



**OPERATIONS EVALUATION DEPARTMENT  
WORLD BANK**

**OED Review of the  
Poverty Reduction Strategy (PRS) Process**

*Ethiopia Case Study*

**Corporate Evaluation and Methods Group  
Operations Evaluation Department  
World Bank**

July 6, 2004

This case study was prepared by the independent evaluation unit of the World Bank, as background to an evaluation report available at [www.worldbank.org/oed/prsp](http://www.worldbank.org/oed/prsp). The other country case studies conducted in support of this evaluation are also available on-line at the above address.

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## ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Assistance
ADLI	Agricultural Development Led Industrialization
AfDB	African Development Bank
APR	Annual Progress Report
BoPED	Bureau of Planning and Economic Development
BWI	Bretton Woods Institutions (World Bank and IMF)
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CODE	Committee on Development Effectiveness
CPAR	Country Procurement Assessment Report
CSA	Central Statistical Authority
CSO	Civil Society Organization
DAG	Development Assistance Group
DBS	Direct Budget Support
DFID	Department for International Development (UK)
EPLF	Eritrean Population Liberation Front
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERRP	Emergency Rehabilitation and Reconstruction Program
ETB	Ethiopian Birr
EU	European Union
GDP	Gross Domestic Product
GoE	Government of Ethiopia
HDI	Human Development Index
HICES	Household Income, Consumption and Expenditure Survey
HIPC	Heavily Indebted Poor Countries
HLF	High-Level Forum
HSDP	Health Sector Development Plan
ICT	Information and Communications Technology
IDA	International Development Association
IFI	International Financial Institution
IGR	Institutional Governance Review
IMF	International Monetary Fund
IMR	Infant Mortality Rates
IPRSP	Interim PRSP
JPR	Joint Partner Review
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MEDAC	Ministry of Economic Development and Cooperation
MEFF	Macro Economic and Fiscal Framework
MMR	Maternal Mortality Rates
MOFED	Ministry of Finance and Economic Development
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OED	Operations Evaluation Department
PREM	Poverty Reduction and Economic Management Network (World Bank)

PRGF	Poverty Reduction and Growth Facility (IMF)
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
SAC	Structural Adjustment Credit
SDPRP	Sustainable Development and Poverty Reduction Program
SME	Small and Medium Enterprise
SNNP	Southern Nations, Nationalities and Peoples
SPA	Strategic Partnership for Africa
TGE	Transitional Government of Ethiopia
TPLF	Tigray People's Liberation Front
TVET	Technical and Vocational Education and Training
UNMEE	United Nations Mission in Ethiopia and Eritrea
VAT	Value Added Tax
WBI	World Bank Institute
WMU	Welfare Monitoring Unit

## FOREWORD

OED has completed an evaluation of the PRS initiative and the Bank's support to this initiative. The synthesis report was submitted to the Committee on Development Effectiveness (CODE) of the World Bank's Board in June 2004 and discussed by CODE in July 2004.<sup>1</sup> As the PRSP is by nature a country-level process, eight country case studies<sup>2</sup> have been undertaken in support of the synthesis report to provide in-depth country-level experience with the initiative and the Bank's support. Ethiopia was selected as a country case study to provide: PRSP experience in Eastern Africa, and coverage of a HIPC case.

The first PRSP for Ethiopia was completed by the Government in July 2002, and endorsed by the Bank and the Fund in August 2002. An OED mission visited Ethiopia in July of 2003. This country case review provides an assessment of the progress and challenges in Ethiopia through PRSP formulation and one year of implementation, as of mid-2003. A draft of this evaluation was sent to the Ethiopian authorities on December 26, 2003 for comment.

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<sup>1</sup> The synthesis report is available on the internet at <http://www.worldbank.org/oed/prsp> .

<sup>2</sup> Country case studies are drawn from the 23 countries with full PRSPs as of the beginning of 2003. The selection criteria includes: maturity of the PRSP process, geographic balance, coverage of non-HIPC countries, and country initial conditions. The study thus covers a variety of country situations and varying stages of implementation. Country selection also depends on coverage provided by case studies already conducted in related OED work such as the recently completed HIPC and CDF evaluations. The eight case study countries are Albania, Cambodia, Ethiopia, Mauritania, Mozambique, Nicaragua, Tajikistan, and Tanzania.

## I. EXECUTIVE SUMMARY

26. Poverty in Ethiopia is widespread with almost half of its population of 66 million estimated to be in absolute poverty and an average of 4 million people per year, and between 11 and 13 million during the most recent drought, facing the prospect of serious food insecurity. Conflict, most recently, the 1998-2000 war with Eritrea, and commodity price shocks have only served to exacerbate these problems. In 2002/3, due to a combination of drought and a collapse in coffee prices, real GDP growth plunged to - 3.8 percent. Ethiopia relies on development assistance for 40 percent of public sector spending and is likely to remain heavily dependent for many years to come.

### **Relevance of the PRSP Approach**

27. Ethiopia became a pilot country under the Comprehensive Development Framework (CDF) in 1998. In 2000, after gaining eligibility for HIPC II assistance, Ethiopia began preparing its IPRSP. Preparation of the full PRSP began in 2001. While closely linked to HIPC II, the timing of the PRSP also proved opportune in domestic political terms. The period since the war with Eritrea was a particularly active one in policymaking terms in Ethiopia, with several high-level initiatives<sup>3</sup> setting out the core development policy and implementation strategies of the country as well as some far reaching changes in the formal structures of government. With significant development challenges ahead of them, the PRSP provided the GoE with an opportunity to articulate their policy agenda to internal and external constituencies while bringing together a range of policy commitments under one comprehensive and long-term framework. The PRSP approach also provided added incentives to focus on results and the resource allocation framework, areas that had been given insufficient attention in the past.<sup>4</sup>

28. The timing of the PRSP was also opportune from the standpoint of government-donor relations in Ethiopia. Aid relations were in a poor state leading up to and during the war with Eritrea, due to political differences about the war and also because of mistrust that had developed during the 1990s with government concerned about the motives of some donors, and donors concerned about key areas of government policy and a climate of limited transparency. After the war, both government and donors were keen to see an improvement in aid relations. Building on the CDF experiment, the PRSP offered a tangible organizing framework to focus this dialogue and bring to the fore key issues around donor behavior and the role of the international community in supporting poverty reduction in Ethiopia.

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<sup>3</sup> Starting with the EPRDF congress in 2001.

<sup>4</sup> Sectoral strategy documents, for example, in health, education and food security include M&E frameworks but are often quite detailed (the monitoring framework for HSDP I had 110 indicators) and not systematically applied as a measure of progress against specific policies and programmes focused on poverty reduction.

## **Application of Principles**

29. Overall the PRSP has been well received by government in Ethiopia. Ownership at central government level has been high because of strong continuities between the existing policy agenda of the EPRDF (the ruling party) and the PRSP (SDPRP). The strategy adopts a multi-dimensional approach to poverty and identifies a general M&E framework. There are some signs of second-generation thinking in the PRSP document, particularly around the role of the private sector and how to address key constraints to growth, but in general terms, as government has indicated, the SDPRP is a continuation of existing government policy under a more comprehensive, multi-sectoral umbrella.

30. The consultative process for preparing the SDPRP was broad-based, closely mirroring the federal and administrative hierarchy of the country - a major undertaking given the size of the country and its population. Most respondents to an OED survey in government, the private sector and in the donor community regarded the consultative process as an important first step towards increased voice and local accountability. *Woreda* (district) level officials noted the benefits in terms of awareness-raising about poverty issues and an increased emphasis on self-help at the community level. Amongst domestic and international NGOs working at federal and at state level, views on the consultative process were less sanguine. The majority recognized the importance of the process and its intrinsic value for those who participated, but a significant number felt that the consultations promised more than they delivered. In particular, there was little space to consider policy alternatives, a finding also supported by survey results. Several were unsure of how their own participation had contributed to the preparation of the document and were concerned that government had sought to get endorsement for existing policy and program commitments without discussing whether or not they were working. The expectation from these groups seemed to be that the consultative process would herald a more fundamental shift in political accountability in the country. Arguably this goes well beyond the PRSP alone. What the consultative process does appear to have done, however, is to expose the importance of the government's agenda for institutional and political transformation which will prove to be a critical factor affecting the success of PRSP implementation over the medium to long run.

31. The PRSP has also provided a context for a range of new partnerships between government and donors and between government and private sector partners. The 40-strong donor Development Assistance Group (DAG) played a vital role during SDPRP formulation and subsequently in supporting greater alignment and harmonization around SDPRP implementation, while the public-private sector consultative forum was established to address major problem areas identified by private sector partners during the consultative process.

## **Preliminary Evidence on Results**

32. Although the SDPRP was only completed in July 2002 and the year following it has been marked by one of the worst food crises for many years, there is some preliminary evidence of progress as a result of the PRSP process. Bank staff in particular point to important shifts in government's attitude towards policy discussions in areas previously 'out of bounds', such as business regulation, land tenure, telecoms and financial sector development. The hope is that this will lead to

some rebalancing of old policy agendas in favor of more market-based approaches. However, no significant policy adjustment has yet taken place and donors are aware that the SDPRP remains only one of a number of government agendas, including outstanding issues with Eritrea and increasing national security concerns.

33. Progress is also evident in the recent push towards more devolved and responsive local government. While the system is still in flux the decision to push ahead quickly with un-earmarked transfers (block grants) to the *woreda* level in the four largest regions (Amhara, Oromia, SNNP and Tigray), has provided a clear indication of the government's intention to address critical service delivery blockages and promote downward accountability – both central to SDPRP implementation. A major challenge will be providing the right incentive environment and overcoming capacity weaknesses at lower levels of government.

34. Progress with monitoring and evaluation around the SDPRP was initially slow. Interviewees from within and outside government spoke of a loss of momentum around M&E linked to the emergency situation, the demands of the new block grant system and the time taken up by donor-related processes, including work on harmonization.<sup>5</sup> At the time of the evaluation mission progress had picked-up, mainly because of the need for government to prepare a common performance assessment tool for PRSC-budget support from donors. The Annual Progress Report submitted to the IFI Boards in December 2003 sets out a comprehensive plan for an M&E system, however, progress in developing key indicators, clarifying how they will be monitored and how the M&E system will work in the context of decentralization is still required.

35. Although Ethiopia stands out amongst low-income countries as having a fairly sound PEM system, progress with internal budget alignment with the SDPRP has also been slower than hoped. The medium term macroeconomic and fiscal framework (MEFF) is still something of a shadow exercise and the full procedural integration of recurrent and capital budgeting is yet to be effected. A comprehensive program for public expenditure reform is in place but the pace of change has been uneven, with the demands of the government's decentralization program placing the system under added strain, including ongoing efforts at budget consolidation. Budget out-turns for 2002/3 were above those in 2001/2 but well below those forecast in the SDPRP. Out-turns for poverty targeted expenditures amounted to 77.6 percent of budgeted levels. Nevertheless budgeted levels for 2003/4 continue to show strong optimism on the part of government. The APR details expected increases ranging from 42.5 percent in agriculture and food security to 10.6 percent in health and 2.3 percent in education. No clear indication is given of the basis for such projections in the view of the estimated out-turns for 2002/3 nor is there any further prioritization of core poverty programs, particularly given expected shortfalls in required funds over the medium term.

36. Of all the principles underlying the PRSP approach, it is the context for aid partnerships that has probably changed most significantly. Since completion of the PRSP, government and donors have formed a joint task force on harmonization and

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<sup>5</sup> Somewhat ironic given that donor efforts at greater harmonization, especially in relation to budget support, are reliant on government having a credible performance assessment, and hence M&E framework in place.

agreed on *architecture* to facilitate a coordinated dialogue on high-level policy issues. The establishment of a High Level Forum for taking forward government-donor dialogue was one of the first of its kind in the region. Ethiopia was also the first country to host an SPA mission to discuss ways of aligning multilateral and bilateral budget support behind the PRSP. Since the SPA mission, budget support donors have formed a Direct Budget Support (DBS) group and have agreed with the World Bank to align any DBS arrangement with the PRSC. The PRSC appraisal mission in August 2003 included bilateral donor representatives committed to providing DBS. Further evidence of progress with harmonization was difficult to find, however. While progress had been made in pulling together a harmonization framework covering donor project procedures, procurement and fiduciary management standards, there was still limited progress<sup>6</sup> by donors in moving the framework forward. At the time of the evaluation mission there was some frustration emerging over the harmonization agenda as donors confronted the practical (and political) difficulties of signing up to procedural changes at country level and in donor capitals.

### **World Bank Effectiveness**

37. The Bank has played a consistently supportive role in the PRSP process in Ethiopia. Its role has been in line with the principle of country ownership while supporting the government with advice and technical inputs as and when required. The country team played an active and constructive role in guiding and supporting the process. The Bank also provided various forms of technical and analytical input to enhance local capacity, for example, in support of an M&E framework for the SDPRP. Workshops and seminars were provided through a combination of Bank and WBI support, including a workshop for NGOs on the PRSP approach towards the start of the process.

38. Bank engagement was also shaped by the CAS preparation process, which ran virtually in parallel with SDPRP formulation. The consultations around the CAS – mainly a series of high level workshops during 2002/3 on themes such as decentralization, private sector development, capacity building and rural development – were intended to pick up on issues and themes that the government was grappling with in the SDPRP. The country team viewed the two processes as more or less synergistic, despite some Bank staff being concerned about possible challenges to government ownership of the PRSP process. There is some evidence to suggest that the CAS consultations did have some influence on government thinking, especially around the PSD agenda, but equally there is limited evidence to suggest that this in anyway challenged government ownership.<sup>7</sup> What is harder to determine is whether by running the CAS preparation process in parallel with the PRSP process there were any added costs to government. In terms of time costs on government, the only real indication was a certain frustration from some government officials about the number and frequency of workshops hosted by the Bank and others during 2002/3. In the circumstances, should the CAS process have been delayed? It is hard to come up with a simple answer. The consultations did overlap with SDPRP preparation but the final CAS document was delayed to ensure that presentation to the Board did not precede SDPRP endorsement. In addition, the Interim Support Strategy had come to an end

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<sup>6</sup> Confirmed by the donor group in their Joint Partner Review of the APR.

<sup>7</sup> Some NGO representatives were concerned that there was more ‘open’ debate during these CAS workshops than there was during the PRSP consultations.

requiring that a CAS be prepared as soon as possible. The strong synergies between the CAS and the SDPRP is in accordance with Bank guidance, although avoiding too much additional burden on government during a parallel process such as this seems equally important.

39. Responses from government officials about Bank support for the PRSP were almost universally positive. Government officials also noted that relations with the Bank had improved with the increased status of the country office and the Country Director based in Addis. This was also echoed by members of the DAG who had witnessed a significant improvement in donor-Bank relations since 2000/1. Particular high points in collaboration were the common position on revisions to the SDPRP policy matrix, joint participation in the SPA mission, combined support for work on harmonization and the joint preparation of key analytical products such as the CFAA, CPAR and PER. In relation to the PRSP principles themselves, several donors acknowledged that the Bank had acted appropriately in ensuring that the government was able take control of the process.

40. Some different views were expressed, however. Representatives of NGOs interviewed during a roundtable meeting were unsure of whether the Bank was playing a role as a referee (who also sets the rules) or a team player. They felt that expectations had been heightened around the room for policy adjustment as part of the PRSP process only to find that such room disappeared during the consultations themselves. The Bank's support for country ownership was also perceived to be a double-edged sword by some non-governmental stakeholders. On the one hand, they agreed that a country-led, country owned process was crucial. On the other hand they were concerned that government paid insufficient attention to their views and demands for inclusiveness, and wanted the Bank to advocate more strongly on their behalf. This kind of double bind is familiar to Bank staff, but once again it suggests a mismatch in expectations. Perhaps a more comprehensive communication strategy at the beginning of the PRSP process could have helped set out clearer expectations about the process, the role of government, donors and NGOs, and what could reasonably be achieved?

### **Bank Support and Alignment**

41. The CAS clearly defines its objectives in terms of support for SDPRP implementation. It also goes further in detailing weaknesses in the current strategy for promoting growth and private sector development and reducing vulnerability and managing risks. The assistance program focuses on three clusters of objectives – enhancing pro-poor growth, enhancing human development outcomes by improving governance and reducing vulnerability – that track closely with the four pillars of the SDPRP. At the heart of the assistance program is a series of PRSCs intended to support each of the strategic objectives of the CAS. Initial preparations for the PRSC coincided with the SPA mission in September 2002, so from the very beginning, the PRSC appraisal process was connected to wider discussions about alignment and harmonization with the SDPRP. Other new aid modalities are also considered, including capital grants to local authorities for infrastructure development and a programmatic approach to public sector capacity building. Perhaps one of the most innovative elements of the CAS is the plan to use the non-lending program not only as a tool for furthering national dialogue but as a way to strengthen monitoring and evaluation of key policies included in the SDPRP. The Institutional Governance

Review (IGR) was already being prepared in this vein. A key challenge is to ensure adequate buy-in from government so that the results of such exercises can be utilized as part of the SDPRP review process.

42. While innovative, the CAS program still remains very wide-ranging. It covers a broad spectrum of projects and programs across PSD, roads, energy, rural capacity building, health, education, water, empowering civil society, pastoral development, drought recovery, HIV/AIDS and public sector capacity building. The breadth of the program reflects the scaling up of IDA assistance following the end of the war and the fact that the SDPRP itself is a wide-ranging and relatively weakly prioritized document. The CAS explains the breadth of the program in terms of IDA's dominant role in Ethiopia (it is larger than all other donors combined) and its commitment to supporting the transition from SDPRP vision to tangible improvements in policies and capacities. The expectation is that in the medium to long term, as other donors scale up their programs, IDA will become more selective, focusing in areas attracting less support from other donors, such as infrastructure. Compared to recent CASs, the current CAS is ambitious with a much larger IDA allocation. The challenge for the Bank will be in managing such a broad (and high volume) strategy and ensuring sufficient complementarities with what other actors are doing or planning to do in support of the SDPRP. There are also some risks to moving upstream acknowledged by the Bank team. As the CAS states "...the Bank will closely monitor results during CAS implementation, and if necessary, move back to more traditional instruments" (2003:43).

43. In terms of ways of working, the PRSP approach, along with the PRSC, have resulted in some important changes. There is more emphasis on multi-sectoral working in the country team, there is greater collaboration and information sharing with other donors through the DAG, and the on-the-ground presence of the Country Director has definitely improved relations with both government and other donors. However, the Bank's size and dominance in policy dialogue in Ethiopia remains a concern to some donors. Although the PRSP has increased opportunities for joint working within the donor community there is still a concern from some of the smaller donors that the Bank can go it alone when it wants to. The breadth of its CAS only serves to fuel this worry. Remaining fully engaged in donor coordination processes will be vital to ensure that this doesn't happen.

### **Bank-IMF Cooperation**

44. Bank-Fund collaboration was not a topic many in Addis felt able to comment on. Nevertheless stakeholders with some contact with both institutions, and particularly amongst donors, acknowledged that relations between the Bretton Woods institutions had improved and had 'warmed up' significantly during the PRSP period.

