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ACRONYMS AND ABBREVIATION

ADF	African Development Fund
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Performance and Institutional Assessment
CPIP	Country Portfolio Improvement Plan
CPPR	Country Portfolio Performance Review
CSA	Central Statistical Agency
CSO	Civil Society Organizations
CSP	Country Strategy Paper
DAG	Development Assistance Group
DARMS	Document Archiving and Retrieval System
DBS	Direct Budget Support
DP	Development Partner
DSA	Debt Sustainability Analysis
EPRDF	Ethiopian Peoples Revolutionary Democratic Front
ESW	Economic and Sector Work
ETB	Ethiopian Birr
ETFO	Ethiopia Field Office
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HICES	Household Income, Consumption and Expenditure Survey
HIV	Human Immuno-deficiency Virus
ICT	Information and Communication Technology
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MoFED	Ministry of Finance & Economic Development
MTR	Mid Term Review
MW	Megawatt
NBE	National Bank of Ethiopia
NEPAD	New Partnership for Africa's Development
NSDS	National Statistics Development Strategy
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PBA	Performance Based Allocation
PBS	Protection of Basic Services
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPP	Public Private Partnership
RISP	Regional Integration Strategy Paper
RMF	Results Measurement Framework
RSDP	Road Sector Development Program
SME	Small and Medium Enterprises
SSA	Sub-Saharan Africa
UA	Unit of Account
WTO	World Trade Organisation

I. BACKGROUND

1.1 The previous Country Strategy Paper (CSP) for Ethiopia (2006-2010) was designed to support the *Plan for Accelerated and Sustained Development to end Poverty* (PASDEP).¹ The Bank Group's support was anchored on three pillars: (i) infrastructure development; (ii) agricultural transformation; and (iii) good governance.

1.2 During the PASDEP period, Ethiopia achieved remarkable economic and social progress. The economy grew by 11% on average, which ranked among the highest in Africa. This strong performance puts Ethiopia among the group of Sub-Sahara African (SSA) countries on track to meet most of the Millennium Development Goal (MDG) targets.

1.3 Despite these gains, more effort is required to further reduce poverty, and achieve economic transformation. The *Growth and Transformation Plan (GTP)*, launched late 2010, is the Government of Ethiopia's (GoE) response to these challenges. It is borne out of the Government's Vision to propel Ethiopia into middle income country status by 2025.

1.4 This new CSP covering 2011-2015, is aligned with the GTP and articulates how the Bank Group plans to support its implementation. It will span the ADF XII cycle and part of ADF XIII. In particular, the CSP assesses (i) lessons learnt from the previous strategy; (ii) delivery modalities and expected results; (iii) partnership between the Bank Group and other Development Partners (DPs) in supporting the GTP; (iv) the planned lending and non-lending operations and; (v) risks faced in GTP and CSP implementation.

¹ Board document Ref No. ADB/BD/WP/2006/61 and ADF/BD/WP/2006/51

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

Political Context

2.1.1 Ethiopia has emerged from the traumatic post-2005 elections political crisis, which saw sharp disagreements over election results between the ruling party, Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), and the Opposition. In contrast, the national elections of May 2010 were peaceful; EPRDF and its affiliated parties emerged victorious with a vastly increased majority in the Federal House of Parliament.² The political opposition and other stakeholders have attributed the outcome to a narrowing democratic space.

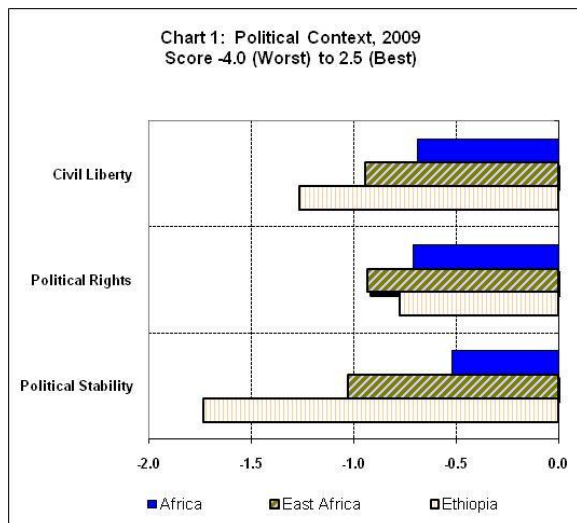
2.1.2 Arguably, a divided opposition was also a factor. Since these elections, the legal status of *Medrek*, the leading coalition of opposition parties, has changed into an "alliance." This may be an attempt to re-organize ahead of the election scheduled for 2015. Looking ahead, it is difficult to see any let up on the tense relationship between the ruling party and the opposition, which underlines the fragility of the democratic transition process in Ethiopia.³

2.1.3 Perhaps as a reflection of the difficult political transition, Ethiopia scores lower in the domain of political stability and civil liberties than its East African peers. However, it has almost similar scores in the area of political rights (see Chart 1). The country's governance challenges are aggravated by regional insecurity, with potential spillovers to its political stability. Relations with Eritrea remain tense and the

² EPRDF won 499 of the 547 parliamentary seats.

