

**INDEPENDENT EVALUATION GROUP  
ETHIOPIA: COUNTRY ASSISTANCE EVALUATION  
APPROACH PAPER**

**Country Background**

1. Ethiopia is both complex and fragile. Although its civilization is one of the world's oldest, its economy is also one of the least developed. Its per capita income of US\$130 is only a fifth of the average for Sub-Saharan Africa. The second most populous nation in the region, today Ethiopia has a population of 71 million, five to seven million of which face chronic food insecurity. In addition, the society is very diverse, consisting of sixty four distinct ethnic groups, organized as a federation with nine autonomous regional states, divided primarily on the basis of ethnicity.
2. Drought and warfare have exerted a major influence on the lives of Ethiopians. Vast regions of the eastern and southern lowlands have faced a recurrence of drought, and occasionally of floods. A catastrophic drought and famine in 1984 left more than a million dead. The burden of climate has been exacerbated by conflict, which has been variously manifested in local armed clashes, large-scale rebellions, regime change (in 1974 and 1991), and wars. In 1998, a war with Eritrea erupted and continued for two years resulting in a loss of more than 100,000 lives. Since then Ethiopia has seen a period of peace but lately tensions with Somalia have become very high, compounded by rebel activity among domestic ethnic Somalis. Relations with Djibouti and Sudan, who have provided land-locked Ethiopia access to sea ports, have been more cordial.
3. The Federal Government and the Regional States are dominated by the Ethiopia People's Revolutionary Democratic Front (EPRDF), a coalition of four regional parties led by the Tigrayan People's Liberation Front (TPLF). The EPRDF has won three successive parliamentary elections since 1995. Controversy surrounding the results of the most recent elections (in 2005) led to armed clashes between protesting opposition members and Government forces, which in turn gave rise to tensions in the country's relationship with external development partners.
4. Domestic income and output show substantial short-term fluctuations. The economy is highly dependent on rain-fed agriculture, which accounts for 42 percent of GDP and 85 percent of the work force. Good rains bring prosperity, but drought means food shortages or famine. The main cash crops are coffee (40 percent of total export earnings) and *khat* (or *qat* – a mild stimulant), which are grown primarily in the highlands. Pastoralism is still widely practiced in the eastern and southern regions.
5. Since 1991, the EPRDF has sought to overhaul the system of central planning and replace it with a decentralized market economy. It has adopted a wide range of fundamental economic reforms, including stabilization, structural adjustments and fiscal decentralization. In 2002, it introduced the "Sustainable Development and Poverty Reduction Program (SDPRP)", which significantly shifted the spending priority from defense to social sectors. Pro-poor spending increased from 39 percent of the budget in

1999/2000 to 54 percent in 2005/06.<sup>1</sup> A new five-year poverty reduction program (*Plan for Accelerated and Sustained Development to End Poverty* or PASDEP) was promulgated in May 2006. It emphasizes good governance and empowerment of local communities.

6. In April, 2004, Ethiopia reached the “completion point” under the Enhanced Highly Indebted Poor Countries (HIPC) initiative. Debt relief with a net present value (NPV) of US\$1,275 million was approved, along with a topping-up of US\$707 million in NPV. To ensure prudent borrowing in the future, the government has developed a debt management strategy with a forward-looking set of aid and debt management policies. On March 28, 2006, the Board of Directors of the World Bank approved 100 percent cancellation of Ethiopia’s debt to International Development Association (IDA), as part of the Multilateral Debt Relief Initiative (MDRI).

### **The Bank’s Program**

7. The Bank’s assistance program reflects, and is influenced by, the exigencies that Ethiopia faces. The Bank frequently alters its strategy in response to unexpected events. For instance, during much of FY98 and FY99, the Bank put its assistance program on hold because of the war with Eritrea. Then in November 2000, the Bank produced a new assistance program designed to address the post-war emergencies. In May 2006, following post-election unrest, the Bank revised its strategy and the mix of lending instruments, relying more on programmatic investment lending than in the past.

8. Ethiopia is one of Africa’s largest recipients of IDA support, with a portfolio of 23 active projects totaling more than \$1,800 million. The relationship with the Bank began in March 1950, with an economic mission that led to a highway project—the first loan ever made by the Bank to an African country. Since FY99, the Bank has approved new commitments of \$2,654 million. In addition, the Bank has carried out a large volume of analytical and advisory work. The Country Office in Addis Ababa has substantial decentralized responsibilities and a large number of international staff.

9. In aggregate terms Ethiopia has received relatively little aid on a per capita basis. For the period 1998-2006, the average aid per person is \$15 a year, which is low for an African country of its size. The Democratic Republic of Congo, for example, has 55 million people and receives an average of \$24 of aid per capita during the same period. Although Ethiopia has benefited from many donors, the contribution of each is small. IDA is the largest donor, disbursing more than \$300 million a year (a quarter of the total official development assistance). Among the major donors are: the African Development Fund (AfDF), United National Children’s Fund (UNICEF) and World Food Program (WFP) at the multilateral level and the United States, Germany, Netherlands and the United Kingdom among the bilaterals. Since September 2001, many donors have increased their contributions.

