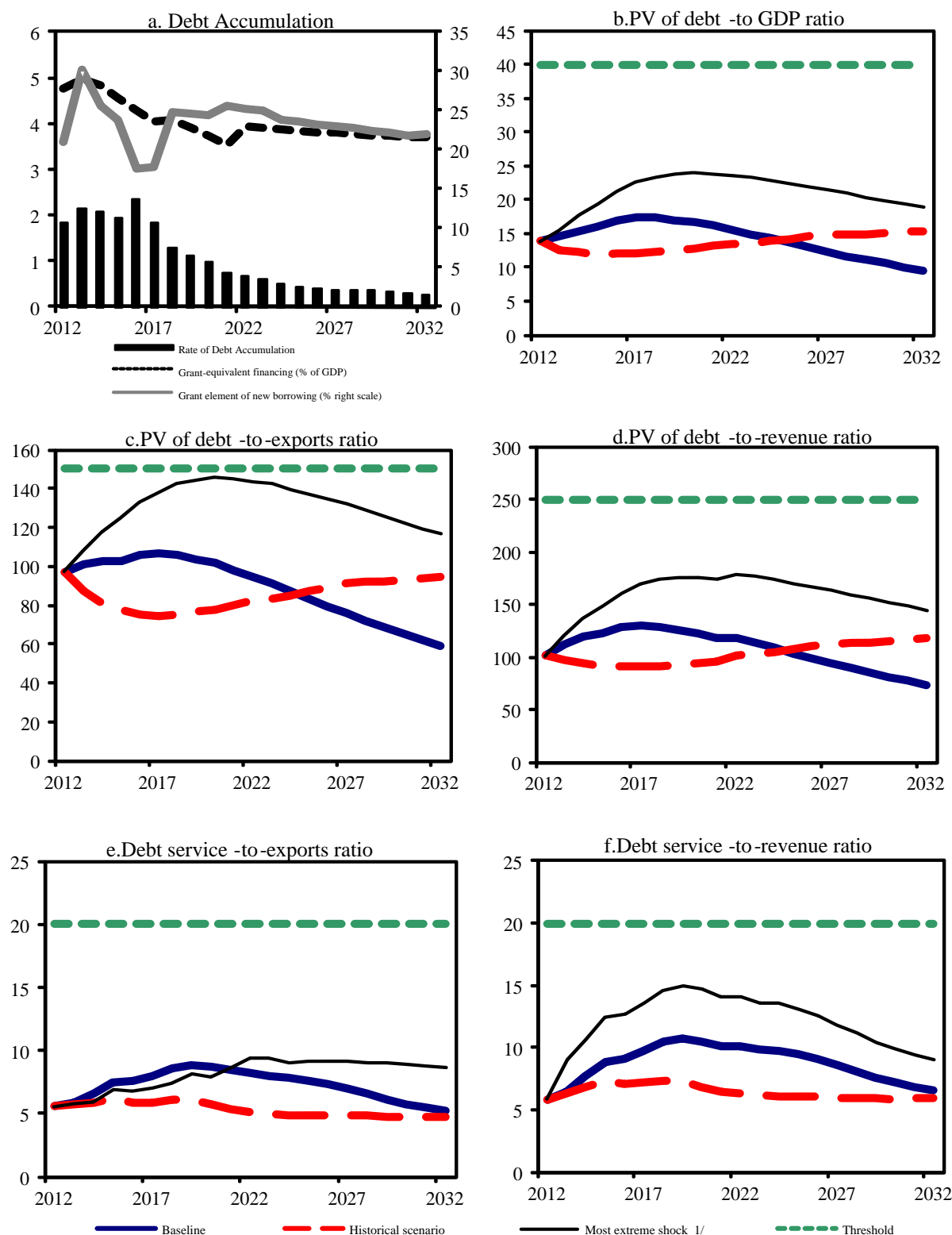
¹ This write-up reflects the preliminary outcomes of the latest DSA, which was carried out in May/June 2012, jointly with the IMF. The DSA document has not yet been published.

owned electricity company, which continues to run operating losses and plans to invest heavily. Among others, the Grand Renaissance Dam is expected to be financed largely from domestic sources.

5. In summary, DSA 2012 indicates that Ethiopia stays at a low risk of external debt distress – similar to the findings in 2009/10 and 2010/11. But given the large financing requirements for the GTP, it is expected that debt ratios would rise moderately in the medium-term but stabilize in the long-term. New disbursement projections reflect the fact that borrowing from domestic sources is capacity constrained and public enterprises would continue to rely significantly on external financing to sustain its large infrastructure investments that are driving growth; for the latter it has to be expected that a growing share would be on non-concessional terms. Consistent with GoE's intention to keep a low risk of external debt distress, the amount of non-concessional borrowing will be limited. Indeed there may be a trade-off between GoE's desire to maintain a low risk rating and the implementation pace of the GTP. In other words, GoE may need to increase the implementation period of the GTP in order to smooth the profile of the non-concessional financing requirements for the planned investments. Ethiopia is subject to the IDA Non-Concessional Borrowing Policy (NCBP). In the absence of an IMF program, IDA could establish a non-concessional borrowing limit if it was consistent with the maintenance of low debt vulnerabilities, and if the planned investments are critical and growth-enhancing.² The GoE officially requested a non-concessional borrowing limit of US\$ 1 billion and the Board will be informed of IDA management's decision as specified in the NCBP.

² The ability to establish a non-zero ceiling for non-concessional lending in IDA's NCBP in the absence of an IMF program was outlined in "IDA's Non-concessional Borrowing Policy: Progress Update", April, 2010. (IDA Sec 54240)

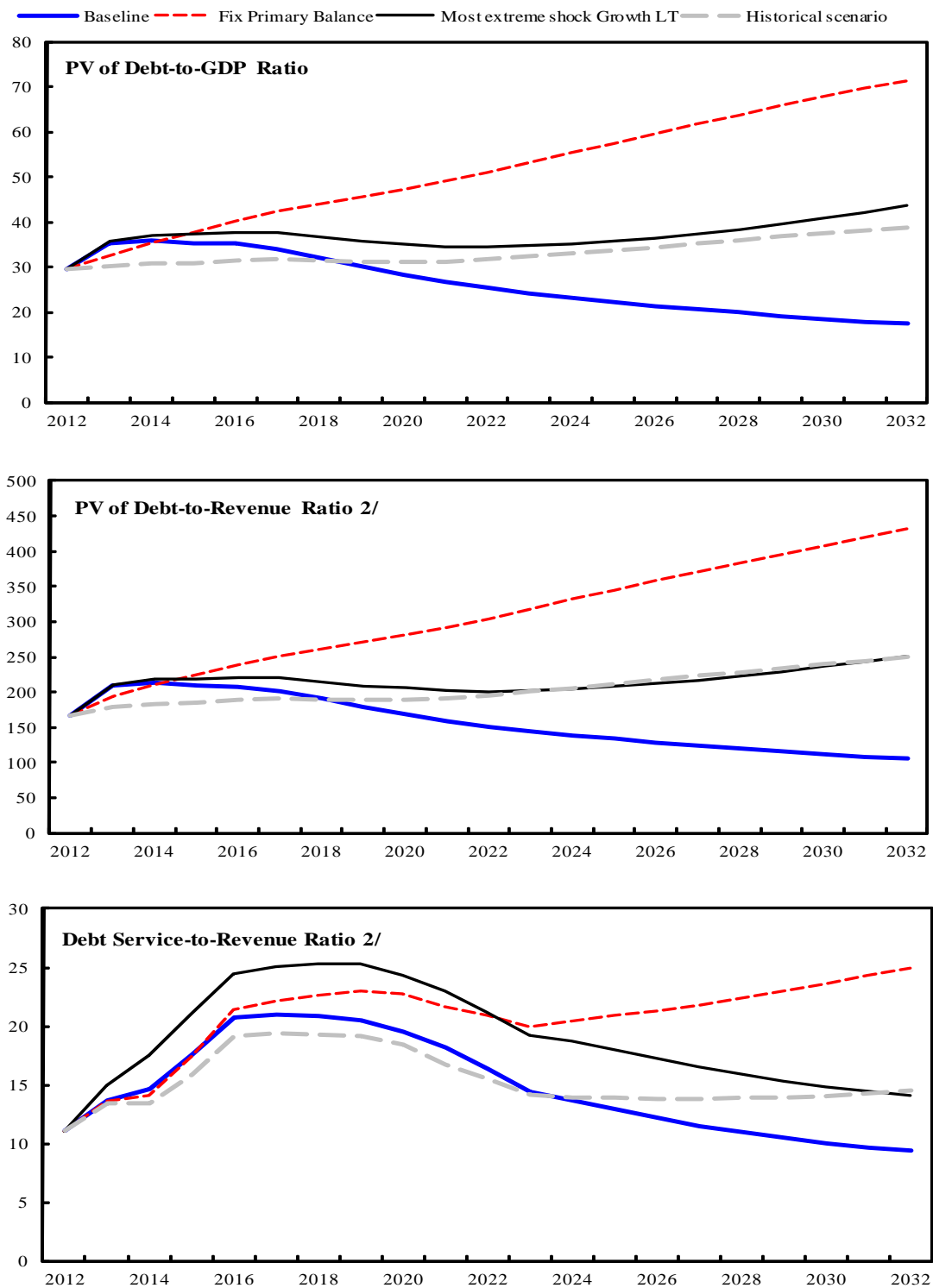
Ethiopia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Figure 2. Ethiopia: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

Appendix 6: Analysis of Gender Inequalities and Opportunities in Ethiopia³

1. The Government of Ethiopia's (GoE) has a strong commitment to gender equality, which is firmly rooted in national policies as well as in the signing of international and regional treaties and protocols on women's rights. Promoting gender equality is a central element in the GoE Growth and Transformation Plan 2010/11-2014/15 and its cross cutting sectors theme (Chapter 8) identifies a range of gender concerns. The Ministry of Women, Youth and Children's Affairs contribute to policy development and support gender mainstreaming in all government ministries and bureaus and spearhead responses to address gender inequalities. To date gender units have been established in all line ministries and in the regions. However, implementation capacity remains a challenge.

2. The gaps in women's and men's development opportunities are significant, and there is ample room for reduction in the country's gender inequality. The literacy levels of women are markedly lower than those of men, especially in rural areas and among urban poor. In education, the retention level of girls in secondary education is lower than that of boys, and the gender gap is steep in tertiary education. Despite having 28 percent female parliamentarians, women are generally under-represented in decision-making (only 3 of the ministers are women). There is a pronounced gender gap in access to and control of productive resources. Although they contribute to much of the agricultural labor, women's access to land continues to be limited despite joint land certification efforts. As a consequence their access to farm inputs, extension advice and credit are way below men's, what slows down land productivity and the country's economic growth. Women lack economic opportunities, have limited involvement in cash crop production, non-farm enterprises and wage employment. Harmful cultural practices (such as female genital mutilation (FGM) and early marriages) are widely practiced and gender based violence is widespread. Climatic changes, HIV/AIDS and other livelihood stresses put women's participation in the economy, society and in education further at risk. There is also considerable heterogeneity across region and location (rural vs. urban). Indicators of empowerment show increasing disparities between the best and worst performing regions, reflecting in part the deterioration of some indicators in the worst performing regions. Further, while progress has been made gender disparities persist, with regions that were ranked poorly in 1995 and 2005 are still lagging in 2011.⁴

3. While reducing the large gender gaps in Ethiopia is an important development goal in its own right, it is well established that improving gender equality in the country would lead to large leaps in achieving many of the other key development goals. World Bank (2008) estimates indicate that reducing basic gender inequalities in education and the labor market could increase the annual GDP growth in Ethiopia by around 1.9 percentage points – which would be an important contribution to poverty reduction given the elasticity of growth to poverty reduction.