45. From the perspective of both Bank and Fund staff based in Addis and in Washington, the PRSP process had been a period of constructive engagement. Fund staff based in Addis had participated in several consultations and the Fund was an active member in DAG discussions. Washington-based Fund staff were less involved on a regular basis but did take the lead in encouraging government to undertake an assessment of the sources of growth and to consider alternative macroeconomic scenarios in the SDPRP. The IMF country team also played a central role in preparing the JSA in collaboration with the Bank country team. Donor representatives noted

several areas of increased cooperation between the Bank and Fund, most recently around financial sector development and the inclusion of a Bank country economist on the latest PRGF review.<sup>8</sup> Fund staff based in Addis also participated in various PRSC missions, including almost all of the August 2003 PRSC mission meetings.

46. Areas where collaboration could have been better included the early stages of the CFAA, where there was the perception that the IMF could have supported (or been asked to support) the process more directly and, as a result, taken greater ownership of the findings.<sup>9</sup> IMF participation in PERs was also an area that some – particularly donors - felt needed strengthening. The IMF did commit resources to the 2001 PER, including drafting a chapter on fiscal policy, nevertheless the perception was that Fund ‘ownership’ of the PER’s findings was limited with implications for the take-up of priority issues in the PRGF. In the most recent PER 2003, the Fund was not invited to participate, this time due to the dominance of bilateral donors. However a future role for the Fund in a strengthened PER process seems vital, especially in enhancing future PRGF-SDPRP alignment.

47. At the time of the evaluation mission, some senior staff in MOFED were still expressing reservations about the IMF’s stance in Ethiopia. Some were concerned about a possible disconnect between the macroeconomic framework set out in the PRGF and the financing needs of the PRSP. Although the PRGF was considered to be consistent with the policy thrust of the SDPRP, the perception was that the Fund’s programming rules were not altogether in alignment with the financing demands of the SDPRP. The Fund’s view, however, was that the authorities assumptions in the SDPRP were too optimistic and a more realistic macroeconomic framework based on achievable growth and revenue targets and identified financing was necessary to ensure that programs were prioritized and targets could be met. The PRGF review in 2002 did allow for some relaxation of the deficit rules following requests for greater flexibility from MOFED, but the perception remained that more should be done to address the financing needs of the PRSP and ultimately, Ethiopia’s realization of the MDGs.

## **Conclusion**

48. The Bank has played a constructive role in the PRSP process in Ethiopia. Ownership of the strategy by central government is clear. The Bank program is broadly aligned with the SDPRP. Progress has been made in taking forward some key areas of the government’s program, most notably in telecoms and private sector development. Tangible progress has also been made in donor alignment with the SDPRP. While the SDPRP is still in its infancy, the evaluation uncovered some potentially divergent expectations about the process. The government views the SDPRP as an important opportunity to articulate its longstanding policy program to both internal and external constituents. Many donors view it as the first step on the road to more responsive and transparent government and a new context for aid relations. CSOs and NGOs view the PRSP approach in a more radical light, hoping for a more fundamental shift in the political economy of policy making and the consideration of policy alternatives. Although these expectations are not necessarily

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<sup>8</sup> According to Fund staff, Bank staff have been invited to participate in all PRGF missions, though by their own choosing they did not attend all meetings.

<sup>9</sup> Fund staff based in Addis did participate in CFAA discussions alongside other donors.

in conflict, at least over the medium to long term, they are the source of some tensions already. Being aware of these differing expectations and finding the right balance between respect for country ownership and providing intellectual and financial leadership is likely to be a critical challenge for the Bank going forward.

## I. INTRODUCTION

1. This report analyzes the experience of Ethiopia with the Poverty Reduction Strategy Paper (PRSP) process<sup>10</sup>. The focus of the report is on evaluating the performance of the World Bank in supporting the PRSP initiative, not on appraising the authorities' policies. The emphasis of the report is on the formulation and implementation of the PRSP until the time of the evaluation team's mission to Ethiopia in mid-2003.

2. The analyses presented here are based on a variety of sources, most notably: (i) published and unpublished World Bank documents relevant to the Ethiopian PRS Process; (ii) material produced by stakeholders at various stages of the process; (iii) interviews with key World Bank staff members with relevant experience in Ethiopia; (iv) interviews with a broad spectrum of local stakeholders in the context of an OED team mission to Ethiopia<sup>11</sup> and (v) a survey of 83 stakeholders representing government, civil society and international partners.<sup>12</sup>

3. The report is structured as follows: Section II describes the country context including the poverty profile, the political and economic context, national strategies and trends in development aid and aid relations. Section III describes the PRSP process and includes an assessment of the relevance of the PRSP for Ethiopia, and the application of its underlying principles in Ethiopia. It concludes by presenting some preliminary evidence on its results. Section IV assesses the World Bank's support to the process and section V, cooperation between the Bank and the Fund, including the Joint Staff Assessment. Finally, Section VI summarizes the main conclusions of the case study.

## II. COUNTRY BACKGROUND

### A. Poverty

4. Poverty in Ethiopia is widespread. With a per capita GDP of \$139 and a HDI ranking of 168, Ethiopia ranks as one of the poorest countries in Africa, and the world. According to the most recent official household survey (HICES 1999/2000),

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<sup>10</sup> A new framework for poverty reduction was proposed by the staffs of the World Bank and IMF, and endorsed in 1999 by the Interim and Development Committees. The framework's key objective is to assist countries in developing and implementing more effective strategies to fight poverty, embodied in Poverty Reduction Strategy Papers (PRSPs). These strategies are to be prepared by governments and used to prioritize the use of public and external resources for poverty reduction impact. Adoption of the PRSP framework signalled an intended shift by the Bretton Woods Institutions (BWIs) in the ownership of development strategies and the policies needed to achieve poverty reduction. A second objective of the new framework is for PRSPs to become the principle instrument for managing a country's relations with the donor community. (See Chapter 1 of the synthesis report).

<sup>11</sup> The mission team consisted of Alison Evans (OED consultant), Shonar Lala (OED staff) and Mohammed Mussa (OED consultant). Bill Battaile (OED staff and Task Manager of the overall PRSP evaluation) joined the team for the first half of the mission. The team visited Ethiopia from June 30 to July 11, 2003 and met with stakeholders in Addis Ababa (the capital), Awassa (capital of SNNP region) and Shebedino and Wonago (two *woredas* or districts in SNNP region where PRSP consultations were held). A full list of stakeholders consulted for the case study is in Annex 5.

<sup>12</sup> A summary of survey results can be found in Annex 4.

44 percent of the population of 65.8 million are below the poverty line.<sup>13</sup> Roughly 88 percent of these are living

5. By any estimate the poverty situation is severe, but there are different views about the source and strength of recent trends. Some researchers point to a dramatic fall in rural poverty since the late 1980s (Dercon 2000a<sup>14</sup>, Bigsten et al 2003), and that this “good news” is primarily due to the collapse of communism and economic reforms introduced by the post-Derg government in the early 1990s.<sup>15</sup> Others, including Devereux and Sharp (2003) argue that improvements have largely been limited to specific localities and have been driven primarily by “...climatic variability of unpredictable and divergent magnitudes across years and between regions within the country” (2003:5). The Bank’s own analysis in 1999 based on an analysis of national accounts data, consumption surveys and food price trends concluded that there “is quite compelling evidence that the poor in Ethiopia have improved their well-being over the course of the nineties”. However, in 2002 the Bank also notes that, following significant progress on poverty reduction in the early nineties “poverty has not changed significantly between 1995 and 2000” (Devereux et al 2003). Where there is agreement is that rural consumption-based poverty declined in some locations during the early-mid 1990s but that since then poverty levels in rural areas have more or less stagnated and urban poverty levels have worsened. The effects of the drought and the collapse of coffee prices in 2002/3 have almost certainly caused poverty levels to worsen everywhere; by how much is not yet known.

6. Non income-based measures of poverty and well being in Ethiopia show a better but no less mixed picture of progress during the 1990s. There have been some dramatic improvements in education and health indicators, but the challenges of delivering social services of adequate availability and quality remain large. Average distance to schools has declined, particularly in rural areas and primary enrolment rates improved dramatically from low bases in both rural and urban sectors. Female enrolment rates

**Box 1: Perceptions of ‘Ill-being’ in Ethiopia**

“We are above the dead and below the living”

“We are left tied like straw”

“We have become empty like a hive”

“We simply watch those who eat”

“The poor is falling, the rich is growing”

“Our life is empty; we are empty handed”

*Quoted in Devereux (2003) citing World Bank (1999)*

<sup>13</sup> Quantitative data on poverty is available from National Household Income Consumption and Expenditure (HICE) surveys carried out in 1995/96 and 1999/00 and supplemented by annual welfare monitoring surveys (WM). These surveys are carried out by the Central Statistical Authority (CSA) and managed by the Welfare Monitoring System in MOFED. The poverty line was defined as a basket of ETB1075 in 1995/96 and the same basket was used in 1999/00. However, straightforward interpretations of the survey data are hampered by the effects of periodic droughts and the Ethiopian-Eritrean conflict which was ongoing during data collection. Questions regarding the comparability of the 1995/6 and 1999/00 surveys are currently being addressed.

<sup>14</sup> Dercon’s work is based largely on panel data of 362 households gathered from six rural Ethiopian communities between 1989 and 1995. The panel was expanded to 15 communities and 1,403 households in 1994. The same households were resurveyed again in 1997. Bigsten’s analysis is based on results from this larger panel data set.

<sup>15</sup> In another paper based on the same household panel data Dercon (2002) notes that while there is evidence of growth occurring as a result of reforms during the 1990s “in general it does not appear that all households benefited in the same way...[This] may imply that some areas may permanently stay behind with low growth, unless their ability to participate in growth can be strengthened” (p12).

have grown faster than males' and gender differences in education are gradually on the decline. But larger intra-sectoral disparities prevail: net enrolment rates are very low with only a third of children in primary school in 1999/00. High repetition rates significantly reduce net enrolment rates. The adult literacy rate improved slightly but remains very low, particularly amongst women in rural areas. Access to health services has also improved but a severe shortage of skilled workers constrains the quality of service.<sup>16</sup> Per capita spending on health is about one sixth the sub-Saharan average. HIV/AIDS is a growing threat while safe drinking water is only available to around 15% of the rural population. Population growth remains high at around 2.5 percent per year, suggesting that the demand pressure on social service provision will remain high for the foreseeable future. Behind the statistics are also the perceptions of poor Ethiopians themselves. Box 1 lists a number of statements made by Ethiopians about their state of poverty during the *Consultations with the Poor* exercise in 1999. Many of these comments suggest powerlessness and social exclusion and a sense of continued ill being.

## B. Political Context

7. One of the oldest independent states in Africa, early Ethiopia was ruled by a succession of colonialist emperors from the highlands.<sup>17</sup> The modern Ethiopian state was developed in the late nineteenth century "through a twin process of political subjugation and economic exploitation of outlying populations."<sup>18</sup> The high burden of taxes collected from rural peasants to finance the state's central administration, undermined pre-existing democratic traditions or mutual obligations that had existed among community groups (Pausewang (1997)<sup>19</sup>). The state was thus regarded as "an oppressive authority, which demands obedience."<sup>20</sup> Haile Selassie, the last emperor in a line of royals descended from Queen Sheba, was toppled and executed in 1974 by the Derg, the Marxist military dictatorship under Colonel Mengistu Haile Mariam. During the 17 years of Mengistu rule, any last vestiges of democratic practice were more or less eliminated.

8. In 1991 the highly repressive regime of the Derg was ousted by the revolutionary Tigray People's Liberation Front (TPLF). The Federal Democratic Republic of Ethiopia was established with the TPLF-dominated Ethiopian People's Revolutionary Democratic Front (EPRDF) at its helm. The new EPRDF-led Transitional Government of Ethiopia (TGE) placed high priority on the twin goals of national (re)unification through extending the right of all Ethiopian nationalities to self determination,<sup>21</sup> and increasing political and economic pluralism. Almost

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<sup>16</sup> World Bank (2003a), Country Assistance Strategy, p. 4.

<sup>17</sup> These rulers were alternatively Jewish and Christian; both religions came at a very early stage to Ethiopia.

<sup>18</sup> Economist Intelligence Unit (2002), p. 4.

<sup>19</sup> For example, the Oromo system called *gada* was historically a set of institutions for self-determination based on age groups. This has either disintegrated or disappeared. *Rist*, for the Amhara, was a right to share in the land of community and an associated responsibility for the community. Under pressures of taxation by the centre, the *rist* system degenerated into competition amongst family for land.

<sup>20</sup> Pausewang (2002), p. 179.

<sup>21</sup> Joireman (1997) attributes the genesis of this policy to the fact that the TPLF were very aware, during their struggle against the Derg, that imposing a national government on a multi-ethnic society against its will would incite revolt. Critics of this decision contend that it is likely to lead to a disintegration of the country along ethnic lines.

immediately, Eritrea was given de facto independence from Ethiopia. This was made de jure in 1993. However a border and trade dispute with Eritrea degenerated into a full-scale war in 1998. A peace agreement was reached in 2000, but tensions remain high. (Box 2).

**Box 2: Conflict with Eritrea**

Eritrea's independence in 1993 had been a source of resentment for many non-Tigrayans in Ethiopia, who were suspicious of the close (although uneasy) friendship between the TPLF and the Eritrean Population Liberation Front (EPLF). Both leaders were of the same Tigrinya-speaking ethnicity and had fought together against Mengistu's regime.

Differences between the leaderships over political control (the EPLF is a centralized dictatorship while Ethiopia embarked upon a democratization process), Eritrea's decision to break away from a *de facto* currency union in 1997, and resentment over the loss of Ethiopia's coastline and access to the Assab port, eventually triggered the 1998 border conflict in which 100,000 people were killed. In the spring of 2000, Ethiopia routed the Eritrean forces but halted their advance at the personal intervention of the Prime Minister. A peace agreement was signed in December 2000, and by April 2001 the UN Mission in Ethiopia and Eritrea (UNMEE) had secured the withdrawal of troops and established a 25 km demilitarized Temporary Security Zone.

The independent International Boundary Commission based in the Hague ruled on the disputed 400 sq km border on April 13, 2002. Based largely on the Italian colonial boundaries, the decision left the ownership of the flashpoint town of Badme unclear, and was immediately disputed by Ethiopia. On March 28, 2003, the IBC released a final verdict: that Badme belonged to Eritrea. Ethiopia, whose troops still control Badme, has rejected the decision and is trying to refer the ruling to the Security Council. Privately, Prime Minister Meles Zenawi has warned donors that the loss of Badme could cost him his leadership.

*Sources: Oxford Analytica (2002, 2003), EIU (2002,2003) & EU (2003).*

9. Ethiopia adopted a federal constitution in 1994 with a commitment to '*ethnic federalism*' or regional devolution drawn along ethnic lines. In 1995, Ethiopia was formally divided into nine regions (states) with two federal assemblies – the Council of People's Representatives (lower house) and the Federal Council (upper house), but Government remained relatively unresponsive to local needs. The EPRDF dominates the lower house, holds all major regional state councils and has a large majority in the upper house. Tigrayan dominance of the EPRDF is described as "overwhelming". Attempts to open the political system to competition have faltered over the years. The process leading to a single-party dominant system has, according to some observers, heightened the public's alienation from the democratic process. Lyons (1996) notes that the "gap between democratic forms on the one hand... and political freedoms on the other, [has] resulted in increased cynicism and public disengagement from the process."

10. More recently, serious dissent over Prime Minister Meles's perceived moderate stance on Eritrea and the government's liberalization and globalization agenda have resulted in schisms within the ruling EPRDF. In an attempt to rebuild confidence and address the lagging state of development in the country, the 2001 EPRDF congress reviewed the development policy and implementation strategies of the country and announced far-reaching changes in the formal structures of government. The outcome was a second wave of decentralization designed to bring government closer to people by devolving increased authority from the regional to the *woreda* or district level (Box 3); a new cabinet involving key appointments from outside of the TPLF; and significant changes in the formal structures of central government, including the creation of five 'super-ministries' to act as coordinating, umbrella bodies to renew the drive to improve government coordination and efficiency.<sup>24</sup>

**Box 3: Progress in Decentralization**

Ethiopia has embarked on an ambitious process of democratic decentralization since the early 1990s.<sup>22</sup> The first phase set out a policy of *ethnic federalism* in which regions were defined roughly along linguistic lines. Political, social, and economic responsibilities were devolved to the regions. Through the use of block transfers to regions and the redeployment of civil servants, the government attempted to ensure the viability of the nine regional states and redress their horizontal and vertical imbalances.<sup>23</sup> It is argued, however, that despite its commitment to regionalization, Government remained relatively unresponsive to local needs during this phase. Central government collects 80 percent of total revenue and was criticized for neglecting the special requirements of regions and offering weak incentives for good regional administrative performance (Abegaz 2001).

The second and on-going phase launched in 2001 is designed to rapidly decentralize delivery responsibilities to districts or *woredas* via a block grant to local authorities, the elimination of "zones" (a level between regions and *woredas*) and the redeployment of regional and zonal staff into pools accountable to local executives. The objective is to increase responsiveness at local level and create a sustainable system for inter-governmental financing consistent with reaching the goals of the Government's long-term development strategy (ADLI and SDPRP). Modernization of municipalities has accompanied this phase of decentralization. Amhara, Oromia, SNNP and Tigray regions have been the first to receive these far-reaching changes. The move is a bold one and could bring about far-reaching changes in the way the state operates in Ethiopia. Major challenges in the short to medium term include getting legal clarification of the functional, fiscal and political aspects of local government, addressing major capacity gaps at *woreda* level and managing transitional risks to service delivery as *woredas* take up the bulk of responsibility for frontline service delivery.

11. Reactions to the recent changes have been positive, with the donor community in particular keen to support Government's commitment to far-reaching institutional and structural reforms. Tensions nevertheless remain including over the extent to which the government's latest political agenda is actually reflective of demands and pressures from 'below' or represents an imposition of a political agenda from above.

<sup>22</sup> Description of the phases is drawn mainly from World Bank (2003b).

<sup>23</sup> See Chapter 5 of the 2001 Public Expenditure Review for more information on imbalances (World Bank (2001b)).

<sup>24</sup> They are, Ministry of Finance and Economic Development, Ministry of Rural Development, Ministry of Infrastructure Development, Ministry of Capacity Building and Cooperation, and Ministry of Federal Affairs.

## C. Economic Policy and Performance

12. **Macroeconomic Stabilization and Structural Transformation:** Following the removal of the Derg regime in 1991, Ethiopia entered an intense period of fiscal and monetary stabilization accompanied by a more limited pace of structural transition from a centrally planned to a market economy. Stabilization was largely achieved and growth performed well, but by the end of FY99 Ethiopia's impressive economic trends began to deteriorate partly due to the war but also due to drought and worsening terms of trade. Reforms associated with deregulation and liberalization also stalled.<sup>25</sup>

13. The initial impact of the war imposed a heavy toll on the economy. The conflict strained public finances, reduced donor support and undermined investor confidence. Defence spending shot up to 13.2 percent in FY00, resulting in sharp cuts in capital expenditure and in fiscal transfers to the regions for anti-poverty programs.