10. The Bank, other partners and the Government have sought to improve donor coordination through a global effort: “Initiative for Harmonization of Donor Policies,

---

<sup>1</sup> Interim Country Assistance Strategy, May 2006.

Procedures and Practices” in which Ethiopia is one of three pilots. A key effort has been the development of a joint internet portal—the Aid Management Platform (AMP)—which is intended to enable, upon completion, the Government and donors to access a comprehensive and common database of all aid information. As of November 2005, the Government was in the final stages of making the AMP operational.

11. The Bank’s country assistance strategy for FY1998-2000, which was sidelined by the war with Eritrea, envisaged a large program designed to promote economic growth, with a base case lending of \$400 million each year and an active knowledge agenda to be conducted jointly with other donors. It correctly noted the risks of drought; coffee price shocks and instability in Sudan and Somalia, but not the outbreak of the Eritrean war, which turned out to be decisive. During the war, the Bank program came to a halt, with just one project approved in FY99 and none in FY00. Following the cessation of hostilities, the Bank revised its strategy in November 2000, to focus on post-war rehabilitation. Bank activities rose sharply in FY01 and have remained at high levels.

12. Encouraged by major project launches and the Government’s successful bid for debt relief, the Bank moved quickly to re-establish the pre-war level of assistance. The country assistance strategy of March 2003 (henceforth CAS03), anticipated lending of \$400 million a year from FY03 through FY06, including a flagship series of three poverty reduction support credits (PRSCs). With the high political tensions and civic strife following the May 2005 elections, however, the Bank reconsidered the plan. After delivering only two PRSCs, the Bank introduced an Interim Country Assistance Strategy in May 2006 (hereafter ICAS06), with a new emphasis on governance and a shift in lending away from direct budget support in favor of project-specific assistance.

13. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have become more active in recent years. The IFC has one investment, as part of a regional project for Coca-Cola SABCO. It is scaling up efforts to identify new investment, particularly in housing finance, horticulture, small and medium-size enterprises, leasing, and opportunities under the Nile Basin Initiative. The Multilateral Investment Guarantee Agency (MIGA) has played a key role in helping resolve expropriation claims dating back to the 1970s and will consider guarantee applications for investments in Ethiopia.

### **Focus and Methodology**

14. The most recent Country Assistance Evaluation (CAE) was submitted to the Board in November 2000. It covered the period from May 1991, when a civil war ended, to June 1998, when the war with Eritrea began. The CAE found Bank assistance “well directed”, with largely satisfactory outcomes, although there was much scope to improve sustainability and institutional development. The key recommendation was to sharpen the focus of policy reforms by concentrating on private sector development, with particular attention to the issue of land tenure and land markets. The CAE also recommended strengthening Bank support for agriculture and the environment, which at the time had gone through a sharp decline.

15. The proposed evaluation will review Bank assistance during the period from July 1998 to December 2006. As indicated above, Bank strategies in this period shifted a few times in response to unanticipated events and emerging concerns. Nonetheless, the main objectives of the Bank assistance strategy were to:

- Support improvement in governance. In addition, upgrading governance also featured as a cross-cutting theme in all Bank interventions;
- Increase pro-poor growth, in both urban and rural areas, including reduction of vulnerability to various shocks and post-war reconstruction;
- Enhance human development outcomes.

Accordingly, the CAE will focus on these objectives as the main topics for evaluation.

16. *Promoting good governance and accountability.* During the review period, the Bank aimed to support the development of more effective, more accountable and more democratic government. A key component of Bank strategy was a far-reaching program of capacity-building that involved the public sector (both federal and regional), the private sector, civil society, and research or higher education institutions. The Bank also considered capacity-building, along with the institutional and policy reforms, as a “critical underpinning” for achieving all objectives of Bank assistance.

17. To implement this element of its strategy, the Bank, in collaboration with other donors, developed three windows of multi-sector programmatic lending operations. The first was a public sector capacity building program which entailed civil service modernization at the federal, district (woreda) and municipal levels, augmented by a reform of the judiciary and a scaled-up application of information technologies. The second was a series of poverty reduction support credits (PRSCs) that provided annual budget support, including funding for the fiscal transfers to support the delivery of services by regional states. The third was a local investment grant program intended to help finance the capital requirements of decentralized service delivery units across sectors.