³ See African Peer Review Mechanism Country Report No.14 2010

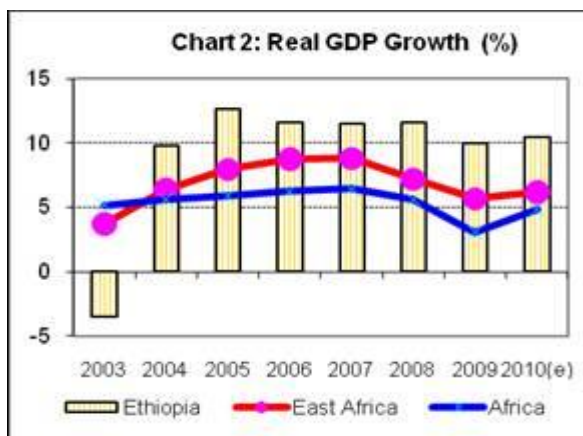
border dispute unresolved while persistent instability in Somalia poses immediate security challenges.



Source: AfDB Statistics Department

Economic Context

2.1.4 Ethiopia’s recent economic growth rate, at slightly over 11% per annum, is remarkable (see Chart 2) and well in excess of population growth (2.6%) and the growth rate (7% per annum) required for achieving the MDG goal of halving poverty by 2015. Although initially led by agriculture, growth



Source: AfDB Statistics Department

is now more broad-based, with rising contribution to GDP from services and construction. According to Government projections, real GDP growth is projected to remain above 10% per annum over the

medium term (2011-2015).

Growth & Drivers

2.1.5 Until recently, agriculture (mainly smallholder farming and livestock production) was the dominant sector in the economy. While the services sector has recently outstripped agriculture in terms of its share of GDP (currently estimated at 46%) agriculture remains critical for broad-based growth. The agriculture sector accounts for 42% of GDP, 80% of employment and 85% of Ethiopia’s export earnings.

2.1.6 The increase in agricultural production witnessed over the past five years (averaging 8%) is attributed mainly to favorable weather conditions, improved supply of inputs and expansion in land under cultivation. Despite the increases in average yields from 1.2 to 1.7 tons per hectare, productivity is low. Given the mainly smallholder dominated structure, pushing the production frontier without technological innovation and the development of rural infrastructure will not be feasible. GoE, therefore, sees the diffusion of modern agricultural technologies and best practices as central to economic transformation.

2.1.7 During this period, electricity and water grew on average by 7.5%, but failed to match demand growth. Construction sub-sector value added increased by 11% per annum, on average. However, the share of the industrial sector has stagnated at around 13%. Thus, industry has not been playing its envisaged role in fostering economic transformation.

2.1.8 Besides the favorable weather conditions, economic growth was driven by conducive policies and rapid expansion of public infrastructure and basic services. The increase in exports, remittances and Foreign Direct Investment (FDI) has provided

impetus to growth. Ethiopia's relatively low integration in global financial markets somewhat insulated the economy from the worst effects of the global economic and financial crises.

Macro-economic Management

2.1.9 Rapid growth has been accompanied by macro-economic imbalances. The main underlying domestic factor was the surge in domestic borrowing to finance mainly public investment programs. These were exacerbated by the global food and fuel crises. Inflation, which peaked at 64% (end-period basis) in July 2008, emerged as the foremost macro challenge. GoE responded through fiscal and monetary tightening, as well as administrative measures to contain food price inflation. In August 2009, the International Monetary Fund (IMF) approved a US\$ 240.6 million arrangement for Ethiopia under the Exogenous Shocks Facility. As part of the Food Crisis Response Initiative, the Bank provided support for fertilizer imports through re-allocation of UA 39.68 million from existing commitments.

2.1.10 GoE's adjustment efforts have paid off, with macroeconomic stability largely restored. Domestic borrowing has been contained within 1.5% of GDP. Since 2004, when the current growth episode started, tax revenues increased, on average, by 27.3% annually reaching ETB 43.3 billion in 2010—although still only about 11% of GDP. By end 2010, inflation had declined to 8.2%, due largely to good agricultural harvests and stringent monetary policy stance, including credit ceilings and upward adjustment in commercial banks' minimum reserve requirements from 5 to 15%.