14. After the war, the Government responded quickly by putting in place programs to address demobilization, humanitarian needs and reconstruction. Macroeconomic performance improved once again. Tax rates were lowered and the fiscal deficit reduced, although it increased to 10 percent in 2001/02 due to the implementation of special programs and capital and poverty expenditures. Defence spending returned to 6.4 percent of GDP in FY01 and expenditures were redirected to poverty targeted outlays.<sup>26</sup>

15. Supported by an IMF Poverty Reduction and Growth Facility (PRGF) in 2000, and two IDA credits, the Economic Rehabilitation Support Credit and the Ethiopia Structural Adjustment Credit (disbursed in FY02 and FY03 respectively), several measures were taken in the immediate post-conflict period to support the foreign exchange market, public sector management, public expenditure policy and management, private sector development (investment and urban land lease reform) and export competitiveness. The pace of reform, particularly in the financial sector, has lagged in part because of the ailing Commercial Bank of Ethiopia and the government decision not to allow foreign banks entry in the financial sector. In addition, some larger companies that were to be privatized were not able to find buyers.

16. **Challenges And Constraints To Growth And Poverty Reduction:** Between 1991 and 2001 growth averaged 4.4 percent or 2.1 percent per capita, representing a substantial improvement over earlier decades.<sup>27</sup> Growth rates have been strongly driven by agriculture, on which the Ethiopian economy is highly dependent. Agriculture comprised 43 percent of GDP in 2000 and employed 85 percent of the population.<sup>28</sup> Coffee production accounted for 54 percent of exports and *chat* another 16 percent in 2001. Agricultural growth averaged 2.4 percent over the past decade.

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<sup>25</sup> Interim CAS 2000.

<sup>26</sup> Defence spending still exceeded budget by 15 percent in 2001/02, and planned increases in health and education spending had to be curtailed

<sup>27</sup> Easterly 2002, p. 4. Per capita growth rates under the Derg (1974-1991) and the monarchy prior to that (1951-1973) were -1.0% and 1.51% respectively.

<sup>28</sup> Agricultural growth rates of 5.4% and 7.7% in fiscal years 2001 and 2002 were mainly due to bountiful crops. The growth rate has subsequently worsened to 1.2% in fiscal 2003 due to the drought.

Services account for a rising share of GDP, and have registered the fastest growth in the past decade.

17. Growth in Ethiopia has been erratic and highly contingent on climate, terms of trade movements and the effects of conflict. The country has had a long history of extreme food crises; food security is probably the biggest challenge for poverty reduction in the short to medium term. The agriculturally less-productive highlands and the pastoralist areas have been the most vulnerable historically, with some other regions, mainly in the west, continuing to produce sufficient food. This has led to a situation in which food abundance co-exists with widespread food insecurity, although, in more recent times food insecurity has spread into areas that were once regarded as relatively food secure.<sup>29</sup> Chronic food insecurity, while triggered by over-reliance on rain-fed agriculture and frequent drought, can be attributed to a number of policy-related failures including over-dependence on subsistence farming, problems of land tenure, weak markets, poor infrastructure and ironically, reliance on external food aid.<sup>30</sup> Food aid (and a bumper crop) has tended to lower prices, crowd out informal insurance schemes and is often concentrated in areas that are not necessarily the poorest, leading to a cycle of dependence (Dercon and Krishnan 2002, Jayne et al. 2000). In 2003, between 11 and 13 million people required food aid in Ethiopia as a result of the drought.<sup>31</sup> The presence of poor initial conditions combined with vulnerability to exogenous shocks has led some to argue that only a ‘big push’ in the fundamentals – institutions, human development and the business climate - would provide Ethiopia with the chance it needs to achieve the MDGs (Box 4).

**Box 4: Requirements for Ethiopia’s Growth**

“Further increases in Ethiopia’s growth potential would require a second generation of reforms that address some of the poor initial conditions -- the poor quality of institutions, the high illiteracy, the low level of openness to trade, and the low degree of structural transformation of the economy (measured by variables like urbanization and share of agriculture). Poor institutions include flawed democracy and human rights, lack of property rights in land, and excessive business regulation. This does not even take into account other severe long-term problems like the inadequate attention to the AIDS pandemic and environmental degradation. Ethiopia’s current predicament fits well with theoretical and empirical descriptions of a “poverty trap.” Only a significant “big push” in the fundamentals through a program of institutional reform, accelerated human capital investment, further trade opening, and a good business climate for diversifying the economy would make possible an acceleration of growth like that envisioned in the HIPC documents. The substantial inequality between urban and rural areas of Ethiopia in illiteracy and other social indicators suggest that redressing such imbalances will be a necessary condition to achieve these goals.”

Source: *Growth in Ethiopia: Retrospect & Prospect*, Bill Easterly, April 2002.

18. **Debt Situation:** Ethiopia’s long-term debt sustainability is extremely fragile. The country’s ratio of exports to GDP is very low and exports are concentrated in

<sup>29</sup> During a field trip to SNNP region, two coffee-producing woredas were visited that were for the first time tackling problems of chronic food insecurity due largely to the collapse in coffee prices, land fragmentation and population pressure. These areas were experiencing what has become known as ‘green famine’ – cultivation of ‘green’ crops such as enset (or false banana) combined with increasingly chronic food insecurity.

<sup>30</sup> EU (2003), p. 60-61.

<sup>31</sup> “Emergency Assistance Requirements and Implementation Options for 2003: A Joint Government of Ethiopia-United Nations Appeal”, December 2002.

coffee, a commodity whose price is near its twenty year low in 2003. Ethiopia reached Decision Point under the Heavily Indebted Poor Countries (HIPC) Initiative in October 2001, granting it much-needed debt relief in the amount of \$1.3 billion in NPV terms. At Completion Point, and on submission and endorsement of the first Annual Progress Report of the PRSP, completed at the end of 2003, Ethiopia will receive the bulk of the relief.<sup>32</sup> But in line with many other low-income countries, Ethiopia has a low capacity to absorb new debt. A recent DSA demonstrates that the debt to export ratio is likely to remain around 200 percent during the next decade (assuming that IDA disburses its performance based allocation of around \$500 million per year). Even if a large percentage of this is provided in the form of grants, the room for new loans will be limited. Most new finance to the country will therefore have to come in the form of grants in order to prevent the emergence of a new debt crisis.<sup>33</sup>

#### **D. National Strategies and their Formulation**

19. During its tenure the EPRDF government has developed a number of long and medium term strategies and plans. The 1994 Agricultural Development-Led Industrialization strategy (ADLI) was the flagship of GoE's long-term development strategy, and despite considerable criticism from both inside and outside Ethiopia, has remained a core part of Government thinking and ideology for almost a decade (Box 5).

**Box 5: Agricultural Development Led Industrialization (ADLI)**

Since 1994 the Government's approach to development has been enshrined in ADLI – Agricultural Development Led Industrialization. From its inception the EPRDF has invested significant amounts of human, financial and political capital implementing ADLI, but the underlying premises of the strategy have been widely criticized, including by researchers, the private sector and the donor community in Ethiopia. Most of the criticism focuses on the presumption that non-agricultural growth occurs at the expense of agriculture and that the agricultural sector alone can provide a sufficient engine for economy-wide growth in production, employment and income. The critics argue that the development of the agricultural sector is constrained by the low level of industrialization and urbanization. Without markets and opportunities for income diversification, including non-farm employment, agricultural intensification is a painfully slow and faltering process. Consequently development of the agricultural and non-agricultural sectors must happen *pari passu*. What the critics don't dispute, however, is that agricultural development will form an important part of any rural poverty strategy in Ethiopia for some time, but that without a well-developed urban system linked to national and international markets, sustainable agricultural development will be very difficult to achieve.

*Source: Mohammed Mussa (2003)*

20. The Government's vision is further operationalized in periodic national development plans. The most recent Five Year National Development Plan (2001-2005) continues to be centered on ADLI. Food security, improved marketing systems,

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<sup>32</sup> Ethiopia reached Completion Point in April 2004 upon completion of the floating triggers specified in the Decision Point document and an IDA-approved Annual Progress Report on the PRSP in December 2003. A draft of this case study was transmitted to the government in December 2003. Therefore while the case study refers to the Annual Progress Report and the latest developments, it is based on a full assessment of events through mid 2003.

<sup>33</sup> Ethiopia: Accelerating the Progress Towards the MDGs. Impact on Aid Requirements. World Bank mimeo.

irrigation development and expansion and improvement of extension services all figure strongly, together with an enhanced focus on capacity building and human resource development in all sectors and expansion of education and health services. More controversially, the Five Year Plan explores the possibility of voluntary resettlement of people in drought prone areas to be implemented by relevant regional governments with support from the Federal Government. The latest Five Year Plan provided the framework for the Interim PRSP.

21. In addition, government developed a national Food Security Strategy which was revised in 2002 through dialogue at the federal and regional level and with the donor community. The new strategy includes a stronger focus on reversing land degradation and also has a multi-sector, capacity-building approach.<sup>34</sup> Since then the government has put together a Coalition for Food Security – involving multiple stakeholders across government, NGOs, the private sector and donors-, which, at the time of writing this report, was due to be launched at the December 2003 Consultative Group meeting in Addis Ababa. The focus of the coalition is to move Ethiopia away from food aid dependency towards sustainable food security. A National Capacity Building Strategy was also prepared in 1998 setting out a comprehensive approach to capacity strengthening across the formal structures of government, resulting in the preparation of a government-wide National Capacity Building Program. Together with the Five Year Plan these strategies form crucial pillars of the final SDPRP.

#### **E. Aid Trends and Relations**

22. By any measure, Ethiopia is aid poor, receiving currently about \$13 per capita which is well below the sub-Saharan Africa average of \$23 per capita. Donor disbursements declined between 1995 and 1997 in large part due to lower emergency and food aid requirements. Aid flows then remained very low until 2000 as most donors suspended assistance (except for emergency and food aid) due to doubts about the conflict with Eritrea. Flows resumed in 2001 and disbursements jumped from US\$700 million in 2000 to US\$1 billion in 2001 (see Annex 3).

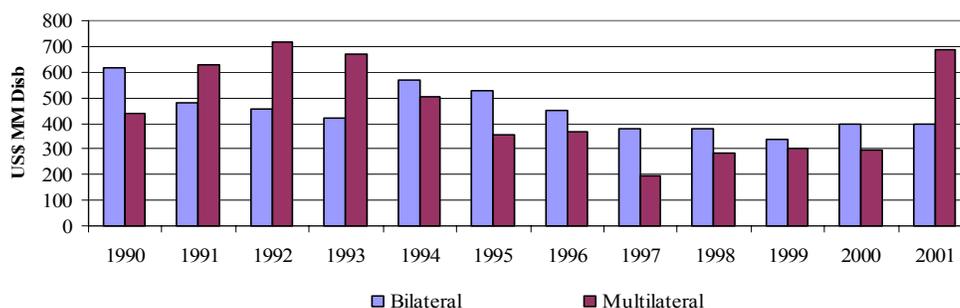
23. IDA is the largest donor, accounting for almost 40 percent of flows; IDA, the EC, U.S., Japan and Netherlands were the top 5 donors in terms of disbursements during 2001 (see Annex 3). In 2001, the bulk of aid disbursements went to agriculture and economic and social infrastructure. Emergency assistance and food aid made up one-fifth of all flows in 2001. Because of the latest drought, that fraction is expected to be nearer to one-third or one-half of total flows in 2003.

24. The share of grants in ODA has increased steadily and accounted for 75-80 percent of the total by the late 1990s. Loans, however, dramatically increased in 2001, driven largely by 3 major IDA credits and an agreement with the IMF for a new PRGF arrangement. Project aid currently represents over 70 percent of total aid in Ethiopia.

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<sup>34</sup> SDPRP 2002, p. 66.

**Figure 1: Donor Disbursements, 1990-2001**



Source: OECD International Development Statistics Online.

25. **Aid Relations.** Relations between the EPRDF and donors have gone through many different phases over the years. Relations were probably at their worst during the period surrounding the removal of the Derg regime, and more recently during the war with Eritrea. They are probably at their strongest right now.

26. The general view from donors is that Ethiopia has dedicated and competent policymakers and civil servants with a strong sense of ownership of the government's reform agenda and a general distaste for externally imposed policy conditionalities. But owing to its political legacy the country has lacked an institutionalised mechanism for debating policy proposals with important stakeholders. The consequence is a weakening of public ownership of reforms and an undermining of their long-term sustainability. On the government side, policymakers and civil servants commonly express frustration at donor (and NGO) 'interference', especially in the political realm, the imposition of policy conditions and the lack of aid coordination.

27. In 1999, Ethiopia along with 12 other countries adopted the CDF approach. With a long term development strategy already in place in the form of ADLI, Ethiopia's desire to be included in the CDF was largely about enhancing the effectiveness of aid. The timing, which was during the Ethio-Eritrean war, also suggests that this was a time when the GoE was looking to rebuild relations with the international aid community. Although the pilot period for the CDF closed in September 2000, it clearly contributed positively to government-donor relations. Together with the PRSP process this has led to an aid climate in Ethiopia that is more constructive than it has been for decades.

## II. THE PRSP PROCESS

28. Ethiopia completed its I-PRSP in November 2000, and became eligible for assistance under the Enhanced HIPC Initiative in February 2001. Decision Point under HIPC was reached in October 2001. Ethiopia's full PRSP (Sustainable Development and Poverty Reduction Programme (SDPRP)) was completed in August 2002.

## A. Preparation

29. The preparatory process for the SDPRP was led by a Ministerial level Steering Committee chaired by the Ministry of Economic Development and Cooperation (MEDAC).<sup>35</sup> In the later stages, as MEDAC merged with Finance, the role was taken over by the new Ministry of Finance and Economic Development (MOFED). A Technical Committee headed by the vice minister of MEDAC comprising representatives of the Prime Ministers Office, Finance, MEDAC, key line Ministries and several Regional Governments was established to guide work on sector issues and the poverty impact of programs and policy. The work of the Technical Committee was in turn supported by a National Secretariat housed initially in MEDAC, and later in the newly formed MOFED. It was expected that the Secretariat would do most of the actual work and drafting of the PRSP.

30. A PRSP Regional Steering Committee, consisting of sector regional bureau heads, was also constituted under the leadership of the Bureau of Planning and Economic Development (BoPED). The Regional Steering Committee was supported by a Regional Technical Committee comprising of mainly technical staff from Regional Bureaux.

31. Following a fairly extended lull in activity after the IPRSP, in August 2001, the government laid out an “Action Plan for the Formulation of the PRSP” which provided the road map for the process of preparation (Annex 1 gives a more detailed chronology). The consultative process for the SDPRP was organized in two phases. In the first phase between November 2001 and March 2002, the federal government conducted public discussions at woreda and Regional levels, which were observed by NGOs and the donor community. Three consecutive days of consultations were held simultaneously in 117 out of 550 woredas. Civil society institutions and the donor community also organized a series of public discussions and consultations at Regional and Federal level. Altogether about 6000 + people were involved in this ambitious program of consultations. A draft SDPRP document was finally launched in March 2002.

32. At the end of March 2002, a National level conference was organized which included representatives from civil society, the private sector, independent research and policy institutes, parliamentarians, trade unions, NGOs, government officials at all levels, and the donor community. The final SDPRP document was ready for submission to the Bank and Fund Executive Boards in July 2002.

33. During the preparation phase the Bank maintained as much of a back seat role as it could, while also providing advice, and at times pressure, to the keep the process going. Much of the direct assistance to the process, particularly the consultative phase, was provided through the DAG pooled fund. The Bank was not a financial contributor to the fund, largely because of a concern over conflict of interest, however the Bank did participate in DAG core group meetings. Fund staff based in Addis participated in several consultations and the Fund was an active member in DAG discussions. The Washington based Fund team were less involved on a regular basis but did take the lead in conversations around the macro framework and the need

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<sup>35</sup> Information on the details of preparation is mainly from Gabriel (2002).

to maintain close links with the framework set out in the PRGF. They also took the lead in encouraging government to undertake an assessment of the sources of growth.

## B. Relevance

34. Assessing the relevance of the PRSP process in Ethiopia involves assessing the ‘fit’ between the PRSP approach – principles and process - and the key development challenges facing Ethiopia at the time of its introduction. Critically, has the PRSP approach provided a framework for government to identify and address gaps in its own strategic approach to long-term poverty reduction?

35. ***The PRSP provided Government with an opportunity to re-articulate its vision for long-term poverty reduction.*** Unlike some other PRSP countries, the government already had a series of national strategy documents emphasising poverty reduction – ADLI, the Third Five Year Development Plan, and the National Food Security Strategy. As products of the ruling party, these strategies also commanded the support of the political elite.<sup>36</sup> The PRSP represented an opportunity to integrate these strategies into a unified development framework for endorsement by the wider society and the external assistance community.

36. In this sense the PRSP provided the GoE with both ‘opportunity and continuity’. On the one hand, there was a recognized opportunity to engage a wider audience in discussing the government’s policy program, on the other hand, the time frame and the need to reach completion point provided a clear case for continuity. Some officials were initially concerned that the PRSP process might open up too much discussion space about policy alternatives, which in turn, might delay progress towards HIPC completion. Government made it clear that they wanted to keep to the HIPC schedule of one year between I-PRSP and full PRSP, and that the PRSP would be a re-articulation of existing Government strategy within a comprehensive framework.

37. During interviews Government staff, particularly in MOFED, were clear about how *they* saw the relevance of the PRSP; “it provided us with an opportunity to revitalize what we have”; “the PRSP is a reinforcement of the process started in 1991” but also, crucially, “it allowed us to articulate our perspective to a wider audience”. Some were less convinced. As one regional official put it “I don’t see any difference between ADLI and the PRSP...it’s as if they [the World Bank] don’t believe we are poor.” However, the sense of this being an important opportunity was captured by one *woreda* official who noted that the PRSP was a chance to “..reprioritize spending away from defense purposes.” He concluded, “..we don’t have any conflict now, we are now fighting poverty”.

38. ***The PRSP provided new incentives to focus on results and the resource allocation framework.*** If there was a clear gap in GoE’s strategic approach to poverty reduction it was the lack of a coherent framework monitoring and measuring progress. Individual programs, such as the sector development programs in health, education and roads had developed monitoring and evaluation frameworks, and MEDAC’s Welfare Monitoring Unit gathered data on key poverty trends, but none of this data had been systematically applied as a measure of progress against specific policies and

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<sup>36</sup> See the Box on ADLI.

programs. As one representative of Government put it “the PRSP has provided focus and increased the responsibility of Government to deliver”.

39. In addition, up until the PRSP there had been no clear articulation of the resource envelope needed to finance the strategic aspirations of government. The PRSP provided this. As one sector level official put it “the process marks the beginning of budget discipline and adherence to strategic planning both at the sector level and MOFED”. Similarly, a MOFED official noted that while the SDPRP reinforced priority areas and allocations in place before the PRSP initiative, “for the first time we know the financing gap”.