³ The analysis is based on a comprehensive Ethiopia Demographic and Health Surveys (DHS) conducted in 2000, 2005 and 2011.

⁴ For example, the Gender Parity Index (the ratio of girls to boys attending school) in secondary net schooling attendance was 0.42 in Somali region, while it was 1.08 in Tigray – a difference that has been persistent over the years (DHS, 2011, section2.6.3).

Evidence from other countries confirm that under-investing in women limits economic growth and slows down poverty reduction (2012 WDR). Moreover, evidence across the globe links increases in women's productivity and earnings to lower household poverty and to better health and education outcomes for household members, especially children.

Reduced gender inequalities in primary education, but adult education still needs attention

4. The policies to ensure gender equality in education in Ethiopia are elaborated in the Education and Training Policy (April 1994) and the Education Sector Development Program IV, 2010. The GoE Educational Statistics Annual Abstract FY11 shows an increase in the female Gross Enrollment Rate for primary education (grades 1-8) from 84% in FY06 to 93% in FY11. The girls/boys ratio for 1-4 grade worsened from 95% in FY07 to 90% in FY11, while the ratio for grade 5 to 8 improved in the same period, from 88% to 96%. Improvements continue for secondary enrolment – female GER for grades 9-10 increased from 25% in FY06 to 35% in FY11, while male GER is relatively stable around 42-45%. Hence, the girls/boys ratio in secondary education increases – from 59% in FY06 to 83% in FY10. Average drop-out rates in primary school have been approximately the same for boys and girls during the last 7 years. In 2011, 51% of women between 15 and 49 years of age did not have any education compared to 29% of men compared to 75% of women and 52% of men in 2000 (Table below). Secondary school attendance shows a much less favorable picture with very low rates for both girls and boys and the numbers are actually declining. Very few people have more than secondary school in Ethiopia and the gender difference in tertiary education and above is large. Even though the growth in shares with this level of educational attainment has been high, the shares remain low. Only 4 percent of women have education higher than secondary, while the corresponding figure for men is 7 percent.

Educational status for women and men age 15-49, from 2000 to 2011.

		2000	2005	2011
No education	Women	75.2	65.9	50.8
	Men	52.1	49.2	29.5
Primary	Women	15.8	22.2	38.0
	Men	33.0	37.3	53.1
Secondary	Women	8.5	10.5	6.8
	Men	12.8	17.3	10.1
More than secondary	Women	0.6	1.4	4.4
	Men	2.1	2.4	7.3

Women's health continues to be of major concern

5. Maternal mortality remains at alarmingly high rates, despite being considered among the most important indicators of women wellbeing and one of the Millennium Development Goals. Use of contraceptives doubled from 2005 to 2011 (from 15% to 29%), family planning increased from 25% of households to 60% in the same period and population growth is declining in Ethiopia (Ethiopia Population and Housing Census 2007). Fertility declined 10% from 2005 to 2011 while adolescent fertility was reduced 35% in the same period. Despite fewer births per women and expectations of reduced maternal mortality ratio⁵, especially among very young

⁵ Maternal Mortality Ratio is defined as the number of deaths during pregnancy, childbirth or the first 2 months of childbirth per 100,000 live births.

women, maternal mortality remains stubbornly high (673 deaths per 100.000 live births in 2005 and 676 in 2011).

6. Women with poor nutritional status have higher risk of adverse pregnancy outcomes, and hence anemia is of particular importance for this group. The reduction of anemia in women has been large in Ethiopia from 2005 to 2011 - actually more than twice the reduction in anemia in children in the same period. The DHS 2005 and 2011 show the share of women suffering from moderate and severe anemia has been more than halved in this period, while there has been a 25 percent reduction in the share with mild anemia. The reduction has been higher in urban areas, although the urban-rural difference is much lower than what is found for children. Severe anemia was almost eliminated in urban areas as the share declined by 85 percent. Nonetheless, the prevalence of anemia in women is still high and the gap between men and women in 2011 shows the disadvantaged situation of women (prevalence of anemia is twice as high in urban women as that of urban men, while it is 40 percent higher for rural women as compared to rural men).

Significant benefits to be gained from gender equalizing policies in the economic sector

7. In accessing jobs, Ethiopian women's opportunities to leverage their labor in the market are hindered by their limited skills and greater burden of household responsibilities. As a result, women face lower economic activity rates⁶, lower employment rates and higher unemployment rates than men. They are also disproportionately concentrated in unpaid or flexible jobs that offer lower earnings and less security and their ability to move to better jobs is limited by some form of labor market discrimination/segmentation. Factors such as location and age are also correlated with worse labor market outcomes. Nevertheless, there are some encouraging signs of progress in Ethiopia when it comes to women's participation in the economy. The economic activity rate is equalizing among the younger cohorts in urban areas as it increased 10 percent for young women (age 20-34) from 2009 to 2011 while there was no change for young men. Still, the gender gaps in the urban economy remains very large: the female unemployment rate is twice as large as that of males in 2011, women earn 50 percent less than men, the share of women without education is double that of men, microenterprises owned by women earn only a fraction of those owned by men and women face larger barriers for doing business.

8. Around 45 percent of the differences in earnings between men and women in Ethiopia can be explained by worker characteristics, while as much as 40 percent of the gap is unexplained. Among workers characteristics, lower investments in human capital and less experience on the job account for 25 to 39 percent of the gap in earnings between men and women. Job characteristics are also systematically less favorable for women. Independent of their observable individual characteristics, women are more likely to end up in less rewarding segments of the labor market, pointing to some implicit form of job discrimination, particularly for the younger wage employed. Finally, about 40 percent of the wage gap cannot be explained based on observable individual or job characteristics. In the economics literature this

⁶ According to ILO definition, economically active means to be working to produce goods and/or services for others or for own consumption, or actively seeking such work (i.e. includes unemployed). Unpaid household chores such as preparing food, cleaning the house and taking care of children are not considered economic activities. The economic activity rate measures the share of the population that is economically active to the total population.

unexplained gap is referred to as “pure wage discrimination effects” as it implies that individuals with identical characteristics other than their gender are not being paid the same. This discrimination effect appears to be more marked as the age of the workers increases.

9. Gender equality is legally provided for in business ownership and administration, although in practice biases remain. The literature suggests that Ethiopian culture discourages women from taking up a career in business. Instead, women’s core activities are often perceived as reproductive tasks. This image leads to some specific bottlenecks, such as women’s ability to travel away from home, own larger animals, and even control their own independent income (ILO, 2003). Families of growth-oriented women would often frown upon their business initiatives and many women who would like to go into business cannot because their families or husbands do not allow them (TriodosFacet 2011). For the same reason, many women face cultural obstacles to grow their small business. Also, women are culturally pressed into traditional ‘women businesses’ such as food preparation, hairdressing, and textile production confirming the segmentation identified above (Stevenson and St. Onge, 2005). Analysis of the latest investment climate assessment data revealed that women face greater barriers at start up. Likewise, results from the Rural Investment Climate Survey for Amhara suggest that women are more likely than men to do activities with low capital requirements and low productivity (and often bearing social stigma) because of lack of other options, as opposed to men entrepreneurs whose businesses tend to be much larger and much more profitable. Further, non-farm enterprises owned by women in rural areas and urban towns tend to be much smaller and less productive than men’s.

10. Gender equality in land tenure, property ownership and inheritance is guaranteed by legislation, which also recognizes the legal presumption of joint property by spouses. Yet in practice biases persist, particularly towards single women. In some regions such as Amhara and Tigray efforts have been made to ensure equal land use rights for women. The most significant development in the recent past in this area has been the programs of land certification implemented in the four main regions of the country. More than 20 million land-use certificates have been issued with both spouses’ names and photos on the certificates, and women’s registration for land increased significantly. Some of the benefits of those programs are already becoming apparent and a recent nationwide survey indicated that more than 80 percent of households expected rural land certification to improve women’s position and women respondents who had received a joint certificate almost universally pointed to this as having improved their economic and social status. Nonetheless, there is still scope for improvements in gender-mainstreaming of these programs and of their implementation on the ground.

Women lack access to justice

11. Progress in the legal framework was achieved in 2005 when the Family and Penal Codes were purged of gender biases, the minimum age for marriage was raised to 18 and important concepts such as rape were broadened and domestic violence specifically listed as a crime. All new legislation is now systematically reviewed through gender lenses, reflecting a commitment by the government to close the gender gap. Ethiopia has signed, but not ratified the Women’s Rights Protocol to the African Charter, which entered into force in November 2005. Nonetheless, evidence suggests violence against women in Ethiopia is among the highest in the world – 70% have been assaulted by their partner (WHO 2006) and domestic violence in Ethiopia can increase

when women enter formal employment (WDR, 2012). The 2011 Demographic and Health Survey found that 68 percent of all Ethiopian women believe that such violence is justified for one reason or another (down from 81 percent in 2005). Abduction of young girls and of female genital cutting continues to be major problems in many parts of the country. The introduction of the Charities and Societies Proclamation law (CSO law) in 2010 has negatively affected the NGOs that promote gender equality, especially the Ethiopian Women Lawyers Association (which played a crucial role in changing the legislation towards gender neutrality in 2004-05).

12. In urban areas, more advanced women entrepreneurs face more severe challenges than their male counterparts and appear to suffer especially from vulnerability to crime, corruption and extortion. Most micro and small business owners fear taking their disputes to courts. There seems to be a general perception that going to formal courts is waste of time and that those with the most resources will win the case anyway. Hence, many entrepreneurs prefer settling disputes through mediation, arbitration or other means including at the cost of unofficial payments and undue loss of revenues.

Recommendations

13. In education and health, the aims are given from GTP, MDG and Bank priorities. The WB programs will promote GOE efforts to raise the girls/boys ratio for both primary and secondary education enrolment and completion. Given the potential for adult education for women, skill development/strengthening programs (e.g., vocational and entrepreneurial training) for women will be promoted. In health, continued efforts to reduce fertility will be prioritized together with interventions that are credible for reducing maternal mortality ratios. Women's entrepreneurship is increasingly recognized as an important untapped source of economic growth. The Bank will build on the experiences from WEDP and the emerging research in the area to further support growth-oriented women and men micro and small enterprise owners. In access to justice the main opportunity for the Bank is to support enforcement of existing laws and regulations. Bank in collaboration with the Government and other development partners will consider supporting low-level low-cost business dispute resolution mechanisms, for both women and men.

14. The Bank will intensify its AAA to assist the GoE to deliver on its national gender commitments and improve on its gender equality indicators. There is a clear need for more rigorous impact evaluations to inform the design of programs in a range of Bank supported programs. Continued assistance will be provided to support the collection of sex-disaggregated data. The Bank is currently conducting studies of Access to Justice of Poor and Vulnerable Groups in Addis Ababa to inform the future engagement. There are substantial knowledge gaps on the impacts of supporting female income generation and under the WEDP a rigorous impact evaluation will be undertaken.

