

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**Ethiopia**

**COUNTRY PORTFOLIO PERFORMANCE REPORT**

**REGIONAL DEPARTMENT OREB  
EAST REGION B  
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**ABBREVIATIONS**

ADB	African Development Bank
ADF	African Development Fund
CAR	Commitment at Risk
CPR	Country Portfolio Review
CPPR	Country Portfolio Review Report
CSP	Country Strategy Paper
DAG	Development Assistance Working Group
DO	Development Objective
ESW	Economic and Sector Work
EA's	Executing Agencies
ETFO	Ethiopia Field Office
EEPCO	Ethiopian Electricity Power Company
GoE	Government of Ethiopia
IP	Implementation Progress
MoFED	Ministry of Finance and Economic Development
NTF	Nigeria Trust Fund
NLDP	National Livestock Development Project
PAR	Projects at Risk
PBS	Protection of Basic Services
PEFA	Public Expenditure and Financial Assessment
PIU	Project Implementation Unit
PHC	Primary Health Care Project
PP	Problem Project
PPP	Potential Problem Project
PTA	Privatization Technical Assistance Project
RED/FS	Rural Economic Development and Food Security
RUFIP	Rural Finance Intermediation Project
RWSSP	Rural Water Supply and Sanitation Project
SOE's	Statement of Expenditures
SWAps	Sector Wide Approaches
UA	Units of Account
WB	World Bank

**DEFINITIONS**

Implementation Progress Rating	Rating based on actual performance with compliance of conditions, procurement, financial management and progress on activities and outputs
Development Objective	Rating based on expected sustainability and outcomes of the project
Disbursement Rate	Total ADF disbursements for projects / Total portfolio commitments
Disbursement Ratio	Ratio of disbursements during the reporting period / Undisbursed size of the Bank's portfolio at the end of the previous period
Projects at Risk	Number of projects with an IP or an DO rating below 2.0 and with two or more risk flags / Number of projects in the portfolio
Commitments at Risk	Value of projects that are at risk
Age	Time elapsed from approval to-date
Problem Project	Number of projects with an IP or an DO rating below 2.0
Potential Problem Project	Number of projects with two or more risk flags
Effectiveness	Time elapsed from date of signature to effectiveness

# **SUMMARY REPORT**

## **I. INTRODUCTION**

1.1 This is the fourth Country Portfolio Performance Review exercise for Ethiopia which represents part of the continuing effort to improve the implementation performance of the Bank Group portfolio in Ethiopia. The previous three reviews were undertaken in 1996, 1998 and 2002 respectively. The report is based on the findings of a Portfolio Review Mission undertaken in mid November 2007. The objectives of this summary are to inform Executive Directors of the Bank Group Boards about the performance of the Bank's portfolio in Ethiopia, identify key project specific and systemic issues affecting project implementation and formulate relevant recommendations for its improvement. The information contained in the report has been updated and reflects the situation as at 31 August 2008.

1.2 The last portfolio review conducted in 2002 revealed an overall satisfactory portfolio performance rating at 2.3. Among other measures, the report recommended that the Government take measures to ensure compliance of Executing Agencies with the General conditions attached to the Bank Group loans and grants, particularly the requirement for submission of annual audit reports, which has been a generic problem for so long. It was also recommended to strengthen the capacity of project implementing entities at the regional level in order to speed up the implementation of Bank financed projects.

1.3 The current portfolio rating (2.15) has slightly decreased from the previous one. It is worthwhile to note that since the last CPPR exercise, decentralization has deepened in Ethiopia.<sup>1</sup> This has affected the implementation of the projects managed at the local level due to weak capacity, especially in areas related to procurement and financial reporting.

1.4 The Bank Group commenced operations in Ethiopia in 1975 and as at 31<sup>st</sup> August, 2007, had approved eighty-five (85) operations comprising fifty-seven (57) projects, one (1) line of credit, four (4) structural adjustment and budget support operations, twenty-two (22) studies and one (1) Supplementary Financing Mechanism Loan. Cumulative commitments as of 31<sup>st</sup> August, 2008 amounted to UA 1,572.43 million, comprising UA 217.66 million of ADB resources, UA 1,349.79 million of ADF resources, and UA 5.0 million of NTF resources.

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<sup>1</sup> During the current phase of decentralization, the Government has devolved staffing, planning and implementation responsibilities down from regions to woredas.