2.1.11 In August 2010, the Birr was devalued by 17% against the US dollar. This, coupled with a lower inflation rate, significantly reduced the real exchange rate overvaluation. Ethiopia's gross international

reserves also picked up from 1.5 months of import cover in August 2009 to 2.7 months in April 2011.

2.1.12 Export revenues have more than doubled since 2004, reaching US\$ 2 billion in 2010. The share of non-traditional exports, notably flowers, gold, meat and leather products increased to 74.6% in 2010 from 60%. Over the same period imports, especially for capital goods, grew rapidly (on average by about 27.4% per annum). FDI and remittances have also witnessed strong growth. Within a period of six years, FDI increased eightfold to reach US\$ 950 million in 2010. Remittances grew, on average, by 34% per annum to reach US\$ 2.2 billion. However, the current account deficits remained high, at an average of 6% of GDP, due to the fact that Ethiopia is an importer of oil and capital goods.

2.1.13 While the economy has been able to maintain high growth, there is a renewed concern about the resurgence of inflation. After subsiding for some time, inflation has accelerated to 29.6% in April 2011. This is attributed mainly to monetary expansion combined with imported inflation in the wake of rising global food and fuel prices. GoE's introduction of price controls for some basic commodities has not eased the inflationary pressure but is creating market uncertainties.

2.1.14 More importantly, the NBE tools for sterilizing reserve money growth are not adequate. The growth in reserve money, coupled with negative real interest rates and a shrinking Treasury Bills market, has led to a trend of demonetization in the economy. Although NBE has lifted credit ceilings on commercial banks, it recently issued a directive requiring the latter to invest 27% of their gross loans in NBE bonds. The proceeds are, to be channeled to the Development Bank of Ethiopia for on-lending to priority projects. While well-

intended, directed credit might affect allocative efficiency by distorting incentives in financial intermediation. . , GoE needs to remain vigilant in its macroeconomic management as well as deepen supply side structural reforms to keep inflation in check

External Debt Sustainability

2.1.15 According to the 2010 Debt Sustainability Analysis (DSA) undertaken by the IMF and World Bank, Ethiopia's external debt stock is rising largely due to the surge in public enterprises external borrowing.⁴ The DSA indicate that the Present Value of debt to GDP and Debt to Exports are projected to rise from 13.5% and 119.1% in 2010 to 18.3% and 129% respectively in 2011, before declining in subsequent years. While external debt indicators are still within the thresholds and Ethiopia's risk of debt distress has been lowered from moderate to low, the situation will require close monitoring, especially public enterprise borrowing.

Governance

2.1.16 **Control of Corruption.** Historically, Ethiopia has a reputation for low tolerance for corruption. However, recent assessments, including Transparency International's *Corruption Perception Index* and the *Ibrahim Index*, point to graft as a growing challenge. In 2009, the *Ibrahim index* ranked Ethiopia 30 out of 51 African countries, compared to 24 in 2008. Fighting corruption is a central plank in GoE's good governance agenda. To this end, the Federal Ethics and Anti-Corruption Commission has embarked on vigorous sensitization campaigns. The Commission is conducting value for money audits and integrity reviews in key sectors (including construction) and plans to publish annual corruption surveys.

⁴ See IMF, 2010, Article IV Consultation and 1st Review of Arrangement under ESF, Washington DC.

Furthermore, GoE introduced money laundering and anti-terrorism legislation in 2009 and established a Financial Intelligence Unit in NBE. In addition, Ethiopia is in the process of joining the Extractive Industries Transparency Initiative.

2.1.17 The implementation of Public Financial Management (PFM) reform at both national and regional level in the past decade has led to improvements in Ethiopia's PFM system. For instance, the 2010 *Public Expenditure and Financial Accountability* (PEFA) indicated improvements in 13 out of 14 indicators. Only the indicator for variance between the budget and actual outturn showed a lower score than in 2007. The 2010 PEFA noted that Ethiopia's PFM system is strong with respect to revenue outturns, arrears monitoring, budget classification, transparency of inter-governmental relations, policy based budgeting and payroll controls.

2.1.18 While Ethiopia's PFM system is generally sound, there is need for further improvement in certain areas to ensure effectiveness in the fiduciary safeguards. For instance, the Office of the Federal Auditor General audits only about 50% of total expenditures. Moreover, the follow-up on audit queries is generally weak. Other challenges include internal audit effectiveness, external audits, legislative scrutiny of the budget law, and donor practices. More broadly, there is need to strengthen institutions and staffing, particularly at decentralized levels of government.