18. *Enhancing pro-poor growth:* As set out in CAS03, the Bank’s approach was to help upgrade the investment climate and promote private investment in both urban and rural communities. In line with the SDPRP, the Bank highlighted the importance of increasing agricultural productivity. Of particular importance to success, according to the strategy, were improved infrastructure (transport, energy and water); deeper and broader financial and land markets; and streamlined administrative procedures.

19. In the first few years of the review period, post-war reconstruction and emergency relief dominated Bank support for economic activities. Starting in June 2000, Bank assistance was provided for demobilizing and reintegrating former combatants, relocating internally displaced people (IDP) and Ethiopian nationals deported from Eritrea, and rehabilitating social and economic infrastructure.

20. The Bank also sought to help Ethiopia mitigate the known natural and economic risks. The strategy for alleviating the impact of drought, famine and flood was to empower subnational entities so that they could respond more effectively to emergencies. The Bank planned to help upgrade the delivery of food aid and other safety net programs

by expanding the equalization component of intergovernmental fiscal transfers. In addition, the Bank supported (a) diversification of outputs to mitigate price shocks; and (b) diversification of assets through financial deepening and access to financial savings. To help reduce the risk of income shocks, the Bank also supported irrigation, off-farm employment and labor mobility in vulnerable areas.

21. *Human development:* The Bank's approach involved:

- Supporting gender mainstreaming, capacity building of sector agencies; and decentralization to bring decision making closer to the people
- Improving accountability through community and civil society involvement
- Expanding the coverage and quality of healthcare and education
- Improving access to clean water and sanitation.

22. In each of the focus areas described above, the CAE will review the relevance of Bank assistance in terms of both the strategies and actual interventions through lending, nonlending services, policy dialogue and aid coordination. In light of the chronic food insecurity faced by millions, a key question is the extent to which the Bank has helped to reduce the danger of starvation and to develop long-term solutions to the problem. The evaluation will also consider the cross-cutting themes of gender equality, HIV/AIDS, and environmental protection in reviewing each of the topics.

23. The CAE will examine the degree to which the assistance objectives have been achieved (efficacy) and what role the Bank has played in the achievement (attribution). This examination will include: a top-down review of whether specific outcomes envisaged have materialized; and a bottom-up review of Bank instruments that were expected to help achieve those outcomes. Together these two steps test the consistency of the findings. In addition, the CAE will make an assessment of the relative contribution of the Bank, other donors, the Government and external factors to the results achieved.

24. Where possible, the CAE will use a set of indicators to measure the progress achieved. Most, though not all, of the indicators will correspond to those employed in the CASs (including poverty headcounts, agricultural productivity, private investment and export growth) or to those used in project documents, including, for example, demobilizing and reintegrating 150,000 former combatants, relocating 364,000 internally displaced people and more than 100,000 deported by Eritrea. However, additional indicators may also be needed in areas where the standards for monitoring and evaluation are not explicitly set. Furthermore, since the first few years of the review period were a time of war, the CAE will also identify earlier points to serve as baselines. Pre-war data of 1996, for example, may be used in addition to a second set of data from 1998, to evaluate the progress made by the end of 2006.

25. As is customary, this CAE will review process issues associated with the delivery of Bank assistance, including progress towards donor alignment and harmonization, the decentralization of Bank management, modes of Bank engagement with Ethiopia and the mix of budget support and investment projects in Bank lending. This evaluation will also

integrate the findings of other IEG studies<sup>2</sup> and evaluations conducted elsewhere. Finally, it will also take into account any enhancements in the approach and methodology that may be introduced by IEG before this evaluation is completed, following a planned review of these aspects.

26. These considerations will be reflected in three summary ratings of effectiveness:

- Rating of outcomes (using a six-point scale from highly satisfactory to highly unsatisfactory) which indicates the extent to which the principal objectives of Bank program were relevant and achieved;
- Rating of institutional development impact (IDI) which measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources;
- Rating of risk to development outcomes, which measures the resilience of the development benefits of the country assistance program over time, taking into account technical competence, financial viability and social support.

### **CAE Output and Timetable**

27. A fact-finding mission to Ethiopia is planned for January-February 2007. The CAE will be issued to Committee of Development Effectiveness in September 2007. The task team is led by Chad Leechor (IEGCR) under the direction of Ali Khadr (Senior Manager, IEGCR).<sup>3</sup> Consultations with the Government will take place before the report is issued. Peer reviewers are James Parks (LCSPR), Francois Nankobogo (AFTPS) and Laurie Efron (Consultant).

---

<sup>2</sup> Including both (a) thematic reviews such as: Bank Response to HIV/AIDS; Capacity Building in Africa, Natural Disasters, Lessons from Post-Conflict Countries, Poverty Reduction Strategy Process, Fiduciary Instruments (forthcoming) and (b) specific project performance appraisal reviews (PPARs).

<sup>3</sup> Lily Chu, who served as interim manager also provided guidance during the initial period of this evaluation.