## II. OVERALL REVIEW OF THE ON-GOING PROJECTS

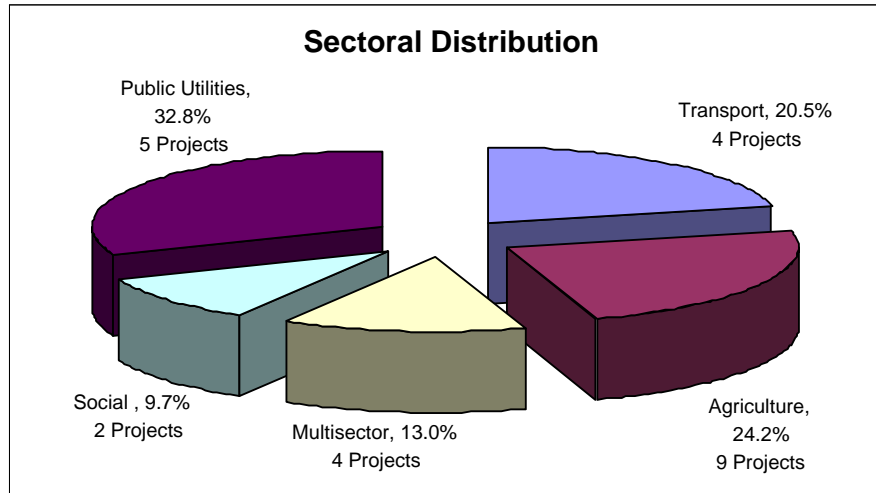
### A. Key Characteristics of Ongoing Projects

**Table N° 1: Key Portfolio data at 31 August 2008**

Sectors	TOTAL	Disbursements (UA million)	Disbursement Rate	Overall assessment	Project at risk	Age (Years)
<b>AGRICULTURE</b>	<b>154.97</b>	<b>57.26</b>	<b>36.9</b>	<b>2.21</b>	2 PPP	<b>5.5</b>
1. National Livestock Development	27.00	15.09	55.9	1.77		9.8
2. Koga Irrigation				2.47	PPP	7.1
ADF	32.59	14.81	45.4			
TAF	1.33	1.00	75.4			
3. Genale-Dawa Basin Master Plan Study	3.93	2.78	70.7	2.58		6.8
4. Rural Finance Intermediation Support				2.65		6.8
ADF	27.17	10.65	39.2			4.9
TAF	8.00	1.08	13.5			
5. Awash River Basin Flood Control and Watershed Management Study	1.83	1.49	81.4	2.63		4.5
6. Livestock Development Master Plan Study	2.34	0.65	27.8	2.52		4.5
7. Agriculture Sector Support				2.74		
ADF	21.24	5.10	24.0			
TAF	17.76	2.52	14.2			
8. Fisheries Resources Development Study.	0.92	0.013	1.5	1.37	PPP	3.3
9. Creation of sustainable Tsese and Trypanosomiasis free areas in Ethiopia				1.15		3.3
ADF	9.55	1.42	14.9			
TAF	0.24	0.02	8.9			
<b>TRANSPORT</b>	<b>131.36</b>	<b>40.18</b>	<b>30.6</b>	<b>2.36</b>		<b>4.2</b>
1. Butajira-Hossaina-Sodo-Road Up-grading	41.31	27.57	66.7	2.45		6.8
2. Wacha-Maji Road Upgrading				2.06		4.9
ADF	22.70	5.19	22.8			
TAF	0.99	0.44	44.7			
3. Jimma-Mizan Road Upgrading	65.00	6.66	10.2	2.84		1.6
4. Mombasa-Nairobi-Addis Ababa Road Corridor Development Study	1.35	0.32	23.9	2.09		3.5
<b>PUBLIC UTILITIES</b>	<b>210.37</b>	<b>41.90</b>	<b>19.9</b>	<b>2.52</b>		<b>4.0</b>
1. Rural Electrification I Project	37.67	25.87	68.7	2.89		6.5
2. Rural Electrification II	87.20	1.41	1.6	2.59		1.6
3. Harar Water Supply and Sanitation Project				2.36		5.8
ADF	19.89	7.41	37.3			
TAF	1.12	0.04	3.6			
4. Rural Water Supply and Sanitation Project	43.61	2.23	5.1	1.93		2.5
5. Ethiopia-Djibouti Power Transmission Project	20.88	4.94	23.6	2.81		3.5
<b>SOCIAL SECTOR</b>	<b>62.02</b>	<b>39.82</b>	<b>64.2</b>	<b>1.61</b>	<b>2 PP</b>	<b>9.8</b>
1. Primary Health Care Project	29.72	17.05	57.4	1.41	PP	9.8
2. Education III Project				1.80	PP	9.8
ADF	32.00	22.63	70.7			
TAF	0.30	0.14	47.2			
<b>MULTI SECTOR</b>	<b>83.07</b>	<b>81.31</b>	<b>97.9</b>	<b>2.05</b>	<b>2 PPP</b>	<b>4.0</b>
1. Capacity building of MoFED	0.52	0.28	53.7	1.79	PPP	5.5
2. Protection of Basic Services (PBS)	78.49	78.49	100.0	2.77		0.5
3. Institutional Support project for the Ministry of Women Affairs	1.06	0.63	59.8	1.99		3.1
4. Privatization Technical Assistance Project	3.00	1.91	63.5	1.66	PPP	6.6
<b>Total 2008 ( without budget support/PBS)</b>	<b>562.21</b>	<b>18.08</b>	<b>32.3</b>	<b>2.06</b>	<b>6 ( 15% PAR)</b>	<b>5.2</b>
<b>Total 2008 ( with budget support/PBS)</b>	<b>640.72</b>	<b>260.57</b>	<b>40.6</b>	<b>2.15</b>	<b>6 ( 18% PAR)</b>	<b>5.2</b>