40. ***The PRSP offered an organizing framework for government-donor relations.*** The need for a comprehensive and monitorable strategy for poverty reduction was echoed by external development partners, many of whom had returned somewhat warily after the war looking for ways to engage in a more productive (and pro-poor) dialogue with GoE. Following a fairly long period of strained Government-donor relations, the PRSP offered a tangible opportunity to open up the dialogue between donors and GoE around a shared goal. In the event the timing of the PRSP was highly fortuitous, not only in bringing government strategy under one umbrella but also in presenting government and donors with an organizing framework based on key CFD principles of partnership and participation.

41. NGOs and civil society groups based in Addis Ababa were more skeptical about the relevance of the PRSP to Ethiopia. Concerns focused on whether the PRSP approach really reflected learning from past mistakes, particularly from the structural adjustment era. One representative from the research community argued that although the core principles of the PRSP were very worthy on paper, in a country like Ethiopia with its track record of limited political contestability, the principles could never really be taken seriously. Nevertheless at least one prominent representative of civil society noted that in his view the PRSP was exactly the right instrument at the right time for Ethiopia. He noted that the PRSP represented a crucial governance agenda for Ethiopia, arriving just as the war had ended and the ruling party were grappling with their own internal agenda; donors were looking for a basis on which to return and, in particular, a sign that government was turning its attention away from war and back to poverty reduction. The PRSP provided a post-conflict government with a crucial opportunity to build more constructive relations with donors once more.

42. To summarize, the PRSP was a relevant instrument given a number of ‘gaps’ in the Ethiopia reform context.<sup>37</sup> It provided:

- An opportunity to integrate existing elements of the policy framework in a more comprehensive and pro-poor manner;
- A much needed focus on results and the resource allocation framework, and;
- An organising framework to guide (and manage) relations with external partners

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<sup>37</sup> The survey results support this assessment – three questions on the relevance of the approach featured among the most positive responses with three-fifths of respondents agreeing that the PRSP is a good model.

### C. Application of the Principles

43. **Country-led with broad based participation:** Overall, the PRSP approach has been well received by central Government and the ensuing process very much led by them. A strong sense of ownership of the document and process at central government levels stems from EPRDF's wish to use the PRSP as an opportunity to rearticulate existing strategy and policy commitments rather than undergo an extensive review of past policies. The fact that ADLI – the EPRDF's development strategy - forms such a significant part of the final document is as good a measure as any of government's leadership of the process.<sup>38</sup>

44. But government ownership and country ownership are not the same thing, and an initial wariness from GoE about broad-based participation risked turning the process into one dominated largely by the technocrats. Habitually wary of dialogue with private and non-government actors, government officials feared that involving too many constituencies would slow down the process and invite too many different perspectives on matters of substance. It took the government almost 7 months to decide on a consultative process.<sup>39</sup> Yet, once decided, the process was taken very seriously and, by most accounts, ended up being one of the most broad-based and extensive of its kind in a PRSP country.

45. The consultation process, which was organised from within MEDAC (now MOFED), closely mirrored the federal and administrative hierarchy of the country. Grass-roots discussions were held at woreda level with participants drawn from across each Region. In total 117 woreda level consultations took place over a 3 day period with some participants travelling far to attend. Considerable effort was put into selecting representative groups of participants, particularly from amongst women and pastoralist groups. Local facilitators were chosen from schools, health centers and district government and given poverty training prior to the consultation workshops. Government also tried to keep the process 'apolitical' by discouraging party affiliates and politicians from joining woreda-level consultations.

46. The consultations themselves focused around building awareness about poverty and its causes, getting feedback on existing government policy and identifying key sectoral areas for prioritization in the PRSP. Proceedings from the consultation meetings were written up and aggregated to the Regional level. Altogether the woreda level consultations involved upwards of 6000 people.

47. Further consultations involving 2000 people were held at the Regional level. Those who observed the Regional consultations noted that they were generally less inclusive and less dynamic than the woreda level consultations, and tended to be dominated by Government officials. Finally, Federal level consultations of various kinds were held involving NGOs, CSOs, Trade Unions, and Parliamentarians, members of the private sector, the research and academic community, donors and representatives of government.

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<sup>38</sup> As will be discussed further on, the Bank and other donors have continued to question the premises of ADLI through successive workshops, seminars and development debates. However, rather than risk losing the intense sense of ownership that GoE feels over the strategy, the Bank is advocating a gradual re-balancing of ADLI as part of their ongoing dialogue through the PRSP, CAS and now the PRSC.

<sup>39</sup> Some have argued that the elapsed time between the I-PRSP and the consultations was also due to Government being overworked with PRGF negotiations, an ESRC and Paris Club talks.

48. In engaging with the process, some groups were particularly well organized. For example, the Addis Abba Chambers of Commerce prepared a detailed input into the Federal level consultations based on a process of consultation with their own membership. The NGO PRSP Task Force was formed to manage the process of consultation and debate with NGOs and CSOs (Box 6). The Donor Assistance Group (DAG) also played a vital role in helping to leverage finance for the consultation process and in preparing a joint Issues Note summarizing donor inputs to the initial phases of PRSP preparation.

**Box 6: Civil Society Mobilization Around SDPRP**

The SDPRP provided a platform for an active engagement of civil society in the public policy process. NGOs countered their capacity problems and the traditional closed culture of the government in various ways. First, they organized themselves into an “NGO Task Force on the PRSP” which a) held a series of awareness and sectoral analysis workshops, b) commissioned a study on NGOs’ contribution to poverty alleviation which fed into a paper on their perspective on the SDPRP<sup>40</sup> c) closely followed the *woreda* consultations d) made successive attempts to work closely with the PRSP Secretariat and e) discussed and continue to discuss their role in monitoring of the SDPRP. Second, they formed coalitions with the donor community. Third, they engaged various stakeholders via a series of public discussions. For example, the Forum for Social Studies (FSS) ran a Poverty Dialogue series in which the policy issues raised were submitted as part of the PRSP process.

*Source: Gabriel (2002).*

49. Representatives of government were generally positive about the impact of the consultative process, feeling that the scale of the process was a good measure of its effectiveness. Some recognized that more could be done to integrate the views of different stakeholder groups, but saw this as an ongoing process for government. Amongst NGO and CSO representatives, the views were more mixed. Interviews in Addis Ababa and SNNP region, backed up by an independent survey of PRSP stakeholders carried out for this evaluation (see Annex 4 for a summary of survey results), found that on-balance NGOs and CSOs viewed the consultation process as an important step forward for Ethiopia. Respondents noted that the PRSP approach offered a ‘good model’ and value-added over past aid-driven modalities. At the same time, however, they expressed concern that the outputs of the consultation process did not feed into the final strategy document<sup>41</sup> and that their engagement in the larger PRSP process had fallen off considerably following the formal consultation process.<sup>42</sup> CSO and NGO respondents were also concerned that the consultations offered little exploration of policy alternatives and that discussions around the macroeconomic framework were insufficiently participatory.<sup>43</sup> Many were concerned that their views on government strategy including ADLI, state ownership of land and land-lease policies, had not been listened to in spite of the level of debate surrounding them internationally.<sup>44</sup> Comments made by NGO representatives at a roundtable meeting in

<sup>40</sup> The commissioned paper is Belshaw and Coyle (2001); for the NGO submission, see NGO Task Force on PRSP (2002).

<sup>41</sup> This was also the view of some government officials, particularly one or two officials who had been closely involved in the design of the consultative process.

<sup>42</sup> Although contact with government offices was now considered more possible than before the consultations.

<sup>43</sup> Expectations were high, fuelled in part by the larger international effort by NGOs to increase their access to and voice in this area.

<sup>44</sup> Gabriel (2002), p. 7.

July 2003<sup>45</sup> reflected their feelings of frustration “we had expectations of greater transparency and policy change, especially on governance.”

50. Some donors also expressed disappointment that the final PRSP document did not adequately reflect issues raised during the consultations and that opportunities for stakeholder engagement had declined following the end of the consultative process. Nevertheless, of those interviewed and surveyed, the majority felt that the participatory process had contributed value-added in its own right. This was further confirmed during interviews at *woreda* level, where several references were made to the importance of the consultative workshops in contributing to peoples’ awareness of poverty issues and an increasing sense of community responsibility (as well as governmental responsibility) for addressing them.

51. **Comprehensive and long term:** The SDPRP presents a wide-ranging diagnosis of poverty and its key determinants using the results of two Household Income Consumption and Expenditure surveys (HICES) carried out in 1995/6 and 1999/2000 and a series of welfare monitoring surveys conducted annually since 1995/6. Most of the poverty analysis details quantitative trends in income (consumption) based poverty, both temporal and spatial. Data on non-income dimensions covers nutritional levels (stunting and wasting), access to health services, literacy and various dimensions of asset ownership with some disaggregation by gender. The analysis also addresses key areas of vulnerability – food security and HIV/AIDS – albeit in a highly aggregated manner.

52. The resulting poverty profile represents a marked improvement over previous efforts as set out in ADLI, the Five Year Plan and other strategic documents. What is missing from the diagnostic is an integrated qualitative assessment of peoples’ perceptions of both poverty and vulnerability. The chapter makes few direct references to any qualitative assessments of poverty, nor does it make any substantive use of qualitative

findings of the PRSP consultations themselves, although the document does commit to conducting a PPA to address apparent disagreements between the quantitative analysis and the perceptions expressed by ordinary people during the consultation process “In the Woreda

**Box 7: Fiscal Challenges of the SDPRP**

The SDPRP estimates total expenditures on poverty-related sectors between FY03 to FY05 to be 37.3 billion Birr, with almost three-fifths allocated to education and roads. Total expenditure on the SDPRP is projected to rise from 18.4% of GDP in FY03 to 19.9% of GDP in FY05. The document illustrates the level of resources necessary to make the massive increases in spending on basic service delivery required to meet SDPRP goals. It presents the resources available given the information in the MEFF. With only the MEFF resources available, the SDPRP shows how much could be spent towards SDPRP targets given currently available resources. Given the significant divergence between available resources and the level of funding required to meet SDPRP goals, the government notes that ODA per capita to Ethiopia is below average and calls upon donors to step up their support to close the gap and support the realization of SDPRP goals.

consultations...many participants expressed the opinion that the level of poverty is increasing. On the surface this seems inconsistent with the results of the quantitative analysis which shows a level or declining trend in absolute poverty levels...A participatory poverty assessment study could help clarify the reasons for this apparent disagreement” (SDPRP 2002:19). At a minimum this “apparent disagreement” is

<sup>45</sup> Held at the offices of the umbrella NGO organisation CRDA.

likely to reflect discrepancies between subjective and objective data – a not uncommon result. A more serious interpretation might be that the quantitative trends noted in the poverty profile are in some sense misleading due to comparability problems in the 1995/1996 and 1999/2000 HICES data. A HICES planned for 2004, together with a systematic PPA, could help to shed important light on where the source of this disagreement lies.

53. The Poverty Reduction Strategy: Backed up by continued macroeconomic stability, Ethiopia's poverty strategy focuses on promoting agriculturally-led growth as set out in ADLI, while seeking to improve the environment for exports and private sector growth. This is supported by an emphasis on investment in education and infrastructure, coupled with improved social services, particularly in health and safe water. Capacity building and governance issues are identified as part of the ongoing process of decentralization and judicial and civil service reform.

54. The strategy covers both sectoral and cross-cutting issues in some detail. According to one senior government official, preparing the document "made GoE more mindful of the key linkages between sectors." But there are also important issues that are not adequately covered and key linkages that are not made. Capacity building is a crucial theme with its own chapter, which sets the SDPRP apart from many other PRSPs, but inadequate links are made between the severe problems of weak capacity, the demands of rapid decentralization and the likely impact this will have on the pace of SDPRP implementation.<sup>46</sup> This seems a crucial linkage given the central importance of the government's decentralization agenda to the efficacy of SDPRP implementation. The work on growth and poverty linkages and links with sectoral strategies is impressive but is underdeveloped, particularly in relation to the productive sectors. Perhaps of more concern is that no real consideration is given to trade-offs between sector priorities over the medium term, for instance, between continued large investments in the social sectors and much needed investments in infrastructure and risk diversification and only scant attention is paid to the possible downside risks of the strategy.<sup>47</sup>

55. ***Aid and the fiscal challenge:*** The full cost of the programs necessary to achieve SDPRP targets exceed the resources envisaged in the Macroeconomic and Fiscal Framework (MEFF) (Box 7). The MEFF presented in the SDPRP also involves fairly ambitious assumptions regarding real GDP growth (5.7 percent per annum until 2015).<sup>48</sup> Given the relatively low levels of ODA, a doubling and possibly a tripling of ODA is required to help Ethiopia meet the poverty, education, hunger eradication,

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<sup>46</sup> A major World Bank support programme for capacity building (PSCAP) is intended to address some of these weaknesses, in particular as part of Government's ambitious agenda of "democratic decentralization."

<sup>47</sup> Difficult to do for sure but an area where the Bank and the Fund have been pressing in PRSP countries.

<sup>48</sup> The first half of the 1990s were years of relatively strong growth, with substantial improvement in food and export supply. After 1996, the economy suffered, however, from multiple shocks: adverse weather conditions, deteriorating terms of trade, high HIV/ AIDs prevalence, and conflict. Overall, growth was lower, at about 4%/year. This may also reflect the end of catch-up growth, and the emergence of new constraints requiring second generation reforms. Unfortunately, the drought and collapse in coffee prices in 2002/3 has severely impacted on growth outturns for the first year of SDPRP implementation.

water and sanitation and HIV/Malaria MDGs by 2015.<sup>49</sup> To avoid a further debt crisis, increased aid flows would have to be predominantly in the form of grants.

56. **Results-oriented:** The SDPRP provides indicators and targets for monitoring and evaluating the implementation of the strategy. Altogether the SDPRP includes 25 ‘indicative’ targets and indicators. The majority relate to the social sectors. Two relate directly to the poverty headcount, 5 relate to education (gross enrolment, education share, repetition rate, girl/boy ratio etc), 8 relate broadly to health (IMR, MMR, health budget share and HIV prevalence), 5 to the rural/agricultural sector (farming households covered by TVET, new cooperatives established) and 1 to infrastructure (the road network). In addition, 9 performance targets are identified incorporating the main HIPC triggers required for reaching Completion Points.<sup>50</sup>

57. The SDPRP Monitoring and Evaluation system is based on an existing ‘top-down’ monitoring system operating at national, sector and federal levels. Coordination will be handled by the Welfare Monitoring Unit in MOFED. The M&E system is expected to draw upon existing data sources such as the annual Welfare Monitoring Surveys, and the Household Income Consumption and Expenditure Surveys (HICES). The ongoing Agricultural Sample Census will significantly strengthen the scope of survey data. Administrative data from the Sector Development Programs in health, education and roads will also be integrated into the M&E system. Both survey and administrative data will be complemented by participatory studies, although no clear commitment is made to arrangements for participatory monitoring by non-governmental stakeholders.

58. The Joint Staff Assessment (2002) notes the impressive progress made by Ethiopia in recent years in setting up and developing a welfare monitoring system that in turn forms the foundation of the SDPRP M&E plan. However the JSA also notes that further work needs to be done to include more specific annualized targets and to translate priority actions to indicators beyond the social sectors, particularly in private investment, food security and employment. More attention also needs to be paid to differentiating indicators spatially and by gender, and to tracking budget and program delivery goals at regional and local level

59. Tracking of poverty reducing expenditures is complex in Ethiopia because of the absence of a uniform and integrated financial information system across the vertically decentralized system. The joint Bank-Fund Board paper on ‘Tracking Poverty Reducing Spending in HIPC’s’ (2001), while noting the overall health of the system compared to many other low-income countries, notes two specific issues: first, regarding ex post reporting of expenditures, key concerns include the timeliness, reliability and classification of regional expenditure (and now woreda level) figures; second, regarding the setting of expenditure targets ex ante, such targets could be expected to embrace regional as well as federal expenditures, but the autonomy afforded to Regional governments does not allow federal government to dictate regional expenditure allocations across the board. The recently introduced block grant system may complicate matters further (Box 8).

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<sup>49</sup> Ethiopia: Accelerating the Progress Towards the MDGs. Impact on Aid Requirements. World Bank. mimeo

<sup>50</sup> HSDP I had 110 indicators and HSDP II 50 indicators.

**Box 8: Setting Expenditure Share Targets in a Decentralizing Context**

“In the Ethiopia context, the respective roles of federal and regional governments in setting targets that incorporate both federal and regional budgets is not clear. Even if it is formally legitimate for the federal government to set such expenditure targets for the regions, it might be seen as undermining the principles and purposes of decentralization. Furthermore, if targets are set in this way and aid flows are made to depend on their achievement, a region could find itself penalized on account of the failure of other regions to meet their targets. Decentralization of expenditure via block grants to woredas [will] exacerbate this contradiction in national target setting”

*Source: Stephen Lister (2002)*

60. The SDPRP highlights areas requiring attention in monitoring the implementation of the strategy. One is capacity building of the Central Statistical Authority (CSA) and the Welfare Monitoring Unit (WMU), which at the time of the evaluation was working with a minimum number of staff. Another is standardizing and ensuring consistency across reporting systems at different levels. Most important of all is strengthening analysis and use of data at all levels of government, particularly at regional and low levels of administration in the light of Government’s commitment to deeper decentralization. The JSA notes that a key requirement will be to involve non-government stakeholders in both the generation of data and its analysis and use. The SDPRP contains no timetable or plan for any of these actions.

61. **Partnership:** Against a backdrop of strained Government-donor relations in both the 1980s and 1990s, most Government officials and donor staff agree that the introduction of the PRSP marked a critical turning point for Ethiopia. The preparation of the I-PRSP did cause some initial friction as Government and donors oriented themselves in the new framework.<sup>51</sup> Some donors reported feeling ‘frozen out’ of the process early on; complaining of “too much Government ownership!” Government, on the other hand, was concerned at the prospect of donor interference and the opening up of too many divergent areas of dialogue. Headway was eventually made by donors coordinating their engagement within the framework of the Development Assistance Group (spearheaded through a newly formed Core PRSP group), and Government agreeing to work directly with the DAG. Relations between donors and Government at this time underwent a major shift (Box 9).

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<sup>51</sup> Government was uneasy about the prospect of more donor ‘interference’ while donors committed to financing the PRSP approach were looking for a more prominent seat at the policy table.

62. The institutional framework in which donors operated during the PRSP process was instrumental. Donors agreed on rules of engagement for support of the SDPRP process, including the establishment of a Joint Donor Fund to commonly support SDPRP preparation. The SDPRP approach itself contributed substantially to a more coordinated approach on the side of the donors. At various moments in the process, donors were ‘forced’ to agree on common positions including the way forward. For example, after an intensive collaborative process within the donor community, the DAG was able to agree on a common substantial input in the form of an *Issues Note* presented during the federal consultations. As some interviewees indicated, for an individual donor not being part of the common DAG position was simply not an option. Similar processes took place when preparing joint positions on the draft SDPRP and the Joint Partner Review of the final SDPRP document. Finally, close collaboration between government and donor officials during the process, and in particular during the consultation process, had the effect of building greater mutual understanding across, within, and between the two groups (World Bank 2003a). Related efforts to expand cooperation around the PER and CFAA processes also secured a stronger basis for donor partnership.