Appendix 7: Mainstreaming Climate Change into WB Program

1. **The Government and the Bank regard climate change and variability as an important challenge for Ethiopia.** As the Government puts it in its Vision of a Climate Resilient Green Economy (CRGE): *“Ethiopia did not cause climate change, but we are confronted by the threat that it poses, and should recognize the opportunity that it presents. Climate change is not a future possibility for Ethiopia, it is a present reality.”*
2. **Ethiopia’s climate is changing and expected to change further at unprecedented rates.** Ethiopia has become warmer over the past century and, as predicted by most climate change models, human induced climate change will bring further warming, likely associated with heat waves and higher evapotranspiration. While there is uncertainty about future rainfall amounts, rainfall variability is predicted to increase further, likely leading to more droughts and floods and other challenging impacts.
3. **Ethiopia is highly vulnerable to climate change and variability.** Roughly 85 percent of the population are living in rural areas and are heavily dependent on rainfed agriculture; about 10 percent of the population is chronically food-insecure and several million more people fall into transitory food insecurity each year; more than a third of all Ethiopians fall under the food-poverty line (2010/11). The threat to this population from further climate variability and climate change is high. As stated in the WB report “Economics of Adaptation to Climate Change”: *“Ethiopia is heavily dependent on rain-fed agriculture, and its geographical location and topography in combination with low adaptive capacity entail a high vulnerability to the impacts of climate change.”* While the threat from droughts and floods on agriculture might lead to the largest and most acute impacts, Ethiopia is also vulnerable in terms of other sectors including water, transport, industry, energy, health and in terms of its environmental resources.
4. **Ethiopia has also significant mitigation potential and GoE aim is a carbon neutral growth trajectory.** This is emphasized by the Government in the CRGE Vision. Its Green Economy Strategy is based on four pillars including (i) improved crop and livestock practices; (ii) forestry; (iii) renewable energy; and (iv) “leapfrogging to modern and energy-efficient technologies in transport, industrial sectors, and buildings.” A major emphasis will have to be on agriculture and forestry, which “contribute around 45% and 25% respectively to projected GHG emission levels under business-as-usual assumptions and together account for around 80% of the total abatement potential.” Given the ambitious CRGE agenda, changes will be required in policies, regulations and institutions as well as program designs and financial support.
5. **This CPS addressed climate change as a cross-cutting issue.** It sees climate change as a challenge and opportunity to be addressed as part of and integrated into the development process, and the Bank’s support to the development process as outlined under the two pillars (Fostering Competitiveness & Employment; Enhanced Resilience & Reduced Vulnerabilities) and various sectors of this CPS. This is in line with the CRGE and how climate change aspects are being integrated into the GTP.
6. **Consequently, this CPS first and foremost emphasizes the Bank’s support to key sectors of crucial importance to climate change,** including agricultural and pastoral

development, sustainable land management and food security, and renewable energy. Supporting the development of these sectors are expected to lead to ‘win-wins’, i.e., an economic development that is making the country and its people more resilient and that is ‘green’ (low-carbon). **In addition, the Bank is planning to undertake work focusing on climate change.** It will build on its work specific to climate change during the past CAS period⁷ and further strengthen its support to Government’s demands including:

- *Further strengthen the Bank’s climate change focus under this CPS.* Specifically, it is proposed to strengthen the systematic and enhanced treatment of climate impacts at the strategic level. This would build on a framework that will be developed for IDA-16 based on selected case studies. Specifically, the work would help to provide climate change impact analysis at the strategic level, propose sector guidelines for 3 climate sensitive sectors: agriculture, water, and roads infrastructure, and seek to develop an institutional assessment tool (or scorecard) which will allow Ethiopia to understand their capacity needs and gaps. This work could provide further strategic direction and, therefore, enhance the mainstreaming of climate resilience during implementation of this CPS.
- *Support and actively engage in the CRGE initiatives.* In particular through its engagement with line agencies, the Bank will support the development of the Government’s Climate Resilient Strategy.⁸ During the CPS period, the Bank also plans to support the “I-Planning” (implementation and investment-planning) progress led by the Government. In particular, we put a strong emphasis in engaging with the Ministry of Agriculture, the Ministry of Water and Energy and other relevant line agencies as well as the Regions in strengthening the integration of the I-Planning process with the development strategies and plan of the various sectors.
- *Support the Government in making the Bank-supported investment portfolio more ‘climate-smart’.* In particular, climate change acting at spatial and temporal scales has implications, including on the interactions and trade-offs within and between sectors. The Bank’s engagement in the “I-Planning” process is crucial for this ‘mainstreaming’ of climate change into the development processes and the Bank’s portfolio. In addition, we strengthen our engagement in specific studies and trials under ongoing or for future projects and programs with the aim to modify their design for an increased climate change impact. Examples are the work already started to make the Productive Safety Net Program (PSNP) more response to the challenges and opportunities of climate change, and the planned work to do the same for the Sustainable Land Management Program (SLMP) and the Agricultural Growth Program (AGP).
- *Continue engaging in few climate change-specific tasks* such as climate information systems or other specific AAA products or supporting the agenda on Reducing Emissions from Deforestation and Forest Degradation (REDD). However, as much as possible, these activities will also be integrated into and supporting the Government’s and Bank-supporting ‘development’ interventions.

⁷ Examples include the Humbo Assisted Natural Regeneration Project assisted by the BioCarbon Fund, the Scaling Up Renewable Energy in Low Income Countries (SREP) for Ethiopia or the AAA work on economic adaptation to climate change referred to above.

⁸ The CR Strategy will complement the already existing GE Strategy and is expected to be completed before the end of 2012.

Appendix 8: Mapping of the Development Partners in Ethiopia

Development partners (ODA, DAC and non-DAC donors)	Country Strategic Objectives under CPS						
	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Multilateral							
AfDF		X	X	X	X		X
IFAD		X				X	
IDA	X	X	X	X	X	X	X
IMF (Concessional Trust Funds)	X						
OFID			X			X	X
UNAIDS					X		
UNDP		X			X	X	X
UNFPA					X		
UNICEF		X			X	X	X
WFP					X	X	X
EU Institutions		X	X	X	X	X	X
Bilateral							
New Zealand						X	
Norway		X	X	X	X	X	X
Portugal					X	X	X
Spain		X			X	X	X
Sweden		X			X	X	X
Switzerland		X			X	X	X
United Arab Emirates					X	X	
United Kingdom		X	X		X	X	X
United States		X	X		X	X	X
Australia		X			X	X	X
Austria		X	X		X	X	X
Belgium		X			X	X	X
Canada		X		X	X	X	X
Denmark		X			X	X	X
Finland		X	X		X	X	X
France			X		X	X	X
Germany		X	X		X	X	X
Greece					X	X	
Ireland		X			X	X	X
Italy		X	X		X	X	X
Japan		X	X		X	X	X
Korea		X	X		X	X	X
Kuwait			X				
Luxembourg		X			X	X	
Netherlands		X	X		X	X	
Global Programs/Thematic International Organizations							
GAVI					X		
GEF							X
Nordic Dev.Fund			X				
Global Fund					X		

Source: DAG data

Top development partners

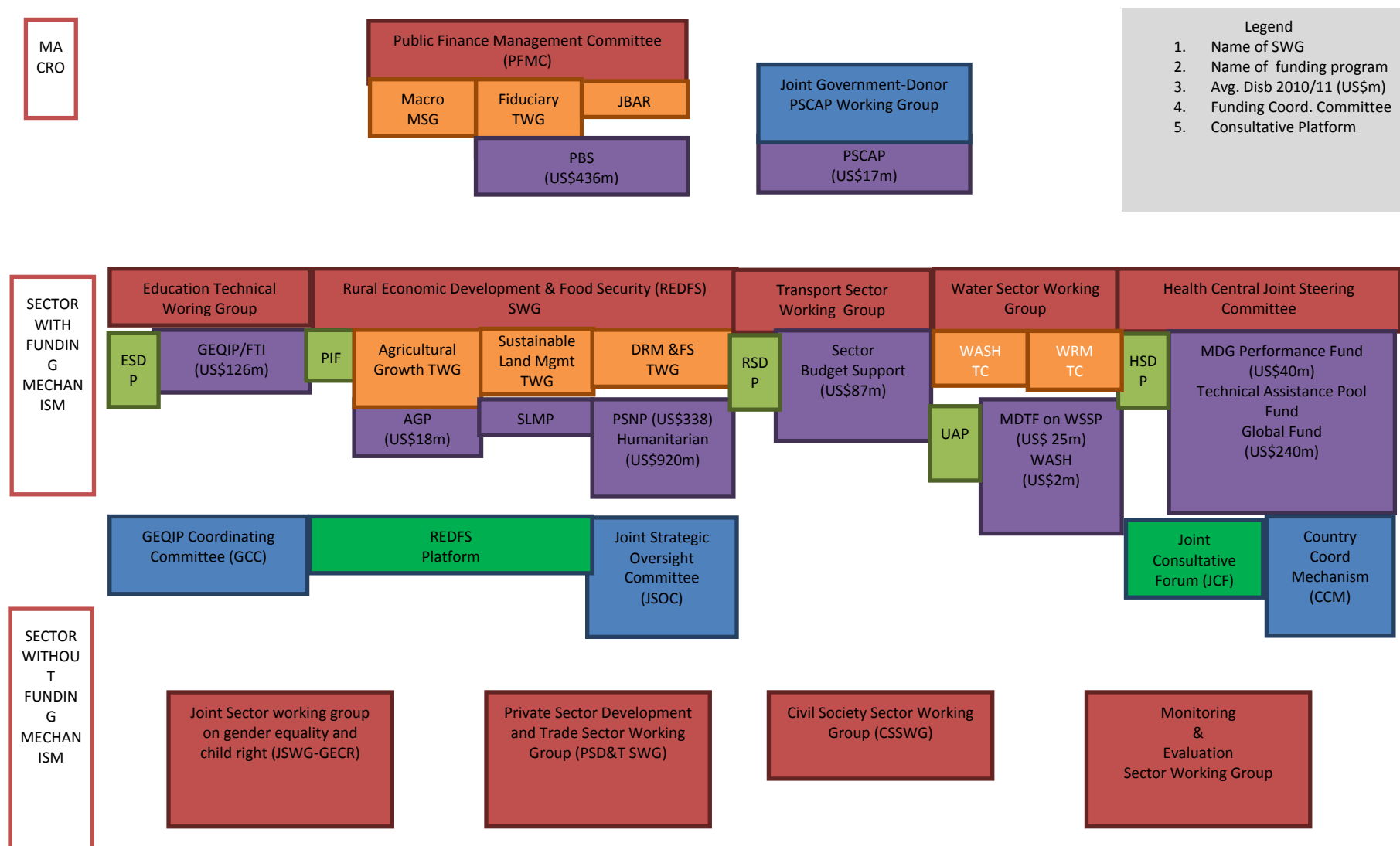
Ranking	Development partner	Total Disbursements US\$ millions at constant prices 2008-10	%
1	United States	2,908	26%
2	IDA	2,517	23%
3	United Kingdom	896	8%
4	EU Institutions	762	7%
5	Global Fund	588	5%
6	AfDF	508	5%
7	Canada	385	3%
8	IMF (Concessional Trust Funds)	286	3%
9	Germany	275	2%
10	Netherlands	274	2%

Source: DAG data

Development partners (ODA, DAC and non-DAC donors)	Country Strategic Objectives under CPS						
	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Multilateral	3%	5%	9%	1%	4%	4%	2%
Bilateral	0%	3%	2%	0%	17%	24%	2%
Global Programs	0%	0%	0%	0%	6%	0%	0%
Total	3%	8%	11%	1%	27%	28%	4%
Total excluding IDA	3%	5%	6%	0%	26%	28%	4%

Source: DAG data

Figure 8: Dialogue Structure between the Government of Ethiopia and Development Partners



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Annex 1: Ethiopia at a glance