2.1 The Bank Group's active portfolio consists of 24 operations compared to 15 in 2002. The current portfolio covers the following sectors: agriculture (9), transport (4), public utilities (5), social sector (2), and multisector (4), with total net commitments amounting to UA 640.7 million. It includes the three multinational operations: Creation of Tsetse Project (UA 9.79 million), the Ethiopia-Djibouti Inter-connection Project (UA 20.88 million) and Mombassa Nairobi Addis Ababa Corridor Development study (UA 1.35 million). Currently, public utilities accounts for the largest share of commitments by value (32.8%), followed by Agriculture (24%), Transport (20.5%), multi sector (13%) and Social Sector (9.7%)

**Figure 1: Active Portfolio Composition and Commitment by Sector**



2.2 The current portfolio consists of operations that were approved from ADF VIII some of which are not yet completed such as the two social sector projects (see paragraph 2.8). The strategic direction, however, is towards fewer and larger operations that can easily be managed and implemented. For instance under ADF X, only four large operations were approved and the number is being further reduced with only 3 large operations programmed for financing under ADF XI.

2.3 As at 31<sup>st</sup> August 2008, aggregate disbursements on the active portfolio amounted to UA 181.35 million (projects only), representing a disbursement rate of 32%<sup>2</sup> compared to 24.3 % in 2002. In November 2007, the highest disbursement rate was in the multi sector (54.1%) followed by the social sector (48.5%) and this trend has continued until August 2008 with the disbursement rates of 97% and 64% respectively. The multi sector has the highest disbursement rate reflecting the quick disbursing nature of the PBS.

2.4 When looking at disbursements on annual basis the picture shows a decline in disbursement performance with the disbursement ratio moving from 23.9 in 2002 to 15.5 in 2007. This reflects the impact of decentralization and issues related to audits and procurements that have slowed implementation of projects and led to the suspension of the two social sector projects.

2.5 The lower disbursement rates for public utilities (19.9%) compared to other sectors is mainly attributed to the entry in the portfolio of one new large operation of UA 87.20 million (Rural Electrification II Project) which has just started disbursing. However, the procurement activities of this new project are at an advanced stage and large amount of resources will soon

<sup>2</sup> This excludes fast disbursing operation (PBS), otherwise disbursement rate would stand at 41%

be disbursed. In contrast with the power and road sector projects, the rate of disbursement on RWSSP is likely to be slower because of the decentralized nature of the project implementation. Harar Water Supply and sanitation project has encountered protracted procurement delays on activities and this has affected project disbursement.

2.6 During the Joint portfolio performance review with the Government, the portfolio had two problematic projects (Education III and Primary Health care) and four Potentially Problematic Projects (Privatization Technical Assistance Project, Koga Irrigation and Watershed Management Project, the Fisheries Development Study and MoFED Capacity Building Project).

## B. General Assessment of Portfolio Performance

**Table N°2: Summary of performance of the portfolio by sector and project**

Indicators	Conditions	Procurement performance	Financial performance	Activities and output	Impact on development	Overall assessment
	Rating					
<b>AGRICULTURE</b>	<b>2.63</b>	<b>1.89</b>	<b>2.36</b>	<b>2.08</b>	<b>2.08</b>	<b>2.21</b>
1. National Livestock Development	2.33	1.00	2.00	1.75	1.75	1.77
2. Koga Irrigation t	3.00	2.00	3.00	2.33	2.00	2.47
3. Genale-Dawa Basin Master Plan Study	3.00	3.00	2.20	2.43	2.25	2.58
4. Rural Finance Intermediation Support	3.00	2.00	2.60	2.64	3.00	2.65
5. Awash River Basin Flood Control and Watershed Management Study	3.00	3.00	2.40	2.50	2.25	2.63
6. Livestock Development Master Plan Study	3.00	3.00	2.00	2.58	2.00	2.52
7. Agriculture Sector Support Programme	3.00	2.00	3.00	2.70	3.00	2.74
8. Fisheries Resources Development Study	2.30	1.00	2.00	0.79	0.75	1.37
9. Creation of sustainable Tse and Trypanosomiasis free areas in Ethiopia	1.00	0.00	2.00	1.00	1.75	1.15
<b>TRANSPORT</b>	<b>2.25</b>	<b>2.25</b>	<b>2.55</b>	<b>2.32</b>	<b>2.44</b>	<b>2.36</b>
1. Butajira-Hossaina-Sodo-Road Upgrading	3.00	2.00	2.40	2.60	2.25	2.45
2. Wacha-Maji Road Upgrading	1.00	2.00	3.00	2.07	2.25	2.06
3. Jimma-Mizan upgrading	3.00	3.00	3.00	2.71	2.50	2.84
4. Mombasa-Nairobi-Addis Ababa Road Corridor Development Study	2.00	2.00	1.80	1.91	2.75	2.09
<b>PUBLIC UTILITIES</b>	<b>2.80</b>	<b>2.20</b>	<b>2.54</b>	<b>2.54</b>	<b>2.50</b>	<b>2.52</b>
1. Rural Electrification I	3.00	3.00	3.00	2.69	2.75	2.89
2. Rural Electrification II	3.00	2.00	2.50	2.45	3.00	2.59
3. Harar Water Supply and Sanitation	2.00	2.00	2.60	2.46	2.75	2.36
4. Rural Water Supply and Sanitation	3.00	1.00	2.40	2.25	1.00	1.93
5. Ethiopia-Djibouti Power Transmission	3.00	3.00	2.20	2.83	3.00	2.81
<b>SOCIAL SECTOR</b>	<b>1.83</b>	<b>1.75</b>	<b>1.3</b>	<b>1.65</b>	<b>1.85</b>	<b>1.61</b>
1. Primary Health Care	1.33	1.50	0.60	1.70	1.90	1.41
2. Education III	2.33	2.00	2.00	1.60	1.80	1.80
<b>MULTI SECTOR</b>	<b>2.58</b>	<b>1.50</b>	<b>2.25</b>	<b>1.57</b>	<b>1.74</b>	<b>2.05</b>
1. Capacity building of MoFED	2.33	2.00	2.20	1.00	1.40	1.79
2. Protection of Basic Services (PBS)	3.00	N/A	3.00	N/A	2.30	2.77
3. Institutional Support project for the Ministry of Women Affairs	2.00	2.00	2.00	2.21	1.75	1.99
4. Privatization Technical Assistance	3.00	0.50	1.80	1.50	1.50	1.66
<b>TOTAL</b>	<b>2.42</b>	<b>1.92</b>	<b>2.20</b>	<b>2.03</b>	<b>2.12</b>	<b>2.15</b>