**Box 9: The Development Assistance Group**

The Development Assistance Group has 40 plus members covering the vast majority of donor agencies working in Ethiopia. In September 2001, the DAG Core Group (DAG CG) was established with 17 members to support the PRSP in a coordinated manner. The DAG-CG chaired by UNDP, meets weekly and is supported by a secretariat hosted by UNDP. A pooled donor fund was established to channel donor support for PRSP preparations. The DAG CG also prepared a joint issues note as an input to federal consultations and organized the preparation of a Joint Partner Review to sit alongside the JSA.

63. Beyond government and donors, a newly formed public-private forum in which representatives of government and the private sector meet to dialogue on PSD, growth and trade issues is a promising new development. According to NGO representatives a similar dialogue mechanism has yet to be established with NGOs/CSOs, although the Government reported that it had established consultative mechanisms with NGOs/CSOs which it utilized in SDPRP consultations and was planning to revisit in the preparation of the Annual Progress Report.

64. Not everyone was equally impressed with the new ‘spirit of partnership’, however. Several participants in the consultation process felt that talk of a new partnership was incorrect at this stage, particularly when there saw little willingness on the part of government to shift the policy agenda in response to new ideas. Others saw the prospects for equal partnership, particularly between government and the IFIs and between government and CSOs as having been largely unchanged by the PRSP process. In their view, government ‘owned’ the process but made few serious concessions to wider public ownership, while the IFIs continued to hold the purse strings. Even some donors expressed concern that the new partnership framework was taking up more time of government than in the past, resulting in higher transactions costs and potentially some delays in SDPRP implementation, although all hoped that this was a product of the early stages of the process and that costs would begin to decline as partnership arrangements bedded-down.

65. **Conclusion:** The PRSP process in Ethiopia adhered closely to the underlying principles in both its preparation and the resulting strategy. The process was relevant, was led by government and drew heavily on existing strategy. The process of local participation was broadly based. The strategy itself adopts a multi-dimensional approach to poverty reduction. An M&E framework is identified and broad links are made to the fiscal framework. External financing needs are identified. The process provided a new context for government-donor relations and the beginnings of an aid reform process in Ethiopia.

66. But the process is also revealing some potentially divergent expectations between stakeholder groups. The government clearly sees the PRSP process as an opportunity to articulate its longstanding policy program to a wider audience and to confirm its leadership of the policymaking process in the face of international pressure.<sup>52</sup> Donors see it as the first step on the road to more openness and possibly more influence over government policymaking, and a new context for aid relations in the country. CSOs and NGOs see the PRSP in a more radical light, hoping for a more fundamental shift in the political economy of policy making and relations between government and people. Although these expectations are not necessarily in conflict they are the source of some frustrations already. Being aware of differing expectations and finding the right balance between strong government ownership and wider public ownership of the process will be crucial in the months and years ahead.

#### **D. Preliminary Evidence on Results**

67. This section reports on some key areas of progress between SDPRP endorsement and the evaluation mission in July 2003. It also draws on some initial evidence from the draft APR available to the team at the time of writing. Two things are important to note in evaluating progress to date. First, the first year of SDPRP implementation overlapped with one of the worst food crises Ethiopia has seen for many years, resulting in a necessary diversion of resources and capacity away from some other areas of government policy. Second, at the time of the evaluation mission there was relatively little documented evidence of results, in part because the first APR had not been written but also because it was too early in the implementation period for key results to have emerged. The evaluation therefore relies heavily on a structured mix of key informant interviews, an independent stakeholder survey, a field visit to SNNP region and, where available, documentary evidence of progress with particular aspects of government policy.<sup>53</sup>

68. **Processes for policy formulation and implementation:** The development vision set out in the SDPRP builds directly on the EPRDF's existing policy program. Bank staff also note some important signs of second generation thinking in the lead up to the SDPRP, particularly around PSD, that even if not clearly articulated in the current document, provide an important context for rebalancing old policy agendas (including ADLI). How much of this was due to the influence of the CAS consultations and how much to the consultative process leading up to the SDPRP is not entirely clear.

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<sup>52</sup> Following the war in particular.

<sup>53</sup> For example, the evaluation of HSDPI (FDRE 2003) and the draft Implementation Completion Report of ESAC and ERSC (World Bank 2003c).

69. The transparency of the policy framework in the SDPRP<sup>54</sup> is regarded by government and by donors as a key strength and a crucial basis for going forward with greater donor alignment and harmonization. So it is interesting to note that a series of decisions taken by government immediately after SDPRP endorsement around resettlement, education and ICT (not included explicitly in the SDPRP but part of the EPRDF's wider development vision) raised concerns amongst some donors that important policy decisions were being taken outside of the SDPRP framework. Whether or not the decision to enact policy in these areas was deliberately left until the three-year SDPRP policy matrix had been endorsed is not clear, but the experience served to remind some donors of the political nature of policymaking and the fact that donor alignment and harmonization is as much a political challenge for all involved as a technical challenge.

70. As noted already, NGO and CSO representatives were less convinced that the PRSP had brought about tangible change in the policy process. They also noted that the absence of a clear, institutionalized dialogue mechanism – similar to the one established for private sector partners - for finding out how government was planning to take forward its policy priorities. On balance, representatives felt that the process had given them few opportunities to address or influence public policy in any meaningful way, confirming their view that, despite initially high expectations, the PRSP process had contributed little towards improving political accountability in the country. Whether these expectations were reasonable is a question returned to later. What is clear is that almost all non-government stakeholders agreed that the SDPRP (and the CAS process) brought into the open a number of policy issues that were not previously discussed in public, in particular issues relating to land and land tenure, competition and the financial sector. Although the debate around macroeconomic and structural policies was still considered inadequate by many, they did acknowledge that the fact that the discussion was happening at all was a key output of the SDPRP process.

71. **Decentralization and capacity building:** Following on from the first phase of institutional reforms in the early 1990s, the period of PRSP preparation saw the launch of the Government's second phase designed to shift decision making closer to people and improve the responsiveness of service delivery. While the PRSP itself was not responsible for initiating this second phase,<sup>55</sup> observers note that the PRSP process gave the GoE the 'urge not to wait'. Consequently in 2001, the Government launched a series of far reaching legal, fiscal and administrative measures in the four most populous regions (Amhara, Oromia, SNNP and Tigray). The aim, which forms a critical pillar of the SDPRP, was to empower the local government sphere to deliver the bulk of basic services in a responsive manner, as well as promote democratization and local economic development. The process involved the transfer of significant proportions of regional subsidies to woredas in the form of formula-derived 'block grants'. Implemented for the first time in FY01/02, these unearmarked transfers are expected to empower local authorities to make critical service delivery decisions and promote downward accountability. In addition, regions have been streamlined and numerous zones (existing between regions and woredas) eliminated. Regional and

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<sup>54</sup> It represents the first time that all the different branches of government policy are combined in one strategic document.

<sup>55</sup> This occurred during the 2001 Party Congress.

zonal staff are being redeployed to woredas to carry out basic public financial management functions.

72. Donors have been generally supportive of the push towards decentralization, but most, if not all, had hoped for a more phased approach allowing for a more careful matching of responsibility and capacity along the way. Many fear a weakening of Ethiopia's tradition of administrative discipline in public financial management, as well as new tensions arising between downward and upward accountability. There are concerns that newly empowered district governments will not be able to handle reporting and monitoring of national and sectoral targets any time soon, with implications for both PRSP and MDG monitoring. A field visit to SNNP region in July 2003 confirmed the state of flux over the new system at local level. The challenges associated with the institutional reform process are numerous and are likely to represent a major continuing challenge for SDPRP implementation.

73. **Monitoring and evaluation:** Early progress here was probably one of the main casualties of the immediate months following SDPRP endorsement. Although Ethiopia already had a fairly extensive system of welfare monitoring, interviewees remarked about a loss of momentum and the PRSP process "getting stuck on M&E." Results from the survey of PRSP stakeholders in July 2003 suggested limited familiarity amongst non-governmental groups about plans for taking forward M&E, and little knowledge of how the results of SDPRP implementation would be fed-back into a process of policy adjustment, suggesting that this could have been more forcefully communicated to them (see Annex 4 for a summary of survey results).

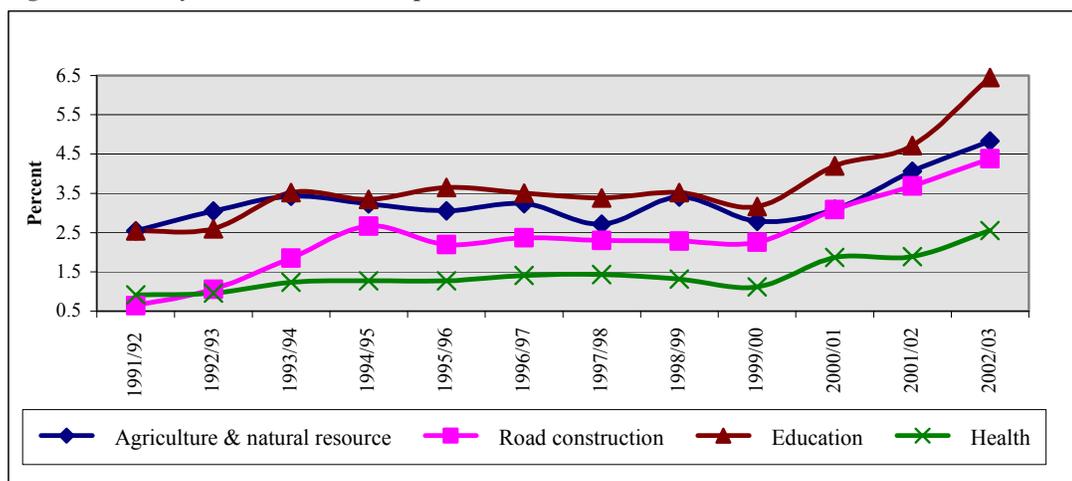
74. Slow progress with M&E in the initial months was attributed by government officials to the time taken up by the emergency situation, the introduction of the block grant system and engaging with donor-related processes, such as the work on harmonization and preparing for the CG. However, by the time of the evaluation mission in July there were already signs that some progress was being made. Work on a revised policy action matrix was underway, catalyzed in part by the need for prospective budget support donors to get agreement on a shared performance assessment framework based on the SDPRP. Supported by a donor-funded consultant, the process involved identifying annualized indicators for key performance targets and providing a clearer articulation of inputs, outputs and outcomes across the main multi-sectoral themes of the SDPRP. Work was still ongoing at the time of the evaluation mission but the process did result in the 400 plus indicators in the SDPRP being reduced to 127 by the time of PRSC pre-appraisal, with a further winnowing expected during the appraisal phase in August.

75. In addition to the policy matrix, a secretariat for monitoring implementation was formed out of the technical committee for SDPRP preparation in MoFED. A proposal was prepared to strengthen monitoring capacity including (i) data collection and analysis at low levels of aggregation; (ii) more effective use of administrative data; (iii) increased capacity for analysis; (iv) integration of available data in a more user friendly way and (v) dissemination and open access. The proposal encompasses the monitoring needs of both the SDPRP and MDGs and was submitted to the DAG for financial support. At the time of the evaluation there was no clear indication from the DAG about how the proposal would be supported.

76. The increased pace of progress around M&E in the second half of 2003 is clearly linked to both the PRSC preparation process and the need on the part of government to prepare an Annual Progress Report for HIPC completion. In such a large and diverse context, however, the challenges of M&E are considerable and there is still some way to go before a fully functioning M&E system is in place. For instance, at the time of the APR there was still relatively little progress in developing monitoring and evaluation indicators, with the exception of health and education. Little detail is available on who will be responsible for monitoring and what the time frame is for implementing the M&E system. Institutional arrangements, particularly those relating to lower levels of aggregation are still to be defined. Links back into the budget and decision-making process are not clear, particularly at local level,<sup>56</sup> while participation by non-government actors - amongst the private sector and NGOs - to improve on local capacity for M&E is not clearly defined.

77. **Alignment of the budget process:** Even before the SDPRP, the Government of Ethiopia had committed to increasing the share of total expenditures going to poverty-oriented sectors. Figure 2 shows the gradual increase in expenditures as a share of GDP. Continued commitment to poverty-oriented spending is clear in the SDPRP resource allocation framework. Table 1 shows budget estimates for the 2002/3 budget. As a share of total expenditure, poverty oriented spending was predicted to be around 48 percent in 2002/3 compared to 37 percent in 2001/2. While the budget out-turns reported in the APR confirm a rising trend, overall the figures are well below budget estimates, suggesting a lack of realism and discipline in expenditure planning. Discrepancies are largely due to lower than projected resources, including domestic revenues (in part because of a lower than projected growth rate) and external assistance.

**Figure 2: Poverty Oriented Sectors Expenditure in Percent of GDP**



<sup>56</sup> A decentralized approach to M&E has been piloted as part of the health sector development program but according to the head of planning and programming only 2 regions had taken any ownership of M&E, while the SDPRP has increased demands for data from these levels.

**Table 1: Expenditure Forecast and Budget for Poverty Oriented Sectors (2002/3)**

Poverty-Oriented Sector	2002/3 Budget (ET Birr millions)	Budget as % of total expenditure*	2002/3 Pre. Actual	2002/3 out-turn as % of budget
Agriculture & natural resources	2,635.8	12.3	2039.2	77.4
Health	1390.9	6.5	913.9	65.7
Education	3863.5	18	3174.8	82.2
Roads	2,449.7	11.4	1889.7	77.2
<b>Total</b>	<b>10339.9</b>	<b>48.2</b>	<b>8027.5</b>	<b>77.6</b>

\* Including special programs

Source: SDPRP 2002, MOFED Budget 2002/3, APR 2003

78. Several important steps have been taken to improve budget alignment and strategic priorities during the first year of SDPRP implementation, including merging MEDAC and MOF into MOFED to facilitate integration of the capital and recurrent budgets, and completion of Ethiopia's first CFAA.<sup>57</sup> Efforts to capture donor funds in the budget are also continuing with an attempt to get a 3 year forecast of aid flows, although government's ability to collect reliable data on actual disbursements remains complicated by segmented donor programs, multiple disbursement channels and unreliable reporting.

79. Work on development of the Macroeconomic and Fiscal Framework (MEFF) continued, but as successive PERs have noted, preparation of MEFFs has been something of a "shadow exercise" in Ethiopia. Interviews with the Budget Department in July 2003 confirmed relatively weak links between the MEFF and the annual budget process, noting difficulties in constructing financial projections which rely heavily on regional data. Consequently the MEFF is rarely based on actuals and "...the annual budget differs greatly from the MEFF". The full procedural integration of recurrent and capital budgeting – in part requiring a functional review and restructuring of MOFED and bureaus of finance at regional level – has yet to be effected. At the local level, the heavy recurrent orientation of the block grant means that woredas are in effect managing only recurrent budgets. Ethiopia therefore continues to operate with a largely incremental, partially integrated budget system.

80. The PER 2001 notes a number of challenges for increasing the poverty focus of expenditures under the PRSP, including putting forward a convincing timetable for the on-going reforms in public expenditure management; showing how the capacities for welfare analysis and expenditure planning will be linked and strengthened at each level from the centre down to woredas; and explaining how the Government intends to reconcile the imperatives of decentralization and of medium term expenditure planning. These issues have come to the fore as part of the SDPRP process, as has the importance of getting various processes that feed into the budget - such as sector reviews – to adjust their schedules to fit with the national budget cycle. Progress is being made in these areas supported by donors moving towards a joint budget support framework.

<sup>57</sup> According to the latest HIPC tracking survey Ethiopia has initiated or completed 50 percent of measures in its action plan to improve PEM. The CFAA and CPAR also found that the system overall was "credible" with weaknesses being addressed.

81. At local government level, the challenge of aligning budget priorities with those of the SDPRP is even greater. Woreda level budgets are in a major state of flux in regions undergoing the second wave of decentralization. In the two woredas visited during the evaluation mission, staff were unable to say how recent changes in the block grant system, increased devolution of responsibility for service delivery and the SDPRP related to one another. In both cases the lions share of the budget (recurrent and capital) allocated for the fiscal year just ended had been used on salaries.<sup>58</sup> Efficiency measures were being taken including staff cuts and increasing the number of hours worked by teachers and health workers. Nevertheless it was hard for woreda officials to see how the local development priorities raised in PRSP consultations could be reflected in local budgets, at least for the foreseeable future. Where there was some room for manoeuvre it was largely due to the presence of NGO or donor-financed projects, where these didn't exist there were major concerns about how woredas would manage front-line service delivery in the short to medium run.

82. **Aid Modalities and donor alignment:** Since the completion of the SDPRP, Government and donors have formed a Joint government-donor Task Force on Harmonization and agreed on a 'dialogue architecture' to facilitate dialogue on high level policy issues (Box 10). The new dialogue architecture is expected to be a key building block in the institutional framework for SDPRP implementation and the Annual Progress Report. While taking forward specific aspects of the harmonization agenda – including procurement and project reporting - has proven difficult in practice, the SDPRP nevertheless has enabled harmonization around important processes such as multi-donor budget support. The APR points to the establishment of the joint High Level Forum as a key area of progress. The Joint Partner Review prepared by members of the DAG also acknowledges the contribution of the HLF but also notes lack of progress on activating the thematic policy forums envisaged as part of the original 'dialogue architecture'.

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<sup>58</sup> In Shebedino woreda, SNNP region, it was noted by staff in the Education Bureau that the standard unit cost estimate for basic education was 10 birr per capita, but the current budget allocation was 1.3 birr per capita.

83. Beyond the broad architecture, significant progress has also been made in clarifying the modalities for a shift towards general budget support. Although the provision of various forms of budget support predate the PRSP, budget support donors note that the PRSP process undoubtedly strengthened the approach, in particular the willingness to act in a more coordinated and predictable manner. For a significant number of donors as well as for government, the PRSP and general budget support are key instruments for bringing together aid effectiveness and harmonization. Other key alignment tools mentioned by stakeholders include the CFAA and CPAR and, potentially, the PER.

**Box 10: A Comprehensive Dialogue Architecture**

Government and donors have agreed on a new dialogue architecture for **government-donor** dialogue. The structure consists of three layers.

On top a High Level government-donor forum (HLF), that will meet quarterly at ministerial level and will be the key structure for enabling mutual accountability and better policy dialogue. More specifically, HLF will: (i) oversee SDPRP implementation and monitoring, (ii) oversee progress with harmonization and (iii) provide a forum for discussion of high-level policy issues. The HLF will be supported by subsidiary groups that will report to HLF on issues relating to SDPRP and harmonization. There are two kind of subsidiary groups: joint groups covering sectors (e.g. Health and Education) and groups covering processes (e.g. Joint group on Public Finance Management). Lastly the architecture will be supported by a secretariat that will be responsible for horizontal and vertical communications between HLF and subsidiary groups and logistics.