Ethiopia at a glance

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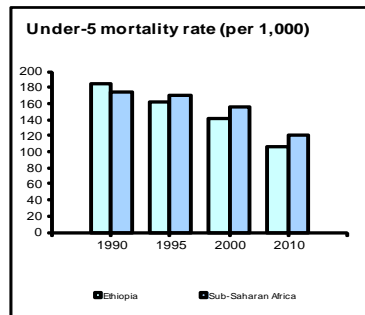
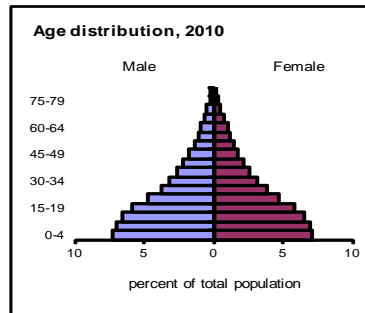
Key Development Indicators

(2011)

	Ethiopia	Sub-Saharan Africa	Low income
Population, mid-year (millions)	84.7	853	796
Surface area (thousand sq. km)	1,104	24,243	15,551
Population growth (%)	2.1	2.5	2.1
Urban population (% of total population)	18	37	28
GNI (Atlas method, US\$ billions)	33.8	1,004	421
GNI per capita (Atlas method, US\$)	400	1,176	528
GNI per capita (PPP, international \$)	1,040	2,148	1,307
GDP growth (%)	7.3	4.8	5.9
GDP per capita growth (%)	5.1	2.3	3.7

(most recent estimate, 2005–2011)

Poverty headcount ratio at \$ 1.25 a day (PPP, %)	39	48	..
Poverty headcount ratio at \$ 2.00 a day (PPP, %)	78	69	..
Life expectancy at birth (years)	58	54	59
Infant mortality (per 1000 live births)	59	76	70
Child malnutrition (% of children under 5)	29	22	23
Adult literacy, male (% of ages 15 and older)	42	71	69
Adult literacy, female (% of ages 15 and older)	18	54	54
Gross primary enrollment, male (% of age group)	107	104	108
Gross primary enrollment, female (% of age group)	98	95	101
Access to an improved water source (% of population)	38	61	65
Access to improved sanitation facilities (% of population)	..	31	37

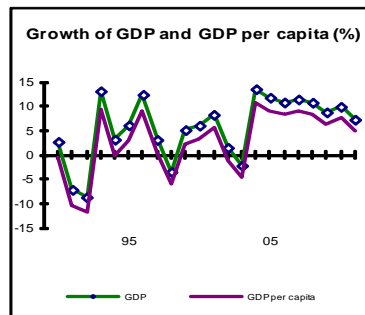


Net Aid Flows

	1980	1990	2000	2011 ^a
(US\$ millions)				
Net ODA and official aid	211	1,009	687	3,529
Top 3 donors (in 2010):				
United States	19	50	130	875
United Kingdom	4	35	11	407
European Union Institutions	32	109	69	238
Aid (% of GNI)	3.4	8.4	8.5	12.0
Aid per capita (US\$)	6	21	10	43

Long-Term Economic Trends

Consumer prices (annual % change)	12.5	5.2	6.2	18.1
GDP implicit deflator (annual % change)	4.3	3.3	9.5	24.4
Exchange rate (annual average, local per US\$)	2.1	2.1	8.1	16.1
Terms of trade index (2000 = 100)	131	151	100	123



	1980	1990	2000	2011	1980–90	1990–2000	2000–11
					(average annual growth %)		
Population, mid-year (millions)	35.4	48.3	65.6	84.7	3.1	3.1	2.3
GDP (US\$ millions)	7,269	12,083	8,180	31,715	2.2	3.8	8.9
					(% of GDP)		
Agriculture	60.7	54.3	49.9	46.4	0.9	2.6	7.1
Industry	9.4	9.9	12.4	10.5	3.5	4.2	9.3
Manufacturing	4.3	4.5	5.5	3.6	3.0	3.8	7.9
Services	30.0	35.8	37.8	43.1	4.0	5.2	10.9
Household final consumption expenditure	80.0	77.2	73.8	80.1	1.3	3.4	10.9
General gov't final consumption expenditure	9.8	13.2	17.9	9.2	4.0	9.5	3.3
Gross capital formation	14.5	12.9	20.3	25.8	4.9	2.7	11.5
Exports of goods and services	7.6	5.6	12.0	16.7	3.2	7.0	8.9
Imports of goods and services	11.9	8.8	24.0	31.8	3.2	5.8	14.2
Gross savings	10.8	11.9	16.2	25.6			

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.

a. Aid data are for 2010.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade

(US\$ millions)

	2000	2011
Total merchandise exports (fob)	486	2,747
Total merchandise imports (cif)	1,611	8,253
Net trade in goods and services	-976	-4,793

Current account balance	-335	-68
as a % of GDP	-4.1	-0.2

Workers' remittances and compensation of employees (receipts)	53	225
---	----	-----

Reserves, including gold	349	2,319
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Central Government Finance

(US\$ millions)

Current revenue (including grants)	15.7	15.5
Tax revenue	9.5	11.5
Current expenditure	20.6	7.9

Overall surplus/deficit	-9.4	-2.6
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Highest marginal tax rate (%)		
Individual	35	35
Corporate	30	30

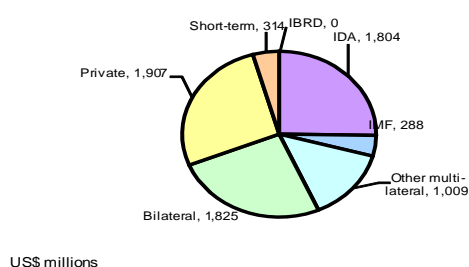
External Debt and Resource Flows

(US\$ millions)

Total debt outstanding and disbursed	5,495	8,224
Total debt service	138	465
Debt relief (HIPC, MDRI)	2,728	1,865

Total debt (% of GDP)	67.2	25.9
Total debt service (% of exports)	13.1	8.8

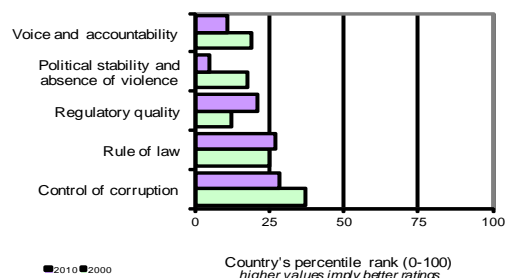
Foreign direct investment (net inflows)	135	94
Portfolio equity (net inflows)	0	0

Composition of total external debt, 2010**Private Sector Development**

Time required to start a business (days)	—	9
Cost to start a business (% of GNI per capita)	—	14.1
Time required to register property (days)	—	41

Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Tax rates	72.2	..
Tax administration	59.2	..

Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2010

Source: Worldwide Governance Indicators (www.govindicators.org)

Technology and Infrastructure

Paved roads (% of total)	12.0	13.7
Fixed line and mobile phone subscribers (per 100 people)	0	9
High technology exports (% of manufactured exports)	0.1	3.0

Environment

Agricultural land (% of land area)	31	35
Forest area (% of land area)	..	..
Terrestrial protected areas (% of land area)	17.7	18.4
Freshwater resources per capita (cu. meters)	1,767	1,503
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.09	0.09
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	19	2.2
Energy use per capita (kg of oil equivalent)	284	402

World Bank Group portfolio

(US\$ millions)

IBRD		
Total debt outstanding and disbursed	—	—
Disbursements	—	—
Principal repayments	—	—
Interest payments	—	—
IDA		
Total debt outstanding and disbursed	1,779	1,804
Disbursements	137	389
Total debt service	34	15
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	0	5
Disbursements for IFC own account	0	5
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	—	10
New guarantees	—	10

Note: Figures in italics are for years other than those specified. 2011 data are preliminary.
 .. indicates data are not available. — indicates observation is not applicable.

5/22/12

Development Economics, Development Data Group (DECDG).

Annex 2: Progress Towards Achieving the MDGs

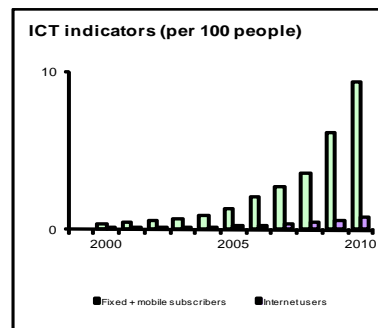
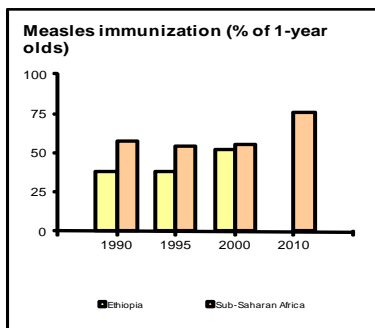
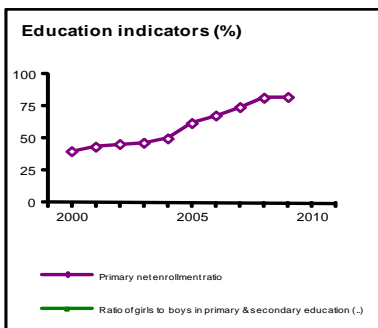
Millennium Development Goals

Ethiopia

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Ethiopia			
	1990	1995	2000	2010
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$ 1.25 a day (PPP, % of population)	..	60.5	55.6	39.0
Poverty headcount ratio at national poverty line (% of population)	..	45.5	44.2	38.9
Share of income or consumption to the poorest quintile (%)	..	7.2	9.2	9.3
Prevalence of malnutrition (% of children under 5)	..	..	42.0	28.7
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	30	23	40	83
Primary completion rate (% of relevant age group)	23	15	23	72
Secondary school enrollment (gross, %)	14	11	14	36
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	..	..
Proportion of seats held by women in national parliament (%)	..	..	..	..
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	184	161	141	88
Infant mortality rate (per 1,000 live births)	111	98	87	59
Measles immunization (proportion of one-year olds immunized, %)	38	38	52	75
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	990	920	750	470
Births attended by skilled health staff (% of total)	..	..	6	6
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	..	..
Tuberculosis case detection rate (% all forms)	110	25	59	72
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	17	22	28	38
Access to improved sanitation facilities (% of population)	..	..	..	..
Forest area (% of land area)	..	..	..	..
Terrestrial protected areas (% of land area)	17.7	17.7	17.7	18.4
CO2 emissions (metric tons per capita)	0.1	0.0	0.1	0.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	1.8	1.7	1.9	2.2
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.3	0.2	0.4	1.1
Mobile phone subscribers (per 100 people)	0.0	0.0	0.0	8.3
Internet users (per 100 people)	0.0	0.0	0.0	0.7
Computer users (per 100 people)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

5/22/12

Development Economics, Development Data Group (DECDG).