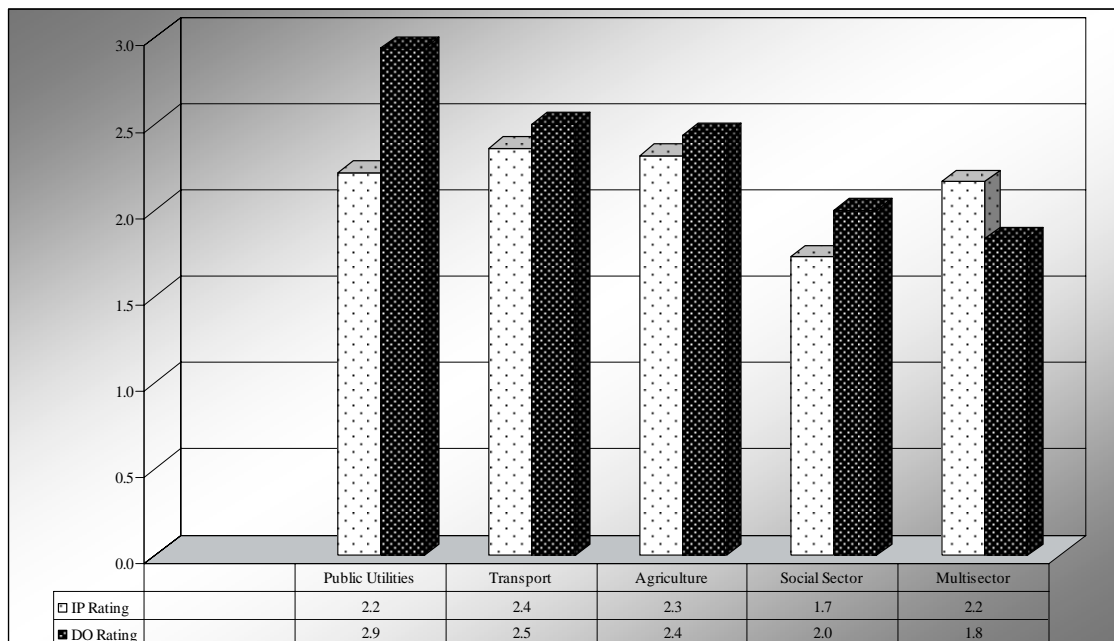
2.7 The general performance of Bank's portfolio in Ethiopia is rated satisfactory with a scoring of 2.15. This represents a slight decrease from the previous CPPR performance rating

of 2.3. The proportion of Project at Risk (PAR) in the rated portfolio is 15% which is within the range of the 10-30% that is indicative of satisfactory portfolio performance.