2.1.19 **Procurement.** The pace of procurement reform has been slow and capacity remains weak. As part of the efforts to improve public sector management, GoE has recently stepped up action to improve public procurement. To this end, GoE has

issued Directives, prepared a manual and Standard Bidding Documents following the Federal Parliament's enactment of a new *Public Procurement and Property Administration Proclamation* in 2009. While most of the Regions have prepared their own laws modeled after the Federal prototype, other documents including directives and standard bidding documents are not yet revised in the Regions. Building capacity, especially at the sub-national level, is critical. The ongoing *Country Procurement Assessment Report*, jointly conducted by the Government and DPs, will pinpoint areas that require further attention.

2.1.20 Stakeholder Participation. GoE recognizes the important role that communities and non-state actors can play in the development process, and in holding public service providers accountable. However, community participation in planning and budgetary processes is still limited.

2.1.21 In March 2009, Parliament enacted a new Civil Society Organizations (CSO) Law, which restricts foreign funding of CSOs involved in political and rights advocacy. GoE sees the percolation of external influences in domestic politics through this channel. Nevertheless, GoE and DPs agree that citizen engagement around issues related to the budget and service delivery through the support of CSOs is crucial for effective delivery of quality basic services. The Protection of Basic Services (PBS) is building capacity in financial transparency and accountability. Initial results provide a good basis for taking forward this agenda. In fact, Ethiopia has become a model in Africa for innovation in budget literacy, transparency and application of social accountability tools.

2.1.22 Business Climate and Competitiveness. In 2010, Ethiopia was ranked 107 out of 183 countries in the

World Bank's *Ease of Doing Business* report, compared to 116 in 2009. While this represents an improvement, impediments to private sector development remain. For instance, access to credit and foreign exchange is limited. Although infrastructure services are improving, they are still inadequate, as reflected in frequent power outages and poor telecommunications services. The business community also considers tax administration and enforcement procedures as burdensome. These are compounded by what the business community perceives as the lack of a level playing field *vis-a-vis* public enterprises and Party affiliated businesses.

2.1.23 GoE's developmental state ideology envisages an activist role for the state in addressing market failures by filling gaps in areas where adequate private sector supply response and capacity is lacking. While this strategy is seen by GoE as necessary in driving economic transformation, it has the potential to distort market competition and result in allocative inefficiencies.

2.1.24 According to World Bank's *Investment Climate Report*, the lack of competition, poor access to finance and land, low productivity and resource allocation inefficiencies pose a major hindrance to Ethiopia's competitiveness. Even though GoE recognizes the importance of private sector consultations in policy making, in reality the process is fraught with difficulties. The recently institutionalized Public Private Dialogue Forum is expected to improve dialogue between GoE and the private sector.

2.1.25 Ethiopia ranked 118 out of 133 countries surveyed in the *Global Competitiveness Index* (see Table 1). The country scored relatively low for goods market efficiency, financial and business sophistication, technological readiness and innovation. Ethiopia's competitive strength

lies in its stronger institutions, labor market efficiency and large market size - in these cases - it ranks above most of its neighbors.

Table I: Global Competitiveness Index 2009-2010
(out of 133 countries)

Pillars	Ethiopia		Africa
	Overall rank	Score (1-7)	Score (1-7)
Global Competitiveness Index	118	3.43	3.52
Basic requirements	...	3.57	3.70
Institutions	75	3.78	3.71
Infrastructure	96	2.94	2.74
Macroeconomic stability	116	3.76	4.30
Health and primary education	120	3.78	4.07
Efficiency enhancers	...	3.26	3.32
Higher education and training	125	2.67	2.98
Goods market efficiency	106	3.77	3.77
Labor market efficiency	69	4.34	3.91
Financial market sophistication	127	3.05	3.68
Technological readiness	131	2.29	2.63
Market size	76	3.44	2.87
Innovation enhancers	...	1.35	3.17
Business sophistication	118	-	3.47
Innovation	112	2.69	2.87

Source: AfDB Statistics Department

Financial Sector

2.1.26 Currently, the coverage of financial services in Ethiopia is low. The Bank's recent *Financial Sector Diagnostic Study* estimated that less than 10% of households have access to formal credit. Services are concentrated in a few towns; Addis Ababa alone accounts for nearly 40% of total branches of commercial banks. Financial deepening is necessary to foster more inclusive growth and accelerate poverty reduction.