*Source: World Bank (2003a)*

84. Following a SPA mission in September 2002 (Box 11), agreement was reached between government and donors interested in providing budget support on a common framework for budget support to be aligned with the SDPRP and the government's budget cycle. Since then a Joint Budget Support Group with 6 members (including the World Bank)<sup>59</sup> has continued to meet regularly to agree on basic principles and modalities for committing and disbursing budget support funds.<sup>60</sup> Progress against the core elements of the framework identified in 2002 has been strong, with plans to gradually align disbursements with the Ethiopian financial calendar, develop a shared conditionality framework based on the SDPRP and use of the Annual Progress Report (APR) as the basis for a joint donor performance assessment. An action plan prepared by government following the CFAA provides the basis for donor technical and financial support to improved public financial management.

85. Improved government-donor relations in Ethiopia have also gained momentum from the wider international aid reform process. In June 2002, Ethiopia became one of three pilot countries worldwide on harmonization of operational policies, procedures and practices. Ethiopia also provided a case study on their experiences of aid management at the High Level Meeting on Harmonization in Rome in February 2003.

<sup>59</sup> The 6 members are the World Bank, EU, AfDB, DFID, Sweden and Canada.

<sup>60</sup> One off disbursements outside of the common framework were made by some donors in 2001/2.

**Box 11: SPA Mission on Harmonization of Budget Support**

In September 2002, a mission comprising representatives of the EC, DFID, SIDA and the World Bank engaged in discussions with the GoE about arriving at a new common framework for budget support aligned to the SDPRP and budget cycles. Core elements of this framework would include agreements between donors and government on:

- Annual timetable for making budget support and PRGF commitments, conditionality agreements, disbursements etc.
- Information which would be provided by the SDPRP review as a basis for making judgements about budget support operations
- A common conditionality framework drawn from the SDPRP which would provide a 'menu' from which donors would draw their individual operations (and to which they would limit themselves)
- A process for supporting the government in its efforts to improve public financial management and control – particularly at regional and woreda level
- Procedures for disbursement, financial management controls and audits

Within this framework the expectation is that donors would make multi-year funding commitments (subject to performance) to enable the Government to plan its medium term macroeconomic and fiscal projections.

*Source: SPA Mission Notes September 2002*

86. While progress with alignment and general budget support has been significant and more rapid than in many other low-income countries, it remains difficult to assess how deep is the shift in priorities in donor support to the SDPRP (assessment of the extent of World Bank alignment is in the next section). In most cases it is simply too soon – country strategy papers have not all been adjusted to reflect the SDPRP yet,<sup>61</sup> stand alone projects and programs are still ongoing. Limited prioritisation within the SDPRP is one reason given by donors for the slow pace of alignment (outside of budget support). But not all donors are equally keen on alignment and there remains, despite broad agreements on harmonization, a number who are adopting a wait and see attitude. There is also uncertainty about how 'new' money being made available through various global funds, specifically for HIV/AIDs, will fit into the SDPRP framework.

### III. WORLD BANK EFFECTIVENESS

87. Against a backdrop of progress in taking forward the core PRSP principles and some preliminary evidence of positive results, this section turns to an assessment of the Bank's role in supporting the adoption of PRSP principles and aligning its assistance program with the PRSP framework and other development partners.

#### A. World Bank Support during PRSP Formulation

88. **Support for the underlying principles:** The Bank's role in PRSP preparation can be characterised as relatively "hands off". The opinion, at least on the donor side, is that government largely did it their own way, looking to the Bank and other donors only when specific advice or resources were needed. The Bank did nevertheless provide significant inputs to the process through a combination of PRSP missions, technical guidance, supporting analytical work (including upstream work

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<sup>61</sup> Although some have, including the Bank's CAS and DFID's Country Assistance Plan, both of which have has a primary objective close alignment with the SDPRP.

for the planned PRSC) and, importantly, a series of workshops hosted as part of the 2003-2006 CAS preparations.

89. The Bank’s support for the PRSP process was led by the Washington based PRSP Task Manager, advised as needed by the PRSP Lead Adviser based in PREM.<sup>62</sup> Washington based members of the country team conducted a series of PRSP missions during the course of PRSP preparation. A mission in April 2001 focused on the views of the government with regard to the scope of the PRSP, the potential benefits they saw from the process and a possible program of support for the PRSP.<sup>63</sup> In July 2001, another mission assessed developments in the preparation process, followed up on possible World Bank and donor support and stressed to government the importance of looking analytically at the impact of current programs. A September 2001 mission discussed details of the consultative process and agreed with government the agenda for the full PRSP. A March 2002 mission highlighted government’s progress in various areas and donor interactions around the PRSP.

**Table 2: Cost of World Bank Support to PRSP Process (\$000s)**

<b>Costs incurred in:</b>	<b>IPRSP</b>	<b>PRSP</b>
FY01	\$220	
FY02	\$11	\$95
FY03		\$80
<b>Total</b>	<b>\$231</b>	<b>\$175</b>

*Source: World Bank data as of October 2003.*

90. The Bank also provided various forms of technical input and guidance to enhance local capacity. This included assisting with the preparation of Terms of Reference for the work on monitoring and evaluation undertaken by 2 consultants funded by DFID; providing guidance on how to cost PRSP programs, outlining the calculation of cost estimates and the financing and program implications of costs; and sharing comments on the government’s proposed study on sources of growth. Washington based staff also provided extremely detailed comments, both editorial and substantive, and feedback on the draft SDPRP itself.

91. Table 2 shows the total costs of the Bank’s support for the I-PRSP, PRSP and the JSAs. The average cost of Bank support in Ethiopia over the two phases of the process was \$203,000 slightly above the average for Africa, which was around \$195,000 for FY03. Given the scale of the process in Ethiopia and various delays in taking the process forward early on, these costs seem appropriate.

92. More generally, the Bank continued to provide supporting analytical work in the form of a Public Expenditure Review completed in December 2001, which although a multi-donor effort, was coordinated by the Bank and involved Washington based staff from the country team and the central unit of PREM. Three of the main objectives of the PER were to provide the analytical foundation on fiscal issues for the government to formulate its PRSP; to evaluate systems for tracking public expenditure; and, to improve the understanding of budgetary institutions, systems, processes and capacity constraints at the regional level in the context of the PRSP.

<sup>62</sup> PREM is the Poverty Reduction and Economic Management network of the Bank.

<sup>63</sup> The mission also noted very little movement on the PRSP since the drafting of the 1-PRSP 5 months earlier, hence much of the focus was about encouraging Government to kick-start the process once more.

Key findings from the PER are noted in Box 13. A Bank Country Economic Memorandum is underway on Sources of Growth while the IMF provided technical support for a PSIA exercise looking at the impact of the introduction of VAT on poor groups, some of the results of which are indicated in the APR.

93. Government officials participated in a number of PRSP-related workshops, but the number – both in Ethiopia and regionally – overwhelmed them, especially given the relatively small number of officials that were asked to participate while simultaneously having to work on the PRSP and undertake their everyday responsibilities. A workshop on the PRSP was held for NGOs in February 2000 in which Washington based staff from the country team and PREM’s central unit

participated. Officials from the PRSP Technical Committee also attended a WBI Regional Workshop on PRSPs held in Abidjan in June 2000.

**Box 12: PRSP-Related WBI Activities Targeted to Ethiopia (2001-2003)**

**National:**

May – June 2001 – Policy and Institutional Reforms for Sustainable Rural Development

November – December 2001 – Rural Poverty Reduction Through Food Security and Agricultural Growth

September 2002 – Attacking Poverty Course for UNFPA Staff

October 2002 – Attacking Poverty Course for Media

June 2003 – Advanced Impact Evaluation Workshop for Africa and MENA Region

**Regional:**

May - June 2001 – Macroeconomic Management and Poverty Reduction Strategies in Sub-Saharan Africa (Dar es Salaam)

February 2002 – Policy Seminar for Policy Makers, Africa (Dar es Salaam)

March 2002 – Africa PRSP Community of Practice Consultation Meeting (Dar es Salaam)

April – May/May - June 2002 – Attacking Poverty Course for Anglophone Africa (Kampala)

January 2003 – East Africa Poverty Analysis and Data Initiative (Dar es Salaam)

*Source: WBI Website*

94. **CAS – PRSP consultations.** The relationship between the consultation process for the 2003 CAS and the PRSP preparation process is not entirely clear. Government officials were reluctant to admit that these consultations played an important part in their thinking around the PRSP, another sign of their fierce protection of their policy agenda. On the other hand, Bank staff claim that the two processes influenced and were influenced by each other. Most significant was a series of high-level workshops between March 2002 and June 2002 on key topics in the CAS /SDPRP agenda. The three workshops falling within the SDPRP preparation period covered decentralization, capacity building and private sector development. The workshop on PSD was held when the SDPRP draft was virtually complete, nevertheless both private sector representatives and Bank sector staff noted some positive influence on the final SDPRP draft, and even more significantly, a major boost to government-private sector dialogue in areas such as financial sector reform, telecommunications and competition reform.<sup>64</sup>

95. The relationship between the CAS preparation process and the SDPRP illustrates how the Bank has to manage a delicate balance between ensuring that

<sup>64</sup> See “Incorporating the Investment Climate Agenda Into PRSPs and CASs – The Ethiopian Experience”, Presentation by World Bank, Africa region, on February 25, 2003. Available at [http://www.worldbank.org/wbi/B-SPAN/sub\\_investment\\_climate\\_ethiopia.htm](http://www.worldbank.org/wbi/B-SPAN/sub_investment_climate_ethiopia.htm).

government takes full ownership of the PRSP, while wanting to influence the policy process through its lending and policy dialogue. In Ethiopia, the country team got this balance more or less right with the SDPRP leading the agenda throughout and the CAS consultations picking up on specific areas of policy interest to the Bank and other donor partners. There were concerns expressed in internal meetings about not wanting to push the CAS timetable too hard so as to risk undermining government ownership of the PRSP. But in the end, CAS presentation to the Board was first delayed until December 2002 and then later to April 2003 to ensure that the SDPRP was not over-identified with the CAS timetable and that the full effects of the drought on the macro framework could be taken account of.

96. **Bank behavior:** Responses from Government officials about Bank support for the PRSP principles were almost entirely positive. Officials in MOFED stated that “the Bank has facilitated and worked in partnership and where necessary provided us with funds”. Both the Washington-based team and the country-based team were regarded as constructive and government officials appreciated the Bank’s ability to bring in the best advice and the necessary technical support when it was needed. At Regional and woreda level, government officials were aware of the World Bank’s role in facilitating the PRSP and, in spite of stating strongly that the process must be country-led, were keen for the Bank to do more to ensure progress with implementation.

97. Government officials also noted that improved relations with the Bank since 2000/1 were positively correlated with the Bank’s decentralization; noting significant benefits of having the country team, and particularly the Country Director, based in Addis.<sup>65</sup> This was echoed by members of the DAG who had witnessed a significant improvement in collaboration with the Bank in the last few years, with the Bank playing an active and constructive role in DAG processes. Particular ‘high points’ noted were the setting out between the Bank and the DAG-Core Group of a common position on revisions to the SDPRP policy matrix; joint participation in the SPA mission to agree terms for budget support; and combined support across the DAG for Ethiopia’s inclusion as a harmonization pilot. The only reservation noted was that the Bank seemed to lack on the ground capacity to see the harmonization process through.

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<sup>65</sup> The last Client Feedback Survey conducted in 1997 noted that World Bank staff were perceived as helpful and competent yet they needed to be more open and transparent with local counterparts, private sector and the general public. The presence of the Resident Mission was felt to make a difference but it required greater authority to make decisions, which may be facilitated by actually having the Country Director on the ground.

**Box 13: Highlights of the 2001 Public Expenditure Review**

The 2001 PER stressed the view that the GoE should press ahead with developing a systematic MTEF, a constant refrain from prior PERs.<sup>66</sup> It notes that the government has undertaken two significant reforms in public expenditure management: 1) a commitment to adhere to the financial calendar for the FY03 budget cycle so that regions can have an earlier intimation of their resource envelope 2) merging of MoF and MEDaC into MOFED which would effect integration of capital and recurrent budgets.

On *tracking of public expenditures for poverty reduction*, the PER finds that the main challenge faced by the Expenditure Management and Control Programme (EMCP) (housed in CSRP) is obtaining better management information for improved public service delivery, as Ethiopia already has a strong tradition of expenditure discipline. Although there has been an increasing awareness and demand for effective poverty monitoring generated by the PRSP, the Welfare Monitoring Unit (WMU) in MEDaC still needs to build significant managerial and analytical capacity.

In *increasing the poverty focus of public expenditures*, the PER notes the principle challenges under the full PRSP would be: (i) to present a more comprehensive picture of the nature, causes and dimensions of poverty in Ethiopia; (ii) to spell out priorities and a programme for research and analysis to supplement existing data; (iii) to put forward a convincing timetable for the on-going reforms in public expenditure management; (iv) to show how the capacities for welfare analysis and expenditure planning will be linked and strengthened at each level from the centre down to woredas; and (v) to explain how the Government intends to reconcile the imperatives of decentralization and of medium term expenditure planning.

On *aid management*, the PER states that the uncertainty of aid flows has been a major impediment to moving over to medium term expenditure planning as external loans and grants account for as much as two-thirds of federal capital budget. A government committee was mandated to brief a donor sub-group on public expenditure every six months with the intention of providing a forum for government-donor dialogue on these issues.

Finally, on *regional public expenditure management*, the review finds that regions have suffered due to reduced federal grants and aid flows during the border conflict although this trend has been reversed since FY01. Although communities set priorities in an elaborate way, this does not feed into expenditure allocation in any meaningful way as the former is done without any idea of a resource constraint – the change in the budget cycle should alleviate this problem. Further, regions are unable to plan their expenditures in the medium term because resource envelopes are set annually. On aid management, regions prefer “federal money” as aid money brings many uncertainties and procedures with it. Finally, although regions are technically allowed to design their own policies for intra-regional decentralization, in practice this varies considerably from region to region.

Source: PER 2001

98. The Joint Budget Support Group noted a general enhancement in Bank-donor relations with the shift towards more shared analytical work, such as the PER and CFAA processes, and improved Bank-Fund collaboration since 2001. In relation to the PRSP principles themselves, the group acknowledged that the Bank had actually exercised considerable “patience” in ensuring that the government to follow its own course. As one donor representative noted “There has been a major sea change in Bank behavior.”

99. The above paints a picture of a country team working in line with the underlying principles of the PRSP, in which there were no obvious tensions between Washington and Addis and between the Bank and other donors. However, representatives of NGOs were disappointed that the PRSP process did not sway the government more in terms of considering policy alternatives. They questioned whether the Bank could have done more to facilitate this. Some members of the NGO PRSP Task Force felt particularly let down when their efforts to get a seat on the

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<sup>66</sup> The PER for FY03 was still underway at the time of finalizing this report.

PRSP Technical Committee were not supported by Bank staff. Precisely what the Bank's role should have or could have been in arbitrating between government and NGO/CSOs was never made clear but given Ethiopia's history of weak political accountability, it is reasonable to venture whether the Bank could have done more at the awareness building stage to examine expectations about the role of different actors in the process. A more systematic approach to communication both on the part of the Bank and government may have been one way of addressing this.

## **B. Bank Support and Alignment during PRSP Implementation**

100. Bank financial and analytical support for PRSP implementation is set out in the 2003 Country Assistance Strategy. The main dimensions for assessing CAS alignment with the PRSP are defined in the most recent Joint Staff Annual Progress Report on PRSPs as: vision, diagnosis, program and results.

101. **Vision:** The CAS supports the development vision set out in the SDPRP. It explains the SDPRP's overarching objective, its four pillars and main cross-cutting themes and how the PRSP targets for the medium to long term are consistent with the MDGs, along with obstacles and IDA's strategy to help Ethiopia meet these goals. The CAS goes further than the SDPRP in detailing weaknesses in the current strategy for promoting growth and private sector development and in reducing vulnerabilities and managing risks.

102. **Diagnosis:** The analysis of the country situation identifies key obstacles to future growth and poverty reduction in Ethiopia. The CAS notes the comments made in the JSA about the strengths and weaknesses of the SDPRP and the Boards emphasis on the need for further articulation of the strategy for promoting growth and private sector development and improving the workings of the civil service and improving service delivery at local level.

103. **Program:** The assistance program focuses on three 'clusters of objectives' that track closely with the SDPRP – enhancing pro-poor growth; enhancing human development outcomes by improving governance; and, reducing vulnerability (Figure 1). As mentioned earlier, no explicit reference is made to ADLI. Instead the CAS refers to accelerating rural growth, enhancing urban growth and supporting the development of financial markets to bring about more robust pro-poor growth. The government's commitment to decentralization and improved local governance is picked up by the Bank in the form of support for wide ranging reforms of the public sector through civil service reform and capacity building at central and local levels, civil society empowerment and improved social sector delivery.

104. At the heart of the Bank's program of support for the SDPRP is a series of PRSCs intended to support each of the strategic objectives of the CAS. Partly fortuitously and partly planned, initial preparations for the PRSC coincided with the SPA mission in September 2002. This meant that from the very beginning PRSC discussions were connected to wider discussions of alignment and harmonization and other donor plans to provide budget support behind the SDPRP. The PRSC pre-appraisal mission took place in August 2003 and the appraisal mission in October 2003. PRSC I is expected to focus on public sector reform, rural development and PSD. Subsequent PRSCs will expand the focus on PSD, rural development, local government capacity and human development. The first of their kind in Ethiopia

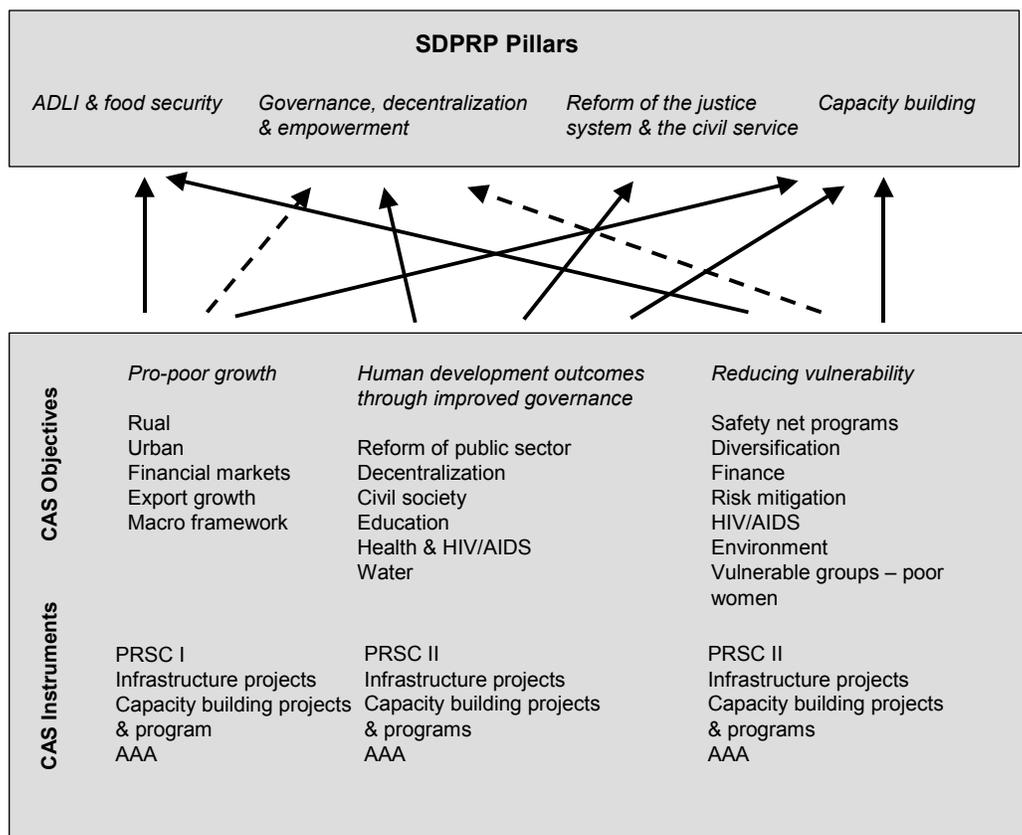
(largely because of the emphasis on cross-sectoral priorities) the PRSCs have not only brought the issue of donor alignment with the SDPRP to the fore, they have also contributed to a more multi-sectoral approach for the country team. While this has challenged the work of some sector specialists, the general view is that it has also led to a more collaborative climate within the country office.