2.8 As shown in the figure below, the Implementation Progress (IP) and Development Objective, the multisector and the social sectors received the lowest ratings. <sup>3</sup>The lowest ratings observed were for the Education III Project and the Ministry of Finance and Economic Development Project. A number of factors contributed to the relative low IP and DO ratings in the social sector projects, particularly. These are:

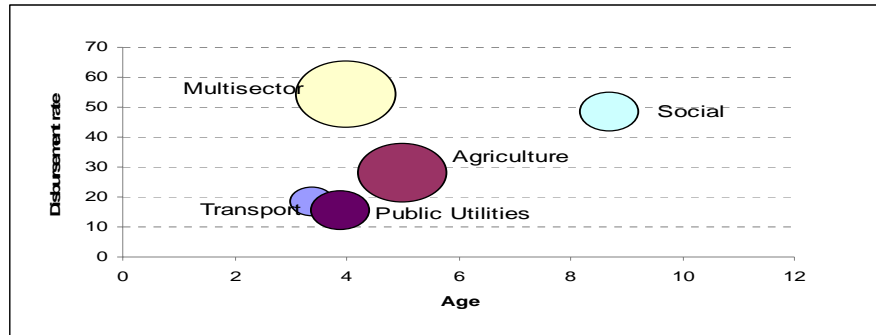
- (i) Prolonged periods of effectiveness ( 14.5 months on average): the delays arose from the fact that Executing Agencies had limited understanding of Bank procedures;
- (ii) Governments rejection to use a Project Support Unit (PSU) which would have provided experts to the decentralized implementing entities. The PSU was fully budgeted for, but instead the Government opted to using the existing Government structures using its own resources. This led to high staff turnover and delays in implementation;
- (iii) Project design did not anticipate the evolving decentralization and Bank response in adapting the project to the decentralized institutional set up of the country was slow
- (iv) Delays in completing the standard designs for the facilities which was a condition for first disbursement.

**Figure 2: Development Outcome (DO) and Implementation Progress (IP) by Sector**



2.9 The average life of active projects in the portfolio is 5.2 years. The most ageing projects are found in the social sector, followed by the agriculture. The average age of projects in these two sectors are: 9.8 years for the social sector; and 5.5 years for the agriculture sector.

<sup>3</sup> The multisector performance would improve if performance is weighted by commitment value, given the large amount of the PBS.

**Figure 3. Disbursement Rates and Age**

2.10 The infrastructure projects have on average performed much better than other sectors. This can partly be explained by the current implementation experiences in these sectors which underline the importance of proper design of projects, type of financing instruments and institutional project management capability. Infrastructure sector projects are implemented by federal implementing agencies and are less complex in implementation. Implementing agencies such as Ethiopian Roads Authority and EEPKO have far better institutional capacity compared to the implementing agencies in the social and agriculture sectors. Projects in those sectors require careful program design as they tend to be implemented in a decentralized environment, contain a wide geographic spread of activities, large number of stakeholders and serious capacity constraints. The RWSSP alone has 157 stakeholders from the Federal to the local level. The traditional conventional project design is not very much effective in terms of project implementation in these sectors. The Bank needs to learn from those experiences and take bold steps using the entire spectrum of financing instruments that render better results and ensure effectiveness.

### C. Comparison of the Portfolio Performance

**Table 3: Comparative Performance Indicators**

Performance Indicators	Evolution		Internal Comparison		External Comparison		
	2002	Ethiopia 2008	Ethiopia 2008	ADF 2006 APPR	Ethiopia 2008	World Bank Ethiopia	
<b>Implementation and Impact</b>	Time from Approval to effectiveness (months)	17.5	15	15	17	15	N/A
	Disbursement ratio (%)	23.9	15.5	15.5	18	15.5	N/A
	Disbursement Rate (excluding PBS)	25	35.0	35.0	37	35.0	N/A
	Average project size (in million UA)	22.16	26.70	26.7	12.17	26.7	45
	CAR (% of commitments)	10	15	15	45	15	2
	Problematic Projects (% of ongoing projects)	0	10	10	47	10	5
	Average project age ( in years)	2.4	5.2	5.2	4.3	5.2	3.7
<b>Harmonization and Alignment</b>	Use of country systems (%)	0	12	12	12	12	N/A
	Number of Co-Financed Projects (%)	0	16.7	16.7	N/A	16.7	N/A
	Number of parallel PIUs	0	0	0	N/A	N/A	N/A

2.11 The Bank's portfolio performance in Ethiopia is satisfactory. The estimated increase in the Commitment at Risk rate (from 10% in 2002 to 15% in 2008) and the increase in the Problem Project Ratio from 0% in 2002 to 10% in 2008 reflect the delayed implementation of aging projects. However, these ratios are expected to improve by end 2008 after the audit issues of the two social sector projects are resolved. The Education III Project was already at

the completion stage at the time of suspension.. The contracted works on the Primary Health Care Project were proceeding well and are due for completion by June 2009. In addition, with the reallocation of funds for the implementation of the food crisis initiative, potentially problematic projects such as fisheries and MOFED Capacity Building and other ongoing projects such as the Privatization TA, Institutional Support to Women Affairs will be closed (see 2.1.3 below).