Annex 3: Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2007	2008	2009	2010	2011	2012	2013	2014
National accounts (as % of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	47	51	51	47	46	41	41	40
Industry	13	11	10	10	11	14	14	14
Services	40	38	39	43	43	45	45	45
Total Consumption	97	97	96	95	89	93	91	90
Gross domestic fixed investment	22	22	23	25	26	27	27	27
Government investment	18	17	18	13	15	16	17	16
Private investment	4	5	5	12	11	10	10	10
Exports (GNFS) ^b	13	11	11	14	17	15	15	15
Imports (GNFS)	32	31	29	33	32	35	33	32
Gross domestic savings	3	3	4	5	11	7	9	10
Gross national savings ^c	18	17	18	21	26	18	20	20
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	0	0	0	0	0	0	0	0
GNI per capita (US\$, Atlas method)	230	290	350	400	400	..	..	..
Real annual growth rates (% , calculated from 00 prices)								
Gross domestic product at market prices	11.5	10.8	8.8	9.9	7.3	5.5	5.5	6.5
Gross Domestic Income	11.3	10.5	10.1	14.0	9.7	5.1	5.3	6.8
Real annual per capita growth rates (% , calculated from 00 prices)								
Gross domestic product at market prices	9.0	8.4	6.5	7.6	5.1	..	..	..
Total consumption	8.2	8.6	7.1	9.5	0.7	..	..	..
Private consumption	9.5	9.0	8.1	10.5	-0.4	..	..	..
Balance of Payments (US\$)								
Exports (GNFS) ^b	2489	3060	3381	4047	5298	5814	6593	7458
Merchandise FOB	1188	1462	1448	2003	2747	3030	3292	3735
Imports (GNFS) ^b	6268	8282	9241	9855	10091	13373	14604	15564
Merchandise FOB	5128	6811	7727	8324	8253	11320	12382	13126
Resource balance	-3779	-5223	-5859	-5808	-4793	-7559	-8010	-8106
Net current transfers	2895	3699	4281	4623	4842	4426	4834	5255
Current account balance	-871	-1504	-1620	-1293	-68	-3244	-3358	-3105
Net private foreign direct investment	482	815	894	956	1100	970	1218	1379
Long-term loans (net)	239	704	1533	1210	1486	2659	2294	1806
Official	333	340	1063	983	705	807	551	323
Private	-94	364	469	227	781	1852	1743	1483
Other capital (net, incl. errors & omissions)	318	-435	-189	-476	-1453	-380	0	0

Indicator	Actual			Estimate		Projected		
	2007	2008	2009	2010	2011	2012	2013	2014
Change in reserves ^d	-168	420	-617	-398	-1065	-6	-155	-79
<i>(Continued)</i>								
<i>Memorandum items</i>								
Resource balance (% of GDP)	-19.3	-19.6	-18.3	-19.7	-15.1	-19.6	-18.1	-16.6
Real annual growth rates (2000 prices)								
Merchandise exports (FOB)	10.7	5.2	-2.3	8.3	30.2	6.9	5.9	10.7
Primary	..	..	..	..	..	..	..	..
Manufactures	-3.4	-1.5	-36.7	-58.0	78.9	17.0	16.7	15.8
Merchandise imports (CIF)	2.8	10.9	22.1	9.1	-8.8	30.5	9.5	3.9
Public finance (as % of GDP at market prices)^e								
Current revenues	15.8	14.4	14.9	16.0	15.5	14.8	15.3	15.5
Current expenditures	10.0	9.2	8.1	8.4	7.9	7.4	6.7	6.4
Current account surplus (+) or deficit (-)	5.8	5.2	6.8	7.7	7.5	7.4	8.6	9.1
Capital expenditure	10.7	9.7	9.1	10.3	10.4	11.4	12.6	12.6
Foreign financing	2.9	2.6	2.3	2.4	2.8	2.8	3.2	2.8
Monetary indicators								
M2/GDP	33.1	28.1	25.0	27.2	28.3	26.5	25.5	25.1
Growth of M2 (%)	19.7	22.9	19.9	24.3	39.2	29.8	24.7	17.7
Private sector credit growth / total credit growth (%)	38.0	36.2	34.7	55.5	30.5	30.1	40.8	44.9
Price indices(2000 =100)								
Merchandise export price index	102.7	120.2	121.7	155.5	163.8	169.0	173.4	177.7
Merchandise import price index	129.2	154.8	143.9	142.1	154.4	162.3	162.2	165.4
Merchandise terms of trade index	79.5	77.6	84.6	109.5	106.1	104.1	106.9	107.4
Real exchange rate (US\$/LCU) ^f	50.0	52.7	66.6	60.3	..	..	..	..
Real interest rates								
Consumer price index (% change)	15.8	25.3	36.4	2.8	18.1	34.4	23.9	12.0
GDP deflator (% change)	17.2	30.3	24.1	3.9	24.4	31.4	23.0	12.2

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 4: Key Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2005-11	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (<i>millions</i>)	41.1	57.0	84.7	853.4	796.3
Growth rate (<i>% annual average for period</i>)	3.0	3.3	2.2	2.5	2.1
Urban population (<i>% of population</i>)	11.5	13.9	17.6	37.4	28.3
Total fertility rate (<i>births per woman</i>)	7.0	6.8	4.8	4.9	4.1
POVERTY (<i>% of population</i>)					
National headcount index	..	45.5	38.9		
Urban headcount index	..	33.2	35.1		
Rural headcount index	..	47.5	39.3		
INCOME					
GNI per capita (<i>US\$</i>)	190	150	400	1,176	528
Consumer price index (<i>2005=100</i>)	45	92	317	147	151
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	32.4	40.0	29.8		
Lowest quintile (<i>% of income or consumption</i>)	8.6	7.2	9.3		
Highest quintile (<i>% of income or consumption</i>)	41.3	47.7	39.4		
SOCIAL INDICATORS					
Public expenditure					
Health (<i>% of GDP</i>)	..	2.1	2.0	3.0	2.0
Education (<i>% of GNI</i>)	1.0	2.5	12.5	5.0	3.8
Net primary school enrollment rate (<i>% of age group</i>)					
Total	..	23	83	75	80
Male	..	28	85	77	81
Female	..	18	80	73	78
Access to an improved water source (<i>% of population</i>)					
Total	..	22	38	61	65
Urban	..	82	98	83	86
Rural	..	12	26	49	57
Immunization rate					
(<i>% of children ages 12-23 months</i>)					
Measles	12	38	75	75	78
DPT	6	57	79	77	80
Child malnutrition (<i>% under 5 years</i>)	..	..	29	22	23
Life expectancy at birth (<i>years</i>)					
Total	44	49	58	54	59
Male	43	48	57	53	58
Female	46	51	60	55	60
Mortality					
Infant (<i>per 1,000 live births</i>)	123	98	59	76	70
Under 5 (<i>per 1,000 live births</i>)	206	161	88	121	108
Adult (15-59)					
Male (<i>per 1,000 population</i>)	491	448	311	379	297
Female (<i>per 1,000 population</i>)	401	358	265	346	260
Maternal (<i>per 100,000 live births</i>)	..	920	470	650	590
Births attended by skilled health staff (%)	..	..	6	46	44

This table was produced from the CMU LDB system. Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

Annex 5: Key Exposure Indicators

Indicator	Actual			Estimated	
	2007	2008	2009	2010	2011
Total debt outstanding and disbursed (TDO) (US\$m) ^a	2620	2879	5030	7147	8224
Net disbursements (US\$m) ^a	265	309	2244	2023	1078
Total debt service (TDS) (US\$m) ^a	88	72	62	130	361
Debt and debt service indicators (%)					
TDO/XGS ^b	90.6	82.3	138.5	163.6	144.6
TDO/GDP	13.4	10.8	15.7	24.2	25.9
TDS/XGS	3.0	2.0	1.7	3.0	6.3
Concessional/TDO	0.0	0.0	0.0	0.0	0.0
IBRD exposure indicators (%)					
IBRD DS/public DS	..	..	..	..	..
Preferred creditor DS/public DS (%) ^c	38.9	44.9	46.0	30.2	20.3
IBRD DS/XGS	..	..	..	..	..
IBRD TDO (US\$m) ^d	0	0	0	0	0
Of which present value of guarantees (US\$m)					
Share of IBRD portfolio (%)	0	0	0	0	0
IDA TDO (US\$m) ^d	711	859	1422	1804	2133

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 6: Ethiopia Country Financing Parameters

Item	Parameter	Remarks/Explanation
Cost Sharing Limit on the proportion of individual project costs that the Bank may finance	Up to 100%	The actual financing share will be determined during the preparation of each new project, and will typically be around 90% of total project costs. Bank financing up to 100% will apply selectively to individual projects, on a case-by-case merit/justification basis, including operations supporting reform efforts and addressing most basic human development needs, including but not necessarily limited to food security and safety nets, health, education, rural water supply, and HIV/AIDS. Higher than average share of Bank financing could be applied to specific CDD projects, IDF grants, and others where the in-kind contribution by beneficiaries is difficult to measure. The strong emphasis on borrower ownership to individual projects will continue.
Recurrent Cost Financing Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance	No country-level limit.	In determining Bank financing of recurrent costs in individual projects, the Bank will take into account sustainability issues at the sector and project levels, including implied future budgetary outlays. The approach to recurrent cost financing will be the following. First, project costing in the PAD will specifically include estimates of recurrent costs implications, and will outline what are the plans to phase out Bank financing of recurrent costs, and phase in Government's absorption of these costs, when the project is finished. In sectors where a tax/user-fee arrangement is considered essential for sustainability (e.g., roads), the Bank will also take this into account in determining appropriateness and level of recurrent cost financing. Second, the project will include a brief explanation of the relative share of recurrent costs, per year, compared to the most recent recurrent expenditure information for the sector where the project will be located. Third, the aggregate of recurrent costs estimated in the whole portfolio will be examined within the context of the overall composition of public expenditure, during the annual review of the national budget. This examination will focus on fiscal sustainability issues, and the schedule of progressively integrating the share of Bank financing of recurrent costs into the MEFF to show how Government will absorb these costs (implied future budgetary outlays), as Bank financed projects reach completion. The Bank will continue to monitor the overall fiscal and debt situation, in coordination with the IMF, and as part of the institutional processes around the PRSP (APR-JSAN, JBAR, PRSCs, and country strategies).
Local Cost Financing Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects	Yes	Ethiopia meets the two requirements for local cost financing. The Bank can finance local costs in any proportions required by individual projects.
Taxes and Duties Are there any taxes and duties that the Bank would not finance?	None	The Bank may finance the costs of taxes and duties associated with project expenditures, as there are currently no taxes that are deemed to be unreasonable or discriminatory. The final decision, however, will rest at the project level, when the project team assesses whether taxes and duties specific to the project activities financed constitute an excessively high share of project costs.
NOTE: The country financing parameters for Ethiopia set out below have been approved by the Regional Vice President, Africa Region, and are being posted on the Bank's internal website. Date: February 2, 2006 Currently the country financing parameters for Ethiopia are being reviewed.		