**Box 14: Linking Sector Support with the SDPRP– The Example of Health**

Since 1993 Bank support for health has been focused on the Health Sector Development Programme. The HSDP set a precedent in Ethiopia in developing a comprehensive vision for the health sector with a medium to long term planning horizon supported by a multi-donor partnership. Over time, the Bank and other donors have worked hard to integrate the HSDP into government's wider decentralization and capacity building programme. The presence of the HSDP made defining medium-term priorities and monitorable indicators for the SDPRP considerably easier than in some other sectors. However, the SDPRP is also about greater cross-sectoral working, and as noted by Bank staff, bringing together sectors to work more effectively together requires breaking new ground in Ethiopia. As a response the Bank is planning to roll-up its support to the health sector into the forthcoming PRSC. Some of the relevant sector indicators will be incorporated into PRSC I while the full extent of the Bank's work in health will be reflected in the design of PRSC II. Some other donors are expected to follow-suit. While health sector officials remain confused about the implications of such a shift – most are used to much more tangible donor support, such as projects – the plan reflects a clear intention by the Bank to support the ambitious cross-sectoral agenda underlying the SDPRP.

105. **Results:** CAS progress indicators track reasonably closely with those identified in the SDPRP monitoring framework. The CAS also states that it will monitor progress on key MDG targets. None of the indicators are quantified, however, and the links with specific CAS instruments not identified. Almost all the progress indicators relate to final or intermediate outcomes. None focus on process changes linked specifically to SDPRP implementation.

**Figure 3 SDPRP and CAS Alignment**



Source: Based on CAS 2003 and SDPRP

106. **CAS Process:** As already noted the CAS consultations (made up largely of a series of high-level workshops) were carried out in parallel with SDPRP preparation process. Although the two processes were seen by the Bank as synergistic, in the end, any influence the CAS may have had on the final SDPRP seems subtle at best, and any concerns about the CAS ‘driving’ the PRSP process appear largely unfounded.

107. **Prioritization and selectivity:** The CAS lending program covers a complex range of activities covering PSD, roads, energy, rural capacity building, education, water, empowering civil society, pastoral development, drought recovery, HIV/AIDS and public sector capacity building. While the overarching emphasis is on infrastructure development and capacity building it is difficult to identify a clear set of priorities based on the Bank’s comparative advantage vis-à-vis other donors. The country team and the CAS explain the approach in terms of IDA’s financial dominance and its key leadership role in supporting the transition from the SDPRP vision to tangible improvements in policies and capacities. The expectation is that in the medium to long term, as other donors scale up their programs, that IDA will gradually focus in areas attracting less support from other donors, such as infrastructure.

108. As presented the CAS straddles two (related) objectives. The first is to move towards new modalities such as budget support and programme lending for capacity building as a way of inviting other donors into the process, and thereby reducing

transactions costs for the government and facilitating an increased in aid disbursements. The second is to continue covering the bases (mainly with fairly large projects) not covered by other donors. The challenge will be in ensuring that these objectives don't become polarized over time including knowing when to exit and encourage other development partners to take the lead role.

109. **Alignment of non-lending:** Perhaps one of the most innovative aspects of the CAS is the plan to use the non-lending program not only as a tool for supporting further national dialogue but as a way of seeking to strengthen the monitoring and evaluation of key policies included in the SDPRP. A central aim is to bring in local researchers to help build local capacity, in addition to bringing in international experience. The concept note for the *Institutional Governance Review (IGR)* for example explicitly states its main objective as “supporting the Public Institutions Working Group of the SDPRP in reviewing the ongoing experience with decentralization within regional states, and assessing its progressive impact on service delivery and democratic empowerment” (World Bank 2003b). Other aspects of AAA are oriented towards the main pillars of the SDPRP (and critical bottlenecks to improve performance) including growth, M&E support, vulnerability and risk assessment, poverty reduction in cities and rural development.

110. **Donor coordination:** The CAS uses a CDF-type matrix to describe thematically key areas of involvement of Government, multilaterals, bilaterals, NGOs and the private sector. Since Ethiopia's initial inclusion as a CDF pilot, the Bank has sought to foster the key principles of partnership and coordination. Now, as a key member of the DAG, the Bank is able to share that role across a wider cross-section of donor partners. The SPA mission on aligning budget support and the PRSP, plus the international effort on harmonization have substantially shaped government and donor efforts at coordination in Ethiopia, and the Bank has played an important role, along with others, in taking them forward. The CAS restates the Bank's commitment to “effectively implementing the harmonization agenda on the foundation of the SDPRP” and to ensure that its support “leverages that of other donors in a complementary fashion”. A few indications are given of specific areas of joint activity, such as financial sector and public expenditure issues with the IMF, roads and water with AfDB and with the joint budget support group. Nothing more concrete is offered in terms of principles for engaging in joint lending or analytical work although several activities engaged in recently have involved extensive joint donor support, including the CFAA, CPAR and PER. A specific instance of good donor cooperation around the SDPRP includes World Bank-DFID support for technical assistance on monitoring and evaluation.

111. **Ways of working:** In terms of ways of working, the PRSP approach, along with the PRSC, have resulted in some important changes. There is more emphasis on multi-sectoral working in the country team, there is greater collaboration and information sharing with other donors through the DAG, and the on-the-ground presence of the Country Director has definitely improved relations with both government and other donors. A good illustration of how the Bank's approach is shifting is the PER process (Box 15). However, the Bank's size and dominance in policy dialogue in Ethiopia remains a concern to some donors. Although the PRSP has increased opportunities for joint working within the donor community there is still a concern from some of the smaller donors that the Bank can go it alone when it

wants to. The breadth of its CAS only serves to fuel this worry. Remaining fully engaged in donor coordination processes will be vital to ensure that this doesn't happen.

112. While ways of working have shifted significantly several commentators noted a disconnect with some of its timetables, schedules and appraisal processes. One instance related to preparations for the forthcoming PRSC when some members of the joint budget support group noted a loss of joined-up working with the sheer size of the Bank PRSC team.<sup>67</sup> The ground was recovered and cooperation put back on track, but the instance illustrates well the Bank's continuing dilemma in Ethiopia of how to adjust its own ways of working to fit best with the changing aid context. Ironically, by the time of the PRSC appraisal in October 2003 the ratio of Bank staff to donors participating in the joint mission had completely reversed, with far more donors' staff than Bank staff participating in appraisal meetings.

**Box 15: Changing the PER Process to Increase Impact**

Historically the Bank has led on the PER. More recently a collaborative approach has been used, with a number of donors funding and carrying out different sections of the PER. In 2001 a joint workshop enabled government and donors to discuss recommendations together in draft. Despite these changes the PER has continued to have only a marginal impact on the government's PEM reform program –

- The PER 2001 for instance was produced too late (September) to feed into formulation of the Ethiopian budget (1995 in the ET calendar) which is completed between April-June.
- There has been no formal institutional arrangement allowing GoE and donors to discuss and formally accept PER recommendations or for GoE to implement those recommendations it accepts.
- Finally the PER has been little used by donors to improve the way they work with government, suggesting weak donor ownership of the process.

In response to these criticisms, the Bank proposed various changes to the approach (in line with CDF principles) including having the process aspects of the PER managed more on a continuous basis locally, under MOFED's guidance. A technical committee in government would then mobilize studies and technical assistance as and when government wants it. This would allow the timing of specialized outputs to be better coordinated with government's budget cycle. The formal PER report produced by Bank staff would then be more of a technical input into the process, providing data and analysis on topics of high priority to government.

## IV. BANK-IMF COOPERATION AND THE JSA

### A. Role of the JSA

113. **Highlights of the Joint Staff Assessment:** Staff noted the strengths of the PRSP strategy as (i) strong country ownership and a broad-based participatory process; (ii) a sound diagnosis of the poverty situation; (iii) an appropriate emphasis of the importance of rural and agrarian development in the lives of the poor, with a recognition of the importance of private sector development to increase non-farm income and generate growth; and (iv) a welcome stress on investing in human capacity, as demonstrated by the reorientation of expenditures from military outlays toward social spending. However the strategy needed to be further elaborated in a number of areas, including more detailed work on the costing of programs; a further

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<sup>67</sup> The PRSC identification mission involved 18 team members (3 of which were from other donor agencies).

examination of the linkages between growth and poverty; and, more specific policy measures to encourage private sector and agricultural development, and to tailor the strategy in light of the evolving process of decentralization.

114. **Quality of the JSA:** The JSA covers all the main components as set out in the JSA Guidelines (World Bank 2001d). It takes into account the country's starting point and provides clear and candid assessments in most areas. Where the JSA falls short is in its assessment of the extent to which the SDPRP considers major issues raised in the consultative process and their relationship to the strategy itself. There is no direct reference to issues arising out of the JSA on the I-PRSP, in particular the need for greater attention to prioritization of high-impact public actions as well as trade-offs, and ensuring that these are realistically reflected in the macroeconomic framework. Nor is there any tracking back to a recommendation in the JSA of the I-PRSP that more emphasis be placed on food security issues and that a comprehensive food security strategy be developed in the full PRSP.

115. On the macroeconomic framework the JSA notes consistency with the PRGF for 2002/3 but also points to possible dangers in the more ambitious scenarios presented for the outer years. The joint staffs comment on ambitious growth and revenue assumptions and the larger financing requirements implied by the SDPRP. Possible risks to the financing of the SDPRP are noted if these ambitious targets are not realized.

116. Where the JSA is perhaps weakest is in its assessment of aid relations, the prospects for harmonization and alignment and the contribution made by the PRSP process towards building more effective aid partnerships.

117. **The JSA process:** The JSA ended up being a somewhat rushed process. The delay in final preparation of the SDPRP, meant that the JSA had to be written during August 2002, when many Bank staff and donor representatives were on leave. Drafting was handled entirely by Bank and Fund staff in Washington. The Bank took the lead on the first draft in close collaboration with Fund staff. Subsequent drafts reflected the contribution of both sets of staff. The JSA was regarded as a good collaborative effort between the two institutions. In tandem with the JSA, the DAG-CG prepared its own Joint Partner Review (JPR). This was an important process for the DAG, reflecting for the first time a shared donor position on any aspect of government strategy.

118. Views on the JSA were hard to glean from groups outside of the donor group. Virtually no one in government had read it or claimed to have access to it. Many outside of government regarded it as an 'academic exercise' with limited bearing in Ethiopia. There was also some confusion about who it was being written for – the Boards of the IFIs or the government? While the Joint Partner Review is clearly written with government in mind, the JSA Guidelines are clear that the primary audience is the IFI Boards. Nevertheless there were clear expectations from some quarters that the JSA should be seen as an important guide to government about what the Bank and the Fund might expect in the forthcoming APR. Several donors noted the lack of follow-up during the first year of implementation on either JSA or JPR comments.

## **B. Bank-Fund Cooperation**

119. Bank-Fund collaboration was not a topic many in Addis felt able to comment on. Nevertheless stakeholders with some contact with both institutions, and particularly amongst donors, acknowledged that relations between the Bretton Woods institutions had improved and had ‘warmed up’ significantly during the PRSP period.

120. From the perspective of both Bank and Fund staff based in Addis and in Washington, the PRSP process had been a period of constructive engagement. Addis based staff had participated in several consultations and the Fund was an active member in DAG discussions. Washington-based Fund staff were less involved on a regular basis but did take the lead in encouraging government to undertake an assessment of the sources of growth and to consider alternative macroeconomic scenarios in the SDPRP. The IMF country team also played a central role in preparing the JSA in collaboration with the Bank country team. Donor representatives noted several areas of increased cooperation between the Bank and Fund, most recently around financial sector development and the inclusion of a Bank country economist on the latest PRGF review.<sup>68</sup> Fund staff based in Addis also participated in various PRSC missions, including almost all of the August 2003 PRSC mission meetings.

121. Areas where collaboration could have been better included the early stages of the CFAA, where there was the perception that the IMF could have supported (or been asked to support) the process more directly and, as a result, taken greater ownership of the findings.<sup>69</sup> IMF participation in PERs was also an area that some – particularly donors - felt needed strengthening. The IMF did commit resources to the 2001 PER, including drafting a chapter on fiscal policy, nevertheless the perception was that Fund ‘ownership’ of the PER’s findings was limited with implications for the take-up of priority issues in the PRGF. In the most recent PER 2003, the Fund was not invited to participate, this time due to the dominance of bilateral donors. However a future role for the Fund in a strengthened PER process seems vital, especially in enhancing future PRGF-SDPRP alignment.

122. At the time of the evaluation mission, some senior staff in MOFED were still expressing reservations about the IMF’s stance in Ethiopia. Some were concerned about a possible disconnect between the macroeconomic framework set out in the PRGF and the financing needs of the PRSP. Although the PRGF was considered to be consistent with the policy direction of the SDPRP, the perception was that the Fund’s programming rules were not altogether in alignment with the financing demands of the SDPRP. The Fund’s view, however, was that the authorities assumptions in the SDPRP were too optimistic and a more realistic macroeconomic framework based on achievable growth and revenue targets and identified financing was necessary to ensure that programs were prioritized and targets could be met. The PRGF review in 2002 did allow for some relaxation of the deficit rules following requests for greater flexibility from MOFED, but the perception remained that more should be done to address the financing needs of the PRSP and ultimately, Ethiopia’s realization of the MDGs.

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<sup>68</sup> According to Fund staff, Bank staff have been invited to participate in all PRGF missions, though by their own choosing they did not attend all meetings.

<sup>69</sup> Fund staff based in Addis did participate in CFAA discussions alongside other donors.

## V. MAIN CONCLUSIONS

123. The PRSP process has been a successful experience for both the government and the Bank. The principles have been largely adhered to and have provided real momentum and a new sense of direction to what was, up until recently, an ailing government-donor partnership. However partnerships are delicate things and ensuring that the gains of late are sustained will require some real changes on both sides of the partnership, including some fairly quick evidence from donors that they are truly serious about alignment and harmonization.

124. The impact of the PRSP process on relations between government and civil society is more equivocal. There is evidence of positive change in some areas, such as in the creation of a formal dialogue mechanism between government and the private sector. Some observers noted that the very fact that the consultative process took place on the scale that it did is evidence that relations between government and civil society are moving in a positive direction. Others are less convinced, however, and see the promise of the PRSP as having been overwhelmed by deficiencies in the political system – poor transparency, accountability and weak political institutions. While overall process is far from complete, it seems important that whatever ‘policy space’ the PRSP process was able to create through the consultations that it is accompanied by shifts in Ethiopia’s political culture as well. Progress with the government’s agenda of decentralization and democratization will be central to making this happen.

125. Ownership of the PRSP process is evident when talking with government officials. They are clear that the PRSP offered them a chance of both continuity and opportunity – a chance to rearticulate their development vision to a wider audience and take strong leadership of the policy process in the face of international pressure. Ownership is undoubtedly present but extending it beyond Addis Ababa will be crucial for the next phase of the PRSP. Sustainability of the process will require further institutionalization of the PRSP, not just in terms of structures, but also the processes which support them, and above all, the supporting sectoral, regional and woreda strategies and action plans. There is an urgent need for all involved to link policy and practice more effectively.

126. The Bank has played a supportive and constructive role in the PRSP process. The CAS is broadly aligned with the SDPRP. Particular progress has been made with donor coordination and commitment to harmonization. Collaboration with the Fund has improved. Based on the evidence available, the Bank’s work to date has been highly satisfactory in terms of supporting the PRSP process. The scale of the challenge of implementing the SDPRP and meeting the MDGs remains enormous, however. The financing gap represents two, possibly three times the ODA levels currently being provided in country. Growth has been severely affected by the recent drought and terms of trade shocks, placing an added premium on the speed of second-generation policy reforms. The Bank has a unique role to play in supporting Ethiopia through the next phases of its PRSP process. The challenge will be to balance its highly ambitious program of support with a clear understanding of where the risks and the rewards lie.

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## ANNEX 1: TIMETABLE OF PRSP PREPARATION

Chronology of PRSP Process & Main Events		May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<b>2000/1</b>													
<b>I-PRSP</b>	Technical committee established to draft I-PRSP Committee attended World Bank Regional Workshop on PRSPs Abidjan Draft I-PRSP issued I-PRSP approved	■	■				■					■	
<b>2001/2</b>													
<b>PRSP</b>	Action plan for PRSP and consultation process official launched PRSP Steering/Technical committees & Secretariats formed Training given to Regional Technical Committees & Secretariats Training of facilitators & convenors for district consultations First consultations in 117 woredas Regional consultations Federal consultation/national workshop			■	■	■	■	■	■	■	■	■	■
<b>2002</b>													
<b>PRSP</b>	PRSP draft prepared & released Final PRSP submitted to World Bank & IMF JSA & Joint Partner Review PRSP endorsed		■	■			■						

Source: Based on Getahun (UNDP Evaluation of PRSP Process)

## **ANNEX 2: EVOLUTION OF THE WORLD BANK'S PROGRAM IN ETHIOPIA 1990-2003**

1990-94: The post-war multi-donor ERRP helped “reconstruct the country’s war-torn infrastructure, jump-start the economy, provide essential pharmaceuticals and launch a pilot social fund” and was rated Highly Satisfactory by OED<sup>70</sup>. About half of the SAC I credit was disbursed in fiscal year 1994 for agreed reforms in liberalizing tariffs, taxes, price controls and exchange rates, and privatization of some state-owned enterprises. In spite of delays in the latter, the SAC I too was rated as Highly Satisfactory.