**2.12 The Bank's performance in the area of harmonization and alignment is rather mixed.** Parallel PIUs for projects supported by the Bank no longer exist. Rather, projects are managed by Coordination Offices/Units, which are mainstreamed in government institutions. The Bank has also increased the number of joint missions. In 2007 and 2008, five joint missions were fielded. The missions included the Joint PBS implementation support reviews, Joint Supervisions of RWSSP and RUFIP. However, with the exception of PBS, the Bank's use of country systems is still limited. A major challenge in the use of country systems is the weak capacity in government institutions. Capacity gaps are particularly severe in regions and woredas, especially in the areas of procurement and financial Management. Systems which meet international standards are in place but what is lacking is the human resource capacity to implement them effectively. Nevertheless, there is scope for the Bank to increase its reliance on country systems while expanding its support for the strengthening of Ethiopia's public financial management systems. The Government of Ethiopia has urged the Bank to increase its reliance on government financial management systems in channeling its assistance. The Bank plans to contribute substantially to PFM capacity building through PBS II, it is expected that the Bank will increasingly use country systems as the fiduciary safeguards are enhanced through capacity building.

#### D. Projects Requiring Close Attention

**Table 4: Projects Requiring Close Attention**

Project	Ext.		Project Age (Yrs.)		IP Rating		DO Rating		Disbursement Rate (in %)	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
<b>1. Primary Health Care Project</b>	2	2	8.6	9.7	1.7	1.7	2.0	1.9	38.7	57.4
<b>2. Education III Project</b>	2	2	8.8	9.7	1.7	2	2.0	2.2	66.7	70.7
3. Privatization Technical Assistance Project	1	2	6.6	7.5	2.3	2.42	2.0	2	63.5	63.5
4. Koga Irrigation And Watershed Management	-	1	6.0	7.1	2.6	1.69	2.5	1.5	39.8	45.4
5. Fisheries Resource Development Study	-	-	2.8	3.3	2.1	0.79	2.3	0.75	1.5	1.5
6. MoFED Capacity Building Project	-	-	5.5	6.6	0.75	1.4	1.5	1	53.7	53.7

2.13 Since the Portfolio Review mission was undertaken the two social sector projects were granted extension of their closing dates. As a result of changes in implementation modalities of the projects in 2006/07, (e.g. lowering of the replenishment threshold from 50% to 30%, introduction of post-review procurement of up to UA 250,000; partial delegation of ETFO to manage the project), there has been progress in performance, both in physical and financial implementation of the projects, unfortunately the failure to comply with audit requirements has once again led to the suspension of these projects. For the Koga Irrigation, the Mid-Term Review conducted recently has developed an action plan which will accelerate project implementation and reverse the slide in the IP and DO ratings.

2.14 The Rural Water Supply and Sanitation Project is likely to pose as a future potentially problematic project because the project design is the same as the social sector projects where funds are transferred to the districts and reported back. The capacity at the districts is very

poor and the Bank disbursement procedures cannot warrant effective flow of funds at the decentralized level. In order to resolve this matter the Bank is willing to pull its resources with other donors once outstanding audit reports for the RWSSP and the two social sector projects are submitted.

2.15 The Bank and the Government recently agreed on a list of slow disbursing projects as well as completed operations from which funds will be reallocated to finance imports of fertilizer under the Bank's African Food Crisis Response Initiative. Both Government and the Bank consider the reallocation of funds an important step towards portfolio cleanup. The total amount identified for reallocation is UA 39.68 million. The projects include ageing projects such as the NLDP, MoFED Capacity Building; the Privatization Technical Assistance Project and the two problematic social sector projects (subject to submission of audit reports). This portfolio restructuring will help in improving overall portfolio performance. The Bank's target is to reduce the problem project ratio and the projects at risk ratios to below 10 percent by 2010.

### **III. ASSESSMENT OF MANAGEMENT IMPLEMENTATION CAPACITY AND COORDINATION WITH OTHER DONORS**

3.1 At the Government Level, The capacity of executing institutions in sectors other than infrastructure sector is weak and require proper staffing and training in key aspects of project management. Project preparation and implementation should include a strong component on capacity building. At the Bank Group level, the projects need to be appraised and supervised by teams with the right skill mix. This is especially the case for problem projects where additional resources and staff time will be necessary. There is also need to strengthen the Field offices by delegating more responsibilities in project supervision and decision making.

3.2 Assessment of ADB Coordination with other Donors. There exists close collaboration between the Bank and other donors through the various government-donor sector working groups and the Developing Assistance Working Groups (DAG). The Bank's Field Office in Ethiopia (ETFO) is playing a key role in the DAG and is currently serving as a member of the DAG Executive Committee. In addition, ETFO is serving as Co-Chair for the water DAG Committee and member of the Sector Working Group of Agriculture (RED/FS) and member of the Irrigation Steering Committee. The Bank has increased the number of joint missions with other donors (PBS, RWSSP and RUFIP) reflecting the progress in the country's harmonization agenda. However, apart from the PBS, which is funded through an earmarked sector budget support the Bank is channelling all its other resources through investment projects.

### **IV LESSONS FOR CSP AND PORTFOLIO MANAGEMENT**

4.1 Given the country's capacity, the Bank needs to enhance its support, especially in the area of financial management. Clearly, the decentralized structure of Ethiopia poses huge challenges in the context of weak capacity and the problem is aggravated by frequent staff turn-over. This will require greater flexibility in the use of lending instruments while building capacity to reduce the fiduciary risk. The flow of funds to regions involves a long reporting channel which has contributed to delays in submission of Statements of Expenditures. The Bank must make use of fiduciary diagnostics to better understand the country's systems and the evolving reforms to inform the design of new operations. The complexity of such operations will also require a different set of skills mix and greater use of ETFO's capacity. Ensuring **quality at entry** of new projects will also require more ESWs in areas where future projects are foreseen.