Annex 7: IDA and IFC Program Summary

Existing IDA and IFC portfolio at start of CPS FY13-16	FY appr	FY close	Country Strategic Objectives under CPS						
			Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Irrigation & Drainage Project	FY07	FY18			X			X	
Pastoral Community Development Project - PCDP	FY08	FY14						X	
Eastern African Agricultural Productivity - EAAP	FY09	FY15		X		X			
Agricultural Growth Program - AGP	FY11	FY16		X	X				
General Education Quality Improvement - GEQIP	FY09	FY14					X		
Energy Access	FY03	FY13			X				
Nile Basin Initiative: ET/SU Interconnection	FY08	FY13				X			
Electricity Access (Rural) Expansion	FY06	FY13			X				
Electricity Access Rural II	FY08	FY14			X				
Elect. Network Reinforcmt & Expansion – ENREP	FY12	FY17			X				
East Africa Power Pool (APL 1) - EAPP	FY13	FY19			X	X			
Sustainable Land Management - SLMP	FY08	FY14						X	
Private Sector Develop. Capacity Building - PSDCB	FY05	FY13		X					
Tourism Development Project	FY09	FY15		X					
Nutrition Project	FY08	FY14					X		
Public Sector Capacity Building - PSCAP	FY04	FY13							X
Protection of Basic Services Phase II - PBS	FY09	FY13	X				X		X
Productive Safety Nets III - PSNP	FY10	FY15			X		X	X	
RSDP Stage III Project APL3	FY07	FY15			X				
RSDP Stage IV APL4	FY09	FY16			X				
Water Supply and Sanitation – WSS	FY04	FY13			X				
Urban Water Supply & Sanitation - UWSS	FY07	FY13			X				
Urban Local Government Development – ULGDP	FY08	FY15			X				X
Tana & Beles Int. Water Res Dev Project	FY08	FY14			X				
Women Entrepreneurship Development - WEDP	FY12	FY17		X					
Ethiopia PPDF Initiative (IFC)	FY11	FY13		X					
Warehouse Receipt Financing Advisory Project (IFC)	FY09	FY12		X					

Annex 8: Status of WBG Operations (Operations Portfolio)

Indicator	FY09	FY10	FY11	FY12
Portfolio Assessment				
Number of Projects under implementation	30	25	25	24
Average Implementation Period (years)	2.7	3.0	3.9	4.1
Number of Problem Projects	3	2	4	2
Percent of Problem Projects by Amount				
Number of Projects at Risk	5	6	7	3
Percent of Commitments at Risk	7.5	20.2	9.7	2.0
Disbursement ratio (%)	49.7	36.9	33.5	35.8
Portfolio Management				
CPPR during the year (yes/no)	yes	no	no	Yes
Supervision Resources (total US\$000)	3,894	4,071	3,799	3,920
Average Supervision (total US\$000)	130	145	136	140
Memorandum Item				
Project Eval by OED by Number	4	3	1	n/a
DO % Unsat (ISR Rating)	25	33	0	n/a
Outcome % Unsat (IEG Rating)	25	33	100	n/a
RDO % High or Significant Unsat (No)	25	100	0	n/a

Annex 9: Selected Indicators of IDA Portfolio Performance and Management (end-June 2012)

Project number	Project Name	Net Commitment	Cumulative Disbursement	Disbursement Ratio	Date Effectiveness	Date, Closing	Age yrs	Percent Disbursed	Latest ISR DO	Latest ISR IP
P092353	Irrigation & Drainage SIL (FY07)	150	23.72	2.95	01/24/08	10/31/17	5.0	16%	MS	MS
P108932	Pastoral Community Development II (FY08)	80	50.37	34.24	10/09/08	12/31/13	4.1	63%	S	S
P112688	Eastern African Agricultural Productivity (Regional)	30	4.90	18.53	02/16/10	02/27/15	2.9	16%	MS	MS
P113032	Agricultural Growth Program	150	31.45	14.74	02/16/11	09/30/15	1.8	21%	S	MS
P122764	Women Entrepreneurship Development	50	0.00	0.00	-	12/31/17	0.1	0%		
P106855	General Education Quality Improvement (FY09)	50	40.13	50.41	06/10/09	07/07/13	3.5	80%	S	MS
P049395	Energy Access SIL (FY03)	313	136.05	7.24	04/09/03	06/30/13	9.8	44%	MS	MS
P074011	Nile Basin Initiative: SU Interconnection	41	36.61	47.07	07/31/08	06/30/13	4.5	89%	MS	MS
P097271	Electricity Access (Rural) Expansion	133	99.28	29.59	01/19/07	12/31/12	6.0	74%	MS	MS
P101556	Elect. Access Rural II SIL (FY07)	130	26.32	11.53	03/31/08	11/30/13	5.0	20%	MS	MS
P119893	Elect. Network Reinforcement & Expansion	200	0.00	0.00	-	12/31/17	0.1	0%		
P107139	Sustainable Land Management SIL (FY08)	20	12.71	33.06	10/10/08	09/30/13	4.2	64%	MS	MS
P050272	Private Sector Development Capacity Building	17	15.76	44.54	07/15/05	07/31/12	7.5	93%	S	S
P098132	Tourism Development Project SIL	35	5.53	3.91	02/25/10	12/30/14	3.0	16%	MU	MU
P106228	Nutrition SIL (FY08)	30	15.80	33.49	09/10/08	01/07/14	4.2	53%	S	S
P074020	Pub Sec Cap Bldg Project (FY04)	130	123.04	72.90	11/22/04	12/31/12	8.1	95%	S	S
P103022	Protection of Basic Services Phase II (FY09)	960	955.79	85.24	05/22/09	01/07/13	3.1	100%	S	S
P113220	Productive Safety Nets (APL III)	850	335.32	45.25	01/18/10	06/30/15	2.7	39%	S	MS
P082998	Road Sector Development APL2 under RSDP	348	355.73	93.57	06/08/05	06/30/12	7.7	102%	S	S
P091077	APL3-RSDP Stage III Project (FY07)	225	129.92	29.25	08/21/07	06/30/15	5.1	58%	S	MS
P106872	RSDP Stage IV APL (FY09)	245	51.19	13.35	09/14/09	06/30/16	3.1	21%	S	MS
P076735	Water Supply & Sanitation SIL (FY04)	167	126.70	48.40	11/22/04	03/31/13	8.1	76%	S	MS
P101473	Urban WSS SIL FY07)	250	49.33	17.57	09/07/07	12/31/15	5.2	20%	S	MS
P101474	Urban Local Government Development (FY08)	300	150.93	121.61	11/10/08	12/31/14	4.1	50%	S	S
P096323	Tana & Beles Int. Water Resources Dev Project	45	12.94	18.63	10/08/08	09/30/13	4.1	29%	MU	MU
TOTAL		5,094	2,833.48	34.20						

Annex 10: IFC and MIGA Program and Portfolio

IFC portfolio (US\$ million)

	2008	2009	2010	2011	TOTAL
Loans	50.60	-	-	7.15	57.75
Equity and quasi-equity	-	-	7.56	6.09	13.65
TOTAL	50.60	-	7.56	13.24	71.40

Client	Industry/Sector	2008	2009	2010	2011	TOTAL
DMC	Manufacturing and Services	50.60	-	-	-	50.60
Ethiopian Coffee	Agribusiness/Financial Markets	-	-	-	7.15	7.15
Nyota	Oil, Mining, Gas and Chemicals	-	-	7.56	-	7.56
Access Leasing	Financial Markets	-	-	-	1.0	1.00
Allana Potash	Oil, Mining, Gas and Chemicals	-	-	-	5.09	5.09
	TOTAL	50.60	-	7.56	13.24	71.40

LIST OF ACTIVE MIGA PROJECTS IN ETHIOPIA

<i>Name of Project</i>	<i>Investor Name</i>	<i>Investor Country</i>	<i>Business Sector</i>
Africa Juice Tibila Share Company	Industrial Development Corporation	South Africa	Agribusiness
Africa Juice Tibila Share Company	Africa Juice BV	Netherlands	Agribusiness
National Cement	SGI Ethiopia Cement Limited	United Kingdom	Manufacturing

Statement of MIGA'S Exposure including this and other projects approved by the Board in Ethiopia as of March 31, 2012

1. MIGA'S EXPOSURE (CONTINGENT LIABILITY)

	<i>Transfer Restriction</i>	<i>Expro- piation</i>	<i>War & Civil Disturbance</i>	<i>Breach of Contract</i>	<i>Non Honoring of Sovereign Financial Obligations</i>	<i>Maximum</i>
<i>US\$ million</i>						
Gross Exposure	16.8	16.8	16.8	0.0	0.0	16.8
% of total portfolio	0.2	0.2	0.3	0.0	0.0	0.2
Net Exposure	16.8	16.8	16.8	0.0	0.0	16.8
% of total portfolio	0.4	0.3	0.5	0.0	0.0	0.3
CUP	0.0	0.0	0.0	0.0	0.0	0.0
Current Amount*	12.0	6.6	6.6	0.0	0.0	6.6

* On a gross basis

2. NET EXPOSURE BY SECTOR

	Ethiopia		Africa		MIGA Worldwide	
	<i>US\$ million</i>	<i>%</i>	<i>US\$ million</i>	<i>%</i>	<i>US\$ million</i>	<i>%</i>
Agribusiness	12.9	76.5	184.3	17.6	236.5	4.1
Construction	0.0	0.0	0.0	0.0	5.8	0.1
Financial	0.0	0.0	34.8	3.3	2,329.2	40.1
Financial Services	0.0	0.0	2.0	0.2	2.0	0.0
General Banking	0.0	0.0	32.7	3.1	2,009.6	34.6
Investment Fund	0.0	0.0	0.0	0.0	0.0	0.0
Leasing	0.0	0.0	0.0	0.0	193.5	3.3
Mortgage	0.0	0.0	0.0	0.0	124.0	2.1
Infrastructure	0.0	0.0	509.9	48.7	2,066.2	35.6
Electric, Gas and Sanitary						
Services	0.0	0.0	0.0	0.0	69.9	1.2
Power	0.0	0.0	334.9	32.0	654.2	11.3
Telecommunication	0.0	0.0	119.6	11.4	532.9	9.2
Transportation	0.0	0.0	0.0	0.0	303.4	5.2
Water Transportation	0.0	0.0	55.5	5.3	306.4	5.3
Water Supply	0.0	0.0	0.0	0.0	119.4	2.1
Other	0.0	0.0	0.0	0.0	80.0	1.4
Manufacturing	4.0	23.5	80.2	7.7	327.0	5.6
Mining	0.0	0.0	9.8	0.9	171.2	2.9
Oil and Gas	0.0	0.0	86.8	8.3	184.6	3.2
Retail	0.0	0.0	3.3	0.3	328.1	5.7
Services	0.0	0.0	133.3	12.7	152.0	2.6
Tourism	0.0	0.0	4.0	0.4	5.5	0.1
Total	16.8	100.0	1,046.4	100.0	5,806.0	100.0

Annex 11: Indicative IDA and IFC Lending and Non-Lending Program under the CPS FY13-FY16

New indicative IDA and IFC lending and non-lending under CPS FY13-16 and impact on CPS Strategic Objectives	Country Strategic Objectives under CPS						
	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
FY2013							
Regional Eastern Africa Power Pool Project APL1 - EAPP			X	X			
Transport Sector Project In Support of RSDP4			X				
Health MDG Support (PforR)					X		
Promotion of Basic Services (PBS) Phase III					X		X
Education MDG Support (follow-up to GEQIP)		X			X		
Eastern Africa Pastoral Livelihoods Recovery and Resilience				X	X		
Pastoral Community Development (PSDP) III		X				X	
Ethiopia Investment Climate Project (IFC)		X					
FY2014							
Water Supply, Sanitation and Hygiene (WASH) II			X				
Renewable Energy Project			X				
Transport Sector Project In Support of RSDP4 (Project 2)			X				
Urban Local Government (ULGDP) II			X				X
Sustainable Land Management (SLMP) II						X	
Competitiveness and Employment Project		X					
FY2015-16							
Macro DPO	X						
Sector-specific DPOs		X	X				
Agricultural Growth Program (AGP) II		X	X				
Halele-Werabesa Hydropower Project			X	X			
Rural Infrastructure Support (PforR)			X				
Strengthening Public Expenditure Management Project							X
Regional Drought Response Program					X	X	
DRM Program/Scalable Safety Nets						X	
Additional financing to successful operations							