1995-96: In 1995 and 1996, the rest of the SAC I and ERRP credits were disbursed, however a new adjustment credit envisioned in the 1995 CAS was not prepared. The reason given for this in the 1997 CAS was that balance of payments support was not needed from the Bank; however an OED evaluation of World Bank assistance to Ethiopia noted that the main reason was the government’s unwillingness towards policy-conditioned credits.

New projects in road rehabilitation, urban development and in the fertilizer sector were approved and began to be disbursed during this period. The 1996 Civil Service Reform Program was the first comprehensive effort to support institutional changes. The agenda for second generation reforms is set out in the SDPRP.

1997-98: The August 1997 CAS committed itself to increasing resources devoted to non-lending assistance, as a way of improving consideration of policy options in a government very resistant to one-size-fits all policy advice and in the absence of adjustment lending.<sup>71</sup> (OED found that the Bank’s reliance on non-lending assistance *had* increased with assistance going up significantly during FY95-98 relative to FY92-94. While the PERs and sector reviews were found to be extremely useful, reports on private sector and export development were less so; furthermore, an integrated report on the government’s reforms and an economic memorandum were altogether missing.)

Besides its non-lending assistance, the 1997 CAS clustered Bank assistance around infrastructure (roads, energy), sources of growth (agriculture, export development, and SME), and poverty and human development. Although disbursements fell off considerably in this period (due to the non-renewal of the SAC I credit), a new Social Rehabilitation project was approved and disbursements in Education, Health, Roads and Fertilizer projects continued.

1999-00: 1999 saw the beginnings of larger sector investment programs in Education, Health and Roads (as recommended in the 1997 CAS), a second energy project, and increased disbursements to the fertilizer and social rehabilitation projects. There were no commitments in FY00 due to the conflict between Ethiopia and Eritrea.

2000-2002: The 2000 Interim Support Strategy put together after the conflict and covering a 12-24 month period proposed three priorities for the Bank’s future lending: 1) emergency projects to support demobilization, resettlement and stabilization of the economy; 2) strengthening project implementation capacity; and 3) re-engagement in

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<sup>70</sup> World Bank (2000a), p. 3.

<sup>71</sup> World Bank (1997), p. 11.

key structural areas such as food security, agricultural inputs, HIV/AIDS and improving institutions, capacity and service delivery.

2003- A full CAS was presented to the Board in April 2003 prepared in support of the SDPRP which was endorsed by the Boards of IMF and the Bank in August 2002.

### ANNEX 3: DONOR DISBURSEMENTS

#### Donor Disbursements, by donor, 2001.

Donor	Donor Type	US\$ MM	% of Total
IDA	Multilateral	434.42	40.2%
EC	Multilateral	100	9.3%
United States	Bilateral	94.42	8.7%
Japan	Bilateral	52.39	4.9%
Netherlands	Bilateral	44.18	4.1%
IMF	Multilateral	31.67	2.9%
AfDF	Multilateral	29.01	2.7%
United Kingdom	Bilateral	27.61	2.6%
Germany	Bilateral	25.88	2.4%
Ireland	Bilateral	21.09	2.0%
Sweden	Bilateral	20.62	1.9%
UNICEF	Multilateral	19.38	1.8%
UNHCR	Multilateral	18.38	1.7%
UNDP	Multilateral	17	1.6%
Norway	Bilateral	16.25	1.5%
Other Bilateral Donors	Bilateral	16.02	1.5%
Italy	Bilateral	13.56	1.3%
Belgium	Bilateral	13.36	1.2%
Canada	Bilateral	12.38	1.1%
Other UN	Multilateral	12.07	1.1%
Arab Countries	Bilateral	11.25	1.0%
Arab Agencies	Multilateral	8.58	0.8%
Austria	Bilateral	6.96	0.6%
France	Bilateral	6.61	0.6%
Finland	Bilateral	5.05	0.5%
Nordic Dev. Fund	Multilateral	4.8	0.4%
IFAD	Multilateral	3.93	0.4%
UNFPA	Multilateral	3.33	0.3%
Denmark	Bilateral	2.75	0.3%
UNTA	Multilateral	2.27	0.2%
Switzerland	Bilateral	2.26	0.2%
Australia	Bilateral	1.56	0.1%
Greece	Bilateral	0.55	0.1%
Luxembourg	Bilateral	0.53	0.0%
Korea	Bilateral	0.5	0.0%
New Zealand	Bilateral	0.18	0.0%
Poland	Bilateral	0.05	0.0%
Czech Republic	Bilateral	0.03	0.0%
Turkey	Bilateral	0.01	0.0%
TOTAL (rounded)		1080.00	100%

#### Donor Disbursements, 1999-2001, (millions of US\$).

Source	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Bilateral	617	481	458	419	567	526	449	381	378	340	395	395
Multilateral	438	630	720	671	504	357	369	198	282	303	298	685
<b>TOTAL</b>	<b>1055</b>	<b>1111</b>	<b>1178</b>	<b>1090</b>	<b>1071</b>	<b>883</b>	<b>818</b>	<b>579</b>	<b>660</b>	<b>643</b>	<b>693</b>	<b>1080</b>

Source: OECD International Development Statistics Online

## ANNEX 4: SURVEY RESULTS

1. As part of the OED and IEO evaluations of the PRSP Process and the PRGF, a survey of PRSP stakeholders was administered in each of the ten countries where a case study was undertaken. The objective of the survey was to obtain perceptions of the PRSP process and the role of the World Bank and IMF in supporting the initiative.
2. A standard survey of 39 questions was administered in each country. The full questionnaire can be found on both of the evaluation websites [www.worldbank.org/oed/prsp](http://www.worldbank.org/oed/prsp) and <http://www.imf.org/external/np/ieo/2002/prsp/index.htm>. The survey consists of four main components: information on respondents; the PRSP process (covering ownership, results orientation, comprehensiveness, partnership-orientation and long term perspective); World Bank performance; and the role of the IMF. In most cases, respondents were asked to indicate the extent of their agreement with statements on a five point scale<sup>72</sup>. The survey was translated, into local languages, where necessary, and pre-tested. A local consultant with survey experience was engaged in each country to assist with administration of the survey. Survey results were coded by the local consultant and sent back to Washington and an outside contractor, Fusion Analytics, was hired to analyze the data.
3. The survey was targeted at key groups within the three main categories of PRSP stakeholders: Government, Civil Society, and International Partners.<sup>73</sup> Within each group, the survey sought to obtain an *institutional view* and was targeted at the most knowledgeable individuals. Respondents were asked to define the nature of their involvement in the PRSP process, and their level of familiarity with the PRSP document, the Bank, and the IMF. Given the targeted nature of the survey, respondents who were “Not Aware” of the PRSP Process were excluded from the results. The specific samples were selected using three main inputs: information gained through the country case study mission; participants listed in the PRSP document; and input from the local consultant. In some cases, samples were circulated to obtain broader input on their composition. The study teams also identified a set of highly relevant respondents in each country for whom a survey response was required. These included core ministries and agencies (Finance, Economy, Central Bank...), key PRSP-related ministries (Health, Education, Agriculture...), and major donors. Survey questionnaires were tracked in order to ensure responses were obtained from key groups, however, individual respondents could choose to remain anonymous.
4. The following section presents findings from the survey applied in **Ethiopia**. Section A provides an overview of the survey respondents, including the nature of involvement and familiarity with the process. Section B provides an aggregated snapshot of stakeholder perceptions of the PRSP Process across

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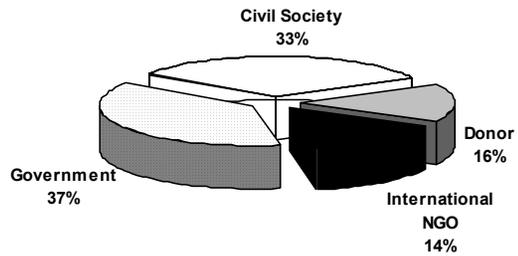
<sup>72</sup> The five point scales used in most questions offered a range from 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

<sup>73</sup> Fourteen stakeholder groups were identified: Government - central government, line ministries and sector agencies, local government, Parliament – Civil Society – local NGOs, business sector, labor unions, academia, media, religious organization, political party, other – International Partner – donor, international NGO. Results at the stakeholder group level will be presented in the aggregate analysis across all countries.

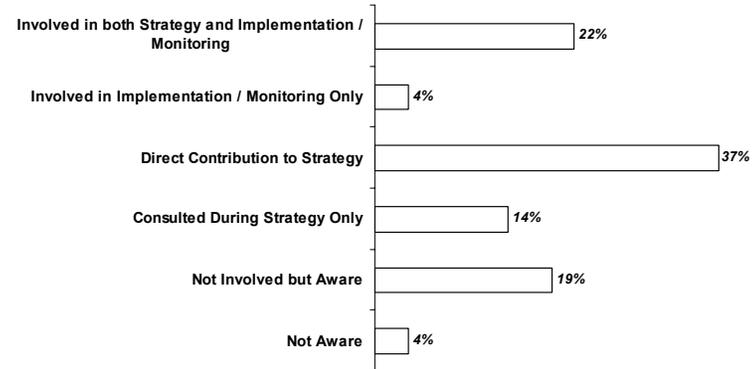
each of five main sub-categories. Section C provides the mean results for all questions concerning the role and effectiveness of Bank and Fund support. Section D presents results for questions with the most positive and negative responses and questions where there was the greatest consensus or disagreement on issues.

## A. Respondent Information

### 1. Composition of respondents (n = 83)



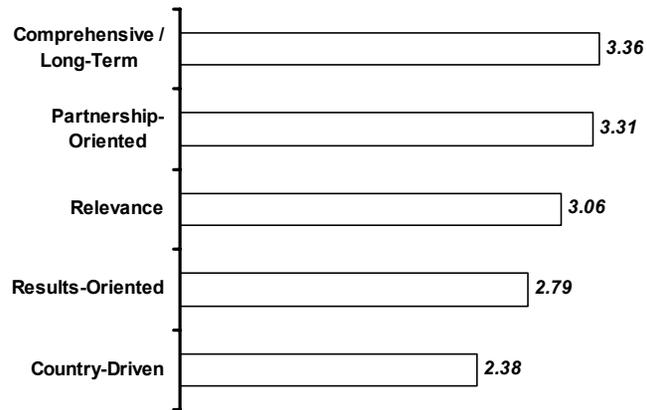
### 2. Nature of involvement (%)



### 2. Level of Familiarity

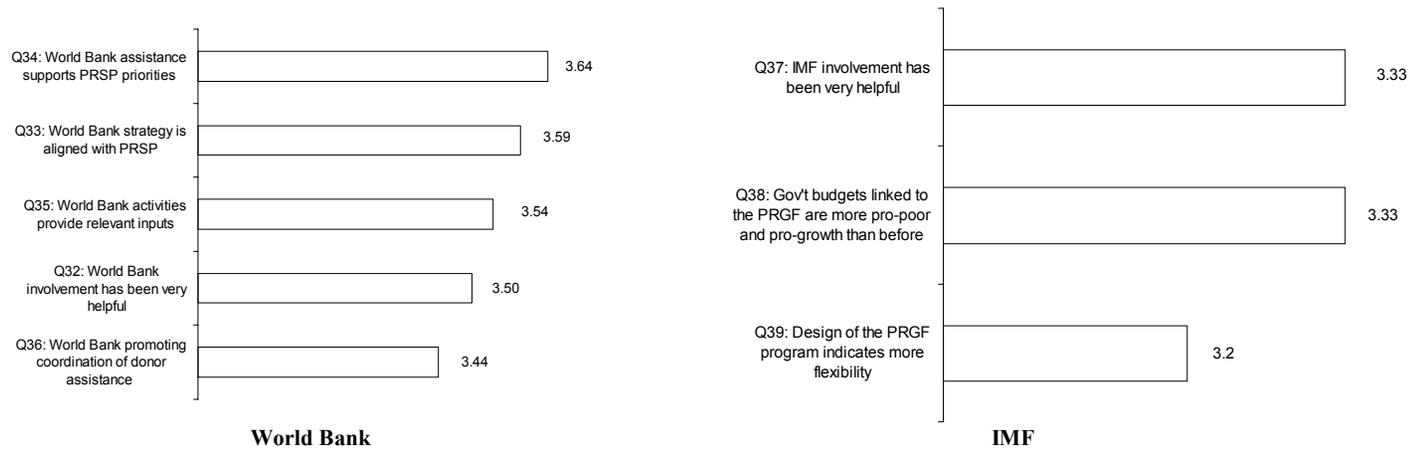
PRSP document	65%
Bank	54%
IMF	31%

## B. The PRSP Process



Based on a five point scale, where 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

## C. Bank and IMF



Based on a five point scale, where 1: Completely Disagree to 5: Completely Agree. Respondents could also mark 0 for Don't Know or Unsure.

## D. Composite Results Table

Question - Ethiopia	% Agree	% Disagree	Mean for Highest St. Dev.	Mean for Lowest St. Dev	% Unknown
<b>Most positive responses</b>					
Q8 - Relevance: PRSP is a good model	59.0%				
Q25 - Partnership-oriented: Donors supported formulation	54.2%				
Q9 - Relevance: PRSP adds value	53.0%				
Q10 - Relevance: PRSP improves on past modalities	53.0%				
Q26 - Partnership-oriented: Donors aligning assistance	51.8%				
<b>Most negative responses</b>					
Q18 - Results-oriented: Structure to monitor results		49.4%			
Q21 - Comprehensive: Alternatives fully explored		41.0%			
Q15 - Country-driven: Gov't continues to engage stakeholders		38.6%			
Q22 - Comprehensive: Macroeconomic framework participatory		36.1%			
Q19 - Results-oriented: Results feed back		34.9%			
<b>Most polarized responses</b>					
Q29 - Partnership-oriented: Coordination b/t World Bank and IMF improved			3.26		
Q30 - Partnership-oriented: Quality of Bank/Fund collaboration			3.38		
Q27 - Partnership-oriented: Donor coordination improved			3.60		
Q19 - Results-oriented: Results feed back			2.57		
Q11 - Relevance: PRSP benefits outweigh costs			3.18		
<b>Areas of greatest consensus</b>					
Q8 - Relevance: PRSP is a good model				3.67	
Q9 - Relevance: PRSP adds value				3.51	
Q21 - Comprehensive: Alternatives fully explored				2.63	
Q24 - Comprehensive: Adequate road map for long-term goals				3.21	
Q17 - Results-oriented: Realistic targets and plans				3.03	
<b>Most unfamiliar areas</b>					
Q29 - Partnership-oriented: Coordination b/t World Bank and IMF improved					59.0%
Q30 - Partnership-oriented: Quality of Bank/Fund collaboration					39.8%
Q19 - Results-oriented: Results feed back					36.1%
Q27 - Partnership-oriented: Donor coordination improved					27.7%
Q11 - Relevance: PRSP benefits outweigh costs					25.3%

Note: polarized and consensus question means are sorted by standard deviation. The standard deviation measures the dispersion of responses to a question. If the standard deviation is high then there is a low level of agreement among the sample (polarization). If the standard deviation is low then there is a high level of agreement among the sample (consensus).

## **ANNEX 5: INTERVIEWEES**

### **Government**

#### **Central**

Mekonnen Manyazewal, State Minister, Ministry of Finance and Economic Development (MOFED)  
Netsannet Asfaw, State Minister, Ministry of Information  
Neway Gebreab, Advisor to the Prime Minister  
Hailemichael Kinfu, Head, Bilateral Cooperation Department, MOFED  
Abebaw Feleke, Head, Multilateral Cooperation Department, MOFED  
Fesseha Abera, Multilateral Cooperation Department, MOFED  
Melaku Kifle, Budget Department, MOFED  
Ermias Tenkir, Welfare Monitoring Unit, MOFED  
Frehiwot Yirsaw, Welfare Monitoring Unit, MOFED  
Animaw Ebeye, Welfare Monitoring Unit, MOFED  
Sisay Worku, former Head, PRSP Secretariat  
Setotaw Yimam, Head, Policy and Planning Department, Ministry of Education  
Dr. Girma Azene, Head, Department of Planning and Programming, Ministry of Health  
Seleshi Ashenafi, Policy and Planning Department, Ministry of Agriculture  
Legesse Tashu, Head, Policy and Planning Department, Ministry of Trade and Industry  
Samia Zetaria, Deputy General Manager, Central Statistical Authority  
Gizaw Molla, Director General, Ethiopian Export Promotion Agency

#### **Regional**

Roman Tesfaye, Head, Policy Study and Analysis Department, Bureau of Finance and Economic Development, SNNPR  
Melese Argaw, Head, Bureau of Agriculture, SNNPR  
Alfaye Aborete, Bureau of Agriculture, SNNPR  
Shiferaw Teklemariam, Bureau of Health, SNNPR  
Mulugeta Dinka, General Manager, Oromia Rural Roads Authority

#### **Woreda**

Berhanu Gonocho, Rural Development, Wonago  
Berhanu Degela, Wonago  
Tesfaye Atara, Information, Wonago  
Tadesse Wedo, Capacity Building, Wonago  
Ameha Seifu, Wonago  
Kibebew Tilahun, Agriculture, Shebedino  
Assefa Asmare, Agriculture, Shebedino  
Gudeta Resketo, Rural Development, Shebedino  
Yilma Abebe, Agriculture, Shebedino  
Fekadu Tekeda, Agriculture, Shebedino  
Asamerew Adato, Education, Shebedino

#### **Non- Governmental Organizations**

Gezahegn Kebede, Country Program Manager, OXFAM (GB)

Sentayehu G. Giorgis, CRDA  
Mesfin Namarra, Inter Africa Group  
Makonnen Tola, Inter Africa Group  
Belayneh Begajo, Action Aid Ethiopia  
Muderis Abdulahi, CARE  
Tsegaye Guracha, World Vision  
Dr. Berhanu Nega, Ethiopian Economic Association

**Business Community**

Andu Alem Tegegne, Secretary General, Ethiopia Chamber of Commerce

**Parliament**

Debebe Barud Dera, Deputy Chairman of the Budget and Finance Affairs Standing Committee of the FDRE

**World Bank**

Ishac Diwan, Country Director  
Jim Smith, Lead Economist  
Jemal Omer, Economist  
Anwar Bach-Baouab, Lead Operations Officer  
Gary Theisen, Senior Education Specialist  
Gaiv Tata, Lead Financial Analyst  
Oey Meesook, former Country Director  
David Nielson, Senior Economist  
Madhur Gautam, Senior Economist  
Jim Coates, former Rural Development Specialist  
Miria Pigato, former Lead Economist  
Getahun Gebru, Sr. Operations Officer, Human Development  
John Van Dyck, Operations Analyst  
Jalal Abdel-Latif, Consultant

**Donor Community**

Alexander Y. Kyei, Sr., Resident Representative, IMF  
Antonius B. Broek, Deputy Resident Representative, UNDP  
Kristin Seljeflot, Economist, UNDP  
Representatives of the Direct Budget Support group