4.2 One important lesson of past experience in Ethiopia is the need for greater **selectivity** in the choice of operations to be undertaken and in the sectors of intervention. This is already been put in practice with ADF XI where only 3 operations are proposed for financing in 2 sectors (infrastructure and multi-sector).

4.3 Studies needs to be followed up closely to ensure their completion within the set implementation period, otherwise they will no longer be useful.

4.4 Another lesson learned is that **capacity building** should be built into each operation and should be undertaken on a continuous basis. In this regard, a capacity needs assessments needs to be undertaken for each project and specific actions to address weaknesses identified. This should be the case especially in areas such as procurement and financial Management but also in project monitoring and evaluation. ETFO has already recruited additional staff to closely monitor and assist in building the financial management capacity of Executing Agencies.

4.5 **High project staff turnover** within EA has had a major effect in the implementation of the Bank projects in Ethiopia. There is a need for greater dialogue with the Government to ensure that project staffs are retained for a significant time during project implementation. Establishing an incentive structure and stable working environment would be a key factor.

4.6 **Weak reporting and fiduciary safeguards** also poses a challenge to effective project implementation and monitoring to ensure results on the ground. Delays in the preparation of project accounts are mainly due to weak accounting capacity. This in turn affects the timeliness of audit report submission. As a result of weak compliance with Bank Group requirements with respect to audits timeliness and addressing audit issues, disbursements on some of the projects have had to be suspended. A case in point is that of the two social projects. More intensive Bank engagement on fiduciary issue is therefore essential. This is an area where ETFO will play an increasingly important role to ensure improvement in fiduciary performance and hence disbursements.

4.7 Future projects will have to **limit the number of effectiveness conditions** to a minimum so as to reduce the time between project approval by the Boards and effectiveness. Conditions which are strategic/critical for the operation should be done prior to negotiations.

## V. CONCLUSIONS AND RECOMMENDATIONS

### 5.1 At a Joint level of the Bank and the Government

- ETFO to play a central role in portfolio management and to conduct quarterly portfolio review either thematic, sectoral and/or global;
- The Bank and the Government to work together in defining a capacity building program in the fiduciary area consistent with the result of PEFA. This should pave the way of Bank greater involvement in SWAP and Budget support;
- The Bank and the Government to ensure that unnecessary conditions precedent to effectiveness or first disbursement are avoided.

### 5.2 At the Bank Level

- The Bank needs to further improve on its quality-at-entry and ensure that necessary baseline information is adequate and properly used in project design. Monitoring and evaluation mechanism and a clear result framework should be at the core of each new operation. Supervision mission reports need to record progress on all project indicators.

The Mid-term review should be the main instrument to correct any flaws in project design and take into account any change in country circumstances or issues in implementation that were not foreseen at the time of preparation;

- ETFO should be a full part of every sector mission and ensure proper follow up with Government. In that respect, staffing at the Field office is being reinforced by ensuring that there is the right skill mix that will assist to build the capacity of the EA in areas related to project management, procurement, disbursement, financial management etc. This will enable ETFO carry out the regular supervisions even in the absence of headquarter Task Managers.
- With the full implementation of the Delegation of Authority Matrix, ETFO should play a leadership role in portfolio management.
- For decentralized projects, there should be some flexibility in revising the minimum threshold for disbursement when possible in order to facilitate transfer of resources.
- PCR recommendations should be taken into account for all new operations
- Regular disbursement/procurement clinics should be held for the benefit of ongoing projects
- The Bank should provide training on procurement and financial management twice a year as part of capacity building.

### **5.3 At the Government Level**

- The EA's should ensure timely preparation and yearly update of procurement plan; assign and recruit procurement experts at the federal and regional level; provide comprehensive and definitive responses /comments to procurement requests and ensure that tender evaluations are carried out and report submitted within 30 days;
- The EA's to improve the disbursement document quality using the Bank standard format and ensure that SOE's, audit reports and quarterly progress reports are submitted on time;
- Ensure that project management staff are adequately assigned, well equipped and supported by higher officials;
- Carry out regular supervision of contractors and consultants to ensure timely delivery of works, goods and services;
- Ensure that project implementation manuals (financial, procurement, institutional) are prepared in good time;
- Submit all requests and documentation to the field office.

### **5.4 At the Board Level**

The Board of Directors is invited to consider and approve the recommendations above which seek to improve the Quality of the Bank's group portfolio In Ethiopia.