Proposed non-lending IDA and IFC activities during CPS FY13-16 and impact on CPS Strategic Objectives	Country Strategic Objectives under CPS						
	Stable Macro	Competitiveness & Productivity	Access & quality of infrastructure	Regional integration	Social Services	Social Protection & DRM	Good Governance
Semi-annual Economic Updates	X						
Poverty Assessment, Poverty Mapping	X				X	X	
Country Economic Memorandum	X	X	X				
Debt Sustainability Analyses	X						
Diagnostic Trade Integration Study		X					
Statistics for Result TF	X						
Public Expenditure Review (including sectoral PERs, incl. water)	X	X	X				X
Debt Management and Performance Assessment	X						
Medium-Term Debt Management Strategy TA	X						
Strengthened RED&FS portfolio management		X					
Land Administration TA		X					X
Climate-smart agriculture		X				X	
Ethiopia Investment Climate Project (IFC)		X					
Ethiopia PPDF Initiative (IFC)		X					
Competitiveness and Job creation (NLTA)		X					
Series of FPD Policy Note(s), incl. micro-insurance		X					
Ethiopia Credit Information Center (CIC)Project (IFC)		X					
EITI Implementation Support,		X					X
Analytical assessment of the Ethiopian mining sector (Bank-led initiative with the support of the IFC, DFID, CIDA and AusAid)		X					
Gender-focused policy and research notes		X			X	X	
Climate Innovation Center (InfoDev)		X					
Enhanced Regulatory Framework for Remittances		X					
Decentralization					X		X
Social Protection TA						X	
Skills Development AAA		X					
Disaster Risk Management						X	
Climate Change AAA		X				X	
Access to justice for poor and vulnerable groups in Addis							X
Analysis of civil service staff turnover and options for reform	X						X
Woreda and City Benchmarking Survey					X		X
PEFA Update (federal & regional level)							X
Woreda level PFM Reports							X
Study Into Increasing Road Construction Costs		X	X				
Urban Transport AAA			X				
PPIAF ICT AAA		X	X	X			
CIF/SREP Aluto Langango Project			X				
Geothermal Sector Strategy			X				
Hydropower Center of Excellence TA			X	X			
Hydraulic Lab for Dam Modeling/Safety TA			X				
GPOBA Biogas Program			X				
GEF Solar Lighting Program			X				
Health Results Innovation TF to support performance assessment using Balanced Score Cards					X		X
Impact Evaluation of the health facility performance incentives					X		X

Annex 12: Ethiopia Trust Fund (TF) Portfolio

ETHIOPIA TRUST FUND PORTFOLIO (as of July 1, 2012, in US\$'000)

TF #	Trust Fund Name	Closing	Net Grant	Disbursed	Available
BANK EXECUTED TRUST FUNDS					
TF094286	ETHIOPIA: JOINT GOVERNANCE AS	6/30/2014	1,772	1,328	251
TF011988	The Statistics for Results Facility	6/30/2014	100	9	76
TF090731	ETHIOPIAN PUBLIC SECTOR CAPACI	8/31/2012	3,540	2,674	760
TF010498	GPOBA (W3 SPN): Ethiopia Elect	4/30/2014	466	46	81
TF010499	GPOBA (W3 SPN): Ethiopia Elect	6/30/2013	90	67	22
TF011718	Ethiopia #10108 Regulatory and	11/30/2012	227	22	185
TF093597	ETHIOPIA GENERAL EDUCATION QUA	6/30/2013	587	402	151
TF094648	ETHIOPIA EFA/FTI GENERAL EDUCA	6/30/2013	298	207	80
TF011147	READ II - Ethiopia	6/30/2013	800	13	701
TF012443	Trust Fund Management and Administration	6/30/2013	166	-	-
TF010724	Strengthening the Nutrition	9/30/2012	99	12	87
TF093958	Piloting Community-Based Management	8/14/2013	85	82	3
TF095046	Reducing Malnutrition Caused	6/30/2013	180	131	49
TF098859	Strengthening the Early Warning	9/30/2012	300	141	154
TF055684	PSNP	6/30/2015	2,744	2,705	39
TF055879	PSNP Partnership	6/30/2015	6,476	4,800	1,294
TF056333	PSNP Partnership	6/30/2015	87	87	-
TF091470	PSNP - MDTF Partnership	6/30/2015	583	553	29
TF058321	ETHIOPIA PROTECTION OF BASIC SERVICES	2/28/2013	1,754	1,732	(3)
TF095900	ETHIOPIA PBS PHASE 2-BASIC SERVICES	2/28/2013	2,041	2,008	33
TF095901	ETHIOPIA PBS PHASE 2-ENHANCED	8/31/2012	134	69	66
TF099449	PSNP APLIII: Enhanced Supervision	2/28/2015	591	336	204
TF011830	Protection of Basic Services S	12/31/2016	188	49	1
TF011240	Ethiopia: DRM Specialist (GFDR	6/30/2013	55	24	8
TF012677	Ethiopia: Capacity Building in	9/28/2012	82	17	64
TF095889	Ethiopia - PBS Phase II -Basic	2/28/2013	90	44	46
TF091564	WATER SUPPLY AND SANITATION CO	12/31/2012	625	569	56
TF099708	Ethiopian Diaspora Health and	8/31/2012	320	155	115
TF010984	ET Sustainable Support for Rur	6/30/2013	50	-	50
TF094239	RED&FS CHILD TF	2/28/2013	2,499	1,924	569
TF099038	LEN&SPN for GASFP Co-financing	3/31/2016	1,070	277	61
TF010180	Agriculture Finance Support Farmers	9/30/2012	60	56	4
TF094826	Piloting an Indemnity Livestock	8/15/2012	225	152	48
TF099524	AF/ETH Scaling Up Rural Sanitation	6/30/2013	1,999	511	912
TF095587	Ethiopia: EITI Implementation	12/21/2012	255	94	54
TF099753	ROUND 29 ETHIOPIA: SUPPORT TO	11/4/2015	135	30	92
TF095395	Access to Finance for Producer	6/30/2013	250	165	51
TF096344	Access to Finance for Producer	12/31/2013	500	259	241
TF096528	Access to Finance for Producer	12/31/2013	500	53	270
TF011838	Ethiopia Climate Innovation Center	8/1/2016	900	22	870
TF099688	Ethiopia CIC Project	3/31/2013	150	150	0
TF097095	Access to Finance for Producer	6/30/2013	120	73	47
TF011647	Ethiopia Investment Climate	2/28/2013	100	79	6
Sub-Total			33,292	22,127	7,829
RECEIPT EXECUTED TRUST FUNDS					
TF092600	Ethiopia Electricity Access Rural Expansion	6/30/2013	6,200	44	6,156
TF092601	Ethiopia Electricity Access Rural Expansion	6/30/2013	1,800	13	1,787
TF096664	Promotion of Ethanol Micro- Distillers	9/30/2012	148	22	126
TF098157	Support to Accountancy Profess	3/14/2014	500	200	300
TF092320	GEF FSP - Sustainable Land Management Project	9/30/2013	9,000	6,265	2,735
TF095045	Co-financing of the Tana and Beles	9/30/2013	3,485	2,364	-
TF093227	EFA FTI Catalytic Fun	7/7/2013	70,000	67,879	2,121
TF094224	GEQIP	6/13/2013	164,730	96,717	68,001
TF097263	Catalytic Fund Grant II for Ethiopia	6/30/2013	98,000	87,512	10,488
TF010247	Strengthening the Nutrition Information	9/30/2012	650	200	450
TF093946	Piloting Community-Based Management	8/14/2013	1,810	716	1,095
TF097830	PBS	12/31/2012	359	-	359
TF097831	PBS	12/31/2012	2,606	-	-

ETHIOPIA TRUST FUND PORTFOLIO (as of July 1, 2012, in US\$'000)

TF #	Trust Fund Name	Closing	Net Grant	Disbursed	Available
TF099450	PSNP	12/31/2014	56,385	56,385	-
TF011209	Ethiopia:(RETF) Disaster Risk	6/30/2013	1,275	-	1,275
TF099878	PBS	11/30/2013	7,500	-	7,500
TF091704	Water Supply And Sanitation	12/31/2012	111,676	80,642	27,257
TF099283	Ethiopian Diaspora Education	8/31/2012	640	170	470
TF098159	Strengthening Capacity for Mobilization	3/29/2014	486	126	359
TF099729	Grant for Co-financing of the	9/30/2015	15,480	11,298	4,182
TF011306	GAFSP Grant for the Co-financing	9/30/2015	50,000	1,842	13,158
TF098979	Ethiopia: Improving the Quality	6/30/2015	1,832	716	517
TF090962	Ethiopia Humbo Assisted Regeneration	12/31/2018	726	149	7
TF098807	ROUND 29 ETHIOPIA: SUPPORT TO	11/4/2015	2,865	200	2,665
TF096713	DM09-3959 Adaptation to climate	12/31/2012	200	200	-
Sub-total			608,353	413,660	151,007
TFs TOTAL PORTFOLIO			641,644	435,787	158,836

CONTRIBUTION OF TRUST FUNDS TO CPS PILLAR (as of July 1, 2012, in US\$'000)

Trust Fund #	Trust Fund Name	Net Grant	Disbus- ed	Availa- ble	Closing Date	Exec. By
PILLAR 1: FOSTERING COMPETITIVENESS AND EMPLOYMENT						
TF010984	ET Sustainable Support for Rural Poor Women Entrepr.	50	-	50	6/30/2013	Bank
TF094239	RED&FS CHILD TF	2,499	1,924	569	2/28/2013	Bank
TF099038	LEN&SPN for GASFP Co-financing of Ethiopia - AGP	1,070	277	61	3/31/2016	Bank
TF010498	GPOBA (W3 SPN): Ethiopia Electricity Access Rural Expansion Project	466	46	81	4/30/2014	Bank
TF010499	GPOBA (W3 SPN): Ethiopia Electricity Access Rural Expansion Project	90	67	22	6/30/2013	Bank
TF011718	Ethiopia #10108 Regulatory and Supervisory Framework for Micro insurance	227	22	185	11/30/2012	Bank
TF010180	Agriculture Finance Support Facility (AFSF)	60	56	4	9/30/2012	Bank
TF094826	Piloting an Indemnity Livestock Insurance in Ethiopia	225	152	48	8/15/2012	Bank
TF097095	Access to Finance for Producers/Farmers	120	73	47	6/30/2013	Bank
TF011647	Ethiopia Investment Climate	100	79	6	2/28/2013	Bank
TF095395	Access to Finance for Producers/Farmers	250	165	51	6/30/2013	Bank
TF096344	Access to Finance for Producers/Farmers	500	259	241	12/31/2013	Bank
TF096528	Access to Finance for Producers/Farmers	500	53	270	12/31/2013	Bank
TF011306	GAFFSP Grant for the Co-financing of Agricultural Growth	50,000	1,842	13,158	9/30/2015	Recipient
TF099729	Grant for Co-financing of the Agricultural Growth Project	15,480	11,298	4,182	9/30/2015	Recipient
TF092600	Ethiopia Electricity Access Rural Expansion Project	6,200	44	6,156	6/30/2013	Recipient
TF092601	Ethiopia Electricity Access Rural Expansion Project	1,800	13	1,787	6/30/2013	Recipient
TF011838	Ethiopia Climate Innovation Center	900	22	870	8/1/2016	Bank
TF099688	Ethiopia CIC	150	150	0	3/31/2013	Bank
TF095587	Ethiopia: EITI Implementation	255	94	54	12/21/2012	Bank
TF096664	Promotion of Ethanol Micro-Distillers in Ethiopia Project	148	22	126	9/30/2012	Recipient
Sub-Total		81,090	16,657	27,969		
		13%	4%	18%		
PILLAR 2: ENHANCING RESILIENCE AND REDUCING VULNERABILITY						
TF099708	Ethiopian Diaspora Health and Education Professionals Mobilization Project - Part 2	320	155	115	8/31/2012	Bank
TF011147	READ II – Ethiopia	800	13	701	6/30/2013	Bank
TF012443	TF Mgmt & Admin for Co-financing of GEQIP	166	-	-	6/30/2013	Bank
TF093597	GEQIP	587	402	151	6/30/2013	Bank
TF094648	QEIP Supervision	298	207	80	6/30/2013	Bank
TF011830	PBS Social Accountability Program Mgmt & TF Admin	188	49	1	12/31/2016	Bank
TF058321	PBS Secretariat	1,754	1,732	(3)	2/28/2013	Bank
TF095889	PBS Phase II –Basic Services Block Grant and & TF Admin	90	44	46	2/28/2013	Bank
TF095900	PBS Phase 2-Basic Service Block Grants (Subprogram A) Enhanced Pbs Program Supervision	2,041	2,008	33	2/28/2013	Bank
TF095901	PBS Phase 2-Enhanced Program Supervision For Subprogram B (Health Component)	134	69	66	8/31/2012	Bank
TF091564	Water Supply And Sanitation Co-Financing Mgmt & SPN	625	569	56	12/31/2012	Bank
TF093227	Ethiopia EFA FTI Catalytic Fund Grant 1	70,000	67,879	2,121	7/7/2013	Recipient
TF094224	GEQIP	164,730	96,717	68,001	6/13/2013	Recipient
TF097263	Catalytic Fund Grant II for GEQIP	98,000	87,512	10,488	6/30/2013	Recipient
TF097830	PBS Phase II Support to Subprogram D M&E	359	-	359	12/31/2012	Recipient
TF097831	PBS Phase II Project - Subprogram C Part I Accountability in Decentralized Finances and Services	2,606	-	-	12/31/2012	Recipient
TF099878	PBS Social Accountability Program Project	7,500	-	7,500	11/30/2013	Recipient
TF091704	Water Supply And Sanitation Co-Financing Mgmt & SPN	111,676	80,642	27,257	12/31/2012	Recipient
TF095045	Co-financing of the Tana and Beles Integrated Water Resources Development Project	3,485	2,364	-	9/30/2013	Recipient
TF010724	Strengthening the Nutrition Information and Early Warning System in Ethiopia	99	12	87	9/30/2012	Bank
TF093958	Piloting Community-Based Management of Severe Acute Malnutrition (Bank-executed)	85	82	3	8/14/2013	Bank
TF095046	Reducing Malnutrition Caused by Food Insecurity	180	131	49	6/30/2013	Bank
TF098859	Strengthening the Early Warning System in Ethiopia	300	141	154	9/30/2012	Bank
TF011240	Ethiopia: DRM Specialist (GFDRR: Track II TA)	55	24	8	6/30/2013	Bank
TF055684	PSNP	2,744	2,705	39	6/30/2015	Bank
TF055879	PSNP Partnership	6,476	4,800	1,294	6/30/2015	Bank
TF056333	PSNP Partnership	87	87	-	6/30/2015	Bank