**Table 5: Country Portfolio Improvement Plan**

<b>Issues &amp; Constraints</b>	<b>Follow up Action</b>	<b>Responsible</b>	<b>Time Frame</b>	<b>Current Status</b>
<b>Procurement</b>				
Delays in responding to procurement request (draft tender doc, BER, SPN)	Respond to procurement requests from EA's within two to three weeks from receipt of appropriate documents.	ADB	2008	Progress is being made. The streamlining of procurement procedures and the recent recruitment of a Procurement Officer will allow further reduction in the decision making time.
	Strengthen the staffing of the ADB Field office	ADB	2008-2009	Four additional local professional staff recruited
	Enhance delegation of authority to the ADB field office; consider increasing the current contract approval thresholds.	ADB	June 2008	New procurement delegation matrix approved
Delays in procurement process at the PIUs level-capacity constraints and inadequate understanding of Bank procedures	Timely preparation and the yearly update of procurement plan	EAs	Every year in May	Improvement shown in the no of EAs preparing Annual Procurement plan
	Assign or recruit procurement experts where required at Federal and Regional Levels (RWSS, Agr.)	EAs	Immediate	Both RWSS and ASSP have recruited but experiencing turn-over
Difficulty in changing the mode of procurement timely	Tender evaluation to be carried out and report submitted for no objection in 30 days.	EAs	Immediate	There is appreciable progress
	Undertake procurement capacity assessment during appraisal and negotiation and select appropriate and practical procurement modes	ADB and GOE	2008 onwards	This action is being reinforced by the new procurement rules and procedures
	Undertake a critical review and adjust accordingly the mode of procurement during project implementation	ADB and GOE	Continuous	Yet to be implemented
<b>Disbursement</b>				
Delays in Disbursement	Avoid unnecessary conditions precedent to first disbursement and GOE to ensure proper representation at Negotiations	ADB /GOE	2008 onwards	yet to be implemented
	Disburse within two weeks of receipt of correct and completed application	ADB	immediate	Achieved but few incorrect or incomplete applications are still received
	Improve disbursement document quality and ensure the use of Bank standard forms through giving support by trainings	ADB/GOE	continuous	Although few incorrect applications are received, number is on declining trend as the result of strong support provided to projects
	Accept SOE including the Bank statements without supporting documents for replenishment of special accounts provided that annual audit is completed within 6 months of the end of the financial year and includes certification by external auditors of the correctness of SOE's and use of special accounts.	ADB, MOFE and EAs	Immediate	Done for RWSS and ASSP

	For decentralized projects, reduce minimum justification threshold or replenishment to 20%-30% reflecting the specificities of the project	ADB	2008	Done for RWSSP and ASSP
	Consider disbursement replenishment directly to regions for decentralized projects	ADB and MOFED	Applies to future operations	Not yet done
	Provide disbursement approval threshold for the ADB field office	ADB	2008	Not yet done
<b>Reporting</b>				
Delays in submission of audit and quarterly progressive reports (QPPR)	Recruitment of auditors ( preferably for three years)	MOFED and EAs	Continuous	Implementation on going
	Quarterly submission of audit reports	MOFED and EAs	Six months after the end of the fiscal year	Late/None submission of audit reports for social sector projects
	Quarterly submission of project progress reports	EAs	Continuous	Late/None submission of progress
<b>Other Issues</b>				
Extension of Disbursement deadline	Submit Progress Report, status of ongoing activities, justification for extension, and audit reports (EDU III, PHC, Privatization Technical Assistance and MoFED Capacity Building Project.)	MOFED, MOH, and PPSA	Latest 10 Dec 2007	Social sector projects have been granted extension but disbursement was suspended for audit reasons.  MoFED Capacity Building Projects and PTA are not yet extended
	Submit revised concrete implementation plan and justification ( Fisheries Study)	MOFED & MOARD	Immediate	Fisheries Study funds will be re allocated to food crisis.
	Submit revised concrete implementation plan to complete the project by 31 December 2008 ( Institutional Support to Women Affairs)	Women Affairs	Immediate	The plan was submitted but part of the funds from this project will also be re allocated to food crisis
Frequent change of TM and slow decision making process	Assign alternate TM and formally communicate to EAs	ADB	January 2008	Not yet done
	Consider full task management by ETFO for selected projects which require intensive supervision	ADB	June 2008	Not yet done
	Minimize changes of TMs and ensure proper handing over by TMs	ADB	Continuous	
	Empower TM's to make decisions	ADB	2008	Addressed by the new delegation matrix
Weak Implementation and Coordination	Ensure project management staff are adequately assigned, well equipped and supported by higher officials	MOFED and EAs	Continuous	Problems still persist, continuous follow up needs to be done
	Ensure that Projects implementation manuals (financial, procurement, institutional) are prepared in good time.	MOFED, EAs and ADB	As of 2008	Some projects have manuals but yet to be implemented for others
	Enhance communication through ICT ( email, fax, telephone, scanner, ADB client connection)	MOFED, EA and ADB	As of January 2008	on going
	Conduct regular joint meetings-monthly with EAs and quarterly with MOFED	MOFED, EAs and ADB	As of January 2008	Effort is being made to have frequent meetings with EAs and Quarterly meetings with MoFED. A schedule of meetings has been prepared.
	Provide training in Bank policy, rules and procedures	ADB and MOFED	2008, twice per year	Will commence before end of year