CONTRIBUTION OF TRUST FUNDS TO CPS PILLAR (as of July 1, 2012, in US\$'000)

Trust Fund #	Trust Fund Name	Net Grant	Disbus- ed	Availa- ble	Closing Date	Exec. By
TF091470	PSNP - MDTF Partnership	583	553	29	6/30/2015	Bank
TF099449	PSNP APLIII: Enhanced Supervision	591	336	204	2/28/2015	Bank
TF099753	Support To Improve The Economic, Social And Environmental Sustainability Of Women Artisan Miners	135	30	92	11/4/2015	Bank
TF092320	GEF FSP - Sustainable Land Management Project	9,000	6,265	2,735	9/30/2013	Recipient
TF010247	Strengthening the Nutrition Information and Early Warning System in Ethiopia	650	200	450	9/30/2012	Recipient
TF093946	Piloting Comm.-Based Mgmt of Severe Acute Malnutrit.	1,810	716	1,095	8/14/2013	Recipient
TF099450	Ethiopia Productive Safety Net Program (APLIII)	56,385	56,385	-	12/31/2014	Recipient
TF098807	Support To Improve The Economic, Social And Environmental Sustainability Of Artisan Miners	2,865	200	2,665	11/4/2015	Recipient
TF090962	Ethiopia Humbo Assisted Regeneration Project	726	149	7	12/31/2018	Recipient
TF012677	ET Disaster Risk Mgt. Plan	82	17	64	9/28/2012	Recipient
TF011209	ET Disaster Risk Mgt. Plan	1,275	-	1,275	6/30/2013	Recipient
TF099524	AF/ETH/16 At Scale H&S prom. in Ethiopia	1,999	511	912	6/30/2013	Both
TF096713	DM09-3959 Adaptation to climate change: innovative tools to match seeds to the needs of women farmers	200	200	-	12/31/2012	Recipient
Sub Total		551,684	413,907	128,135		
		86%	95%	81%		
FOUNDATION: GOOD GOVERNANCE AND STATE BUILDING						
TF011988	The Statistics for Results Facility for ET: Proj Preparation	100	9	76	6/30/2014	Bank
TF090731	Ethiopian PSCAP Support Facility	3,540	2,674	760	8/31/2012	Bank
TF098159	Strengthening Capacity for Mobilizing and Engaging the Ethiopian Diaspora	486	126	359	3/29/2014	Recipient
TF098157	Support to Accountancy Profession in Ethiopia Project	500	200	300	3/14/2014	Recipient
TF099283	Ethiopian Diaspora Health Project	640	170	470	8/31/2012	Recipient
TF098979	Ethiopia: Improving the Quality and Policy Relevance of Household-level Data on Agriculture in Sub-Saharan Africa	1,832	716	517	6/30/2015	Recipient
TF094286	Trust Fund - Ethiopia Rural Socioeconomic Survey	1,772	1,328	251	6/30/2014	Bank
Sub Total		8,870	5,223	2,733		
		1%	1%	2%		
TOTAL TRUST FUND PORTFOLIO		641,644	435,787	158,836		

CONTRIBUTION OF ACTIVE TRUST FUNDS TO PROGRAMS/PROJECTS (as of July 1, 2012, in US\$'000)

IDA Project	Trust Fund #	Trust Fund Name	Net Grant	Disbursed	Available	Closing Date	Exec. By	Major donors
Agricultural Growth Program (P113032, P127507)	TF010984	ET Sustainable Support for Rural Poor Women Ent.	50	-	50	6/30/2013	Bank	Australia, Gates Foundation, Ireland, Korea, UK, Japan, CIDA, USAID, Spain, Netherlands
	TF094239	RED&FS CHILD TF	2,499	1,924	569	2/28/2013	Bank	
	TF099038	LEN&SPN for GASFP Co-financing of Ethiopia	1,070	277	61	3/31/2016	Bank	
	TF099729	Grant for Co-financing of the AGP	15,480	11,298	4,182	9/30/2015	Recipient	
	TF011306	GAFFSP Grant for the Co-financing of Agric. Growth	50,000	1,842	13,158	9/30/2015	Recipient	
Sub Total			69,099	15,340	18,021			
% of total TF Active Portfolio			10.8%	3.5%	11.3%			
General Educ. Quality Impr. Project - APL 1 (GEQIP) (P106855, P116863, P118700)	TF011147	READ II – Ethiopia	800	13	701	6/30/2013	Bank	Global Partnership for Education, DFID, Finland, Italian Cooperation, Netherlands, Russia
	TF012443	TF Mgmt & Admin for Co-financing of GEQIP	166	-	-	6/30/2013	Bank	
	TF093597	GEQIP	587	402	151	6/30/2013	Bank	
	TF094648	Ethiopia EFA/FTI General Education	298	207	80	6/30/2013	Bank	
	TF093227	Ethiopia EFA FTI Catalytic Fund Grant I	70,000	67,879	2,121	7/7/2013	Recipient	
	TF094224	GEQIP	164,730	96,717	68,001	6/13/2013	Recipient	
	TF097263	Catalytic Fund Grant II for GEQIP	98,000	87,512	10,488	6/30/2013	Recipient	
Sub Total			334,581	252,731	81,541			
% of total TF Active Portfolio			52.1%	58.0%	51.3%			
Ethiopia Protection of Basic Services (P124475, P103022, P129534)	TF011830	PBS Social Accountability Prog. Mgmt & TF Admin	188	49	1	12/31/2016	Bank	EU, DFID, Ireland, Spain, Italy, KfW, CIDA and Netherlands
	TF058321	PBS Secretariat	1,754	1,732	(3)	2/28/2013	Bank	
	TF095889	PBS Phase II - Basic Services Block Grant & TF Admin	90	44	46	2/28/2013	Bank	
	TF095900	PBS Phase 2-Basic Service Block Grants (Subprogram A) Enhanced PBS Supervision	2,041	2,008	33	2/28/2013	Bank	
	TF095901	PBS Phase 2-Enhanced Program Supervision For Subprogram B (Health Component)	134	69	66	8/31/2012	Bank	
	TF097831	PBS Phase II Project - Subprogram C Part 1 Accountability in Decentralized Finances & Services	2,606	-	-	12/31/2012	Recipient	
	TF097830	PBS Phase II Support to Subprogram D M&E	359	-	359	12/31/2012	Recipient	
	TF099878	PBS Accountability Program Project	7,500	-	7,500	11/30/2013	Recipient	
Sub Total			14,672	3,901	8,003			
% of total TF Active Portfolio			2.3%	0.9%	5.0%			
Water Supply & Sanitation (WSS) (P076735)	TF091564	WSS Co-Financing Management And Supervision	625	569	56	12/31/2012	Bank	DFID
	TF091704	WSS Co-Financing Management And Supervision	111,676	80,642	27,257	12/31/2012	Recipient	
Sub Total			112,301	81,211	27,313			
Percentage of total TF Portfolio			17.5%	18.6%	17.2%			
Productive Safety Nets Project (P087707, P129151, P113220)	TF011240	Ethiopia: DRM Specialist (GFDRR: Track II TA)	55	24	8	6/30/2013	Bank	CIDA, SIDA, US, WFP, Irish Aid, DIFID, Denmark, Netherlands, EU
	TF055684	PSNP	2,744	2,705	39	6/30/2015	Bank	
	TF055879	PSNP Partnership	6,476	4,800	1,294	6/30/2015	Bank	
	TF056333	PSNP Partnership	87	87	-	6/30/2015	Bank	
	TF091470	PSNP - MDTF Partnership	583	553	29	6/30/2015	Bank	
	TF099449	PSNP APLIII: Enhanced Supervision	591	336	204	2/28/2015	Bank	
	TF099450	Ethiopia Productive Safety Net Program (APLIII)	56,385	56,385	-	12/31/2014	Recipient	
Sub Total			66,920	64,890	1,575			

CONTRIBUTION OF ACTIVE TRUST FUNDS TO PROGRAMS/PROJECTS (as of July 1, 2012, in US\$'000)

IDA Project	Trust Fund #	Trust Fund Name	Net Grant	Disbursed	Available	Closing Date	Exec. By	Major donors
% of total TF Active Portfolio			10.4%	14.9%	1.0%			
Nutrition (P106228)	TF010724	Strengthening the Nutrition	99	12	87	9/30/2012	Bank	Multi-donors; Japan
	TF093958	Piloting Community-Based Mgmt	85	82	3	8/14/2013	Bank	
	TF095046	Reducing Malnutrition Caused	180	131	49	6/30/2013	Bank	
	TF098859	Strengthening the Early Warning	300	141	154	9/30/2012	Bank	
	TF010247	Strengthening the Nutrition	650	200	450	9/30/2012	Recipient	
	TF093946	Piloting Community-Based Mgmt	1,810	716	1,095	8/14/2013	Recipient	
Sub Total			3,124	1,282	1,838			
% of total TF Active Portfolio			0.5%	0.3%	1.2%			