2.1.27 The financial sector remains closed to foreigners, thereby limiting opportunities for competition and infusion of capital and banking skills. GoE's concern is that foreign banks could dominate the financial sector, and might not give priority to extending services to rural areas. A recent IMF assessment underscores the challenges of financial sector development, including repressed interest rates. The financial sector is, therefore, one of the areas identified by the Bank Group for continued policy dialogue and advisory support.

Regional Integration and Trade

2.1.28 Ethiopia's regional economic integration is limited. Insular policies arising from domestic upheavals and regional friction are partly to blame. But there are also concerns over revenue losses and the negative impact on domestic industries, regarded to be less competitive than among neighbors. Ethiopia has not ratified the Free Trade Protocol of the Common Market of Eastern and Southern Africa (COMESA), although many other countries in the region have. Still, while landlocked, the country is strategically located in the horn of Africa, and is one of the largest on the continent. It possesses large tracts of productive land with access to water—making its transformation into a regional food basket a real possibility. Ethiopia also stands to gain from exploiting its regional comparative advantage in the production of hydroelectric power. The Government's recent emphasis on linking its infrastructure regionally, often with Bank financing, is a reflection of its keener interest in regional economic integration.

2.1.29 While Ethiopia's exports have grown in recent years; trade volumes are still low relative to the size of the economy. Under GTP, GoE is embarking on a major export drive complemented with an efficient import substitution strategy. The constraints for trade expansion include high trade costs due to weak infrastructure links and poor transport logistics. Ethiopia has been quite successful in picking winners such as the flower industry and FDI has been increasing. However, there is need to open up the trade regime further, and strengthen efforts to promote competitiveness.

2.1.30 Ethiopia is implementing regional infrastructure projects, notably the power interconnections with Djibouti and Sudan, and road corridor linking Addis Ababa to

Kenya's port of Mombasa. There are plans to develop railway links to external markets, through Djibouti. Significantly, Ethiopia is undertaking preparatory work for COMESA-EAC-SADC Tripartite Free Trade Area negotiations. Ethiopia is also negotiating an Economic Partnership Agreement with the European Union, and has also embarked on the process of World Trade Organization (WTO) accession, though progress has been slow.

Social Inclusion, Gender Equality and Environment

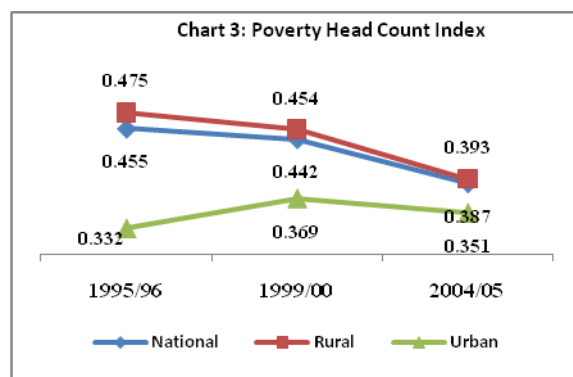
2.1.31 Ethiopia ranks 157 out of 169 countries on the United Nations Development Program's 2010 *Human Development Index*. About 30% of the population lives below the poverty line. Food insecurity is a defining characteristic of poverty with up to 10 million people dependent on humanitarian assistance.

2.1.32 GoE has shown a strong commitment to eradicate poverty. This is reflected in the high share of pro-poor public expenditures, which rose from 40% a decade ago to 66% in 2010. The resultant improvement in basic services has translated into gains in the social indicators, albeit from a low base. Primary school (grade 1 to 8) gross enrolment rate increased from 32% in 1990 to 96% in 2010. The health status of the population has improved, evidenced in a steady decline in under five mortality, which dropped from 190/1000 to 101/1000 between 1996 and 2000. There has also been progress in reducing the incidence of HIV/AIDS, though progress in reducing maternal mortality has been much slower. Overall, Ethiopia is on track to meet 5 MDGs (1, 2, 4, 6 and 8) (see Annex VI), and is likely to meet the other 3 MDGs (3, 5 and 7) if current challenges are addressed.

2.1.33 GoE has put in place one of the largest social protection programs in Africa.

The *Productive Safety Net Program*, which is supported by several donors, targets the most vulnerable households. Yet, the gains in welfare of the vulnerable population are fragile and there is need to focus on expanding opportunities for sustainable livelihoods.

2.1.34 Rapid growth over the past two decades has helped reduce the incidence of income poverty. According to the 2004/05 Household Income, Consumption and Expenditure Survey (HICES), the proportion of people living below the poverty line (measured by headcount index) declined from 44.2% in 2000 to 38.7% in 2005 (see Chart 3). The poverty incidence in rural areas dropped from 45.4% in 2000 to 39.3% in 2005, while in the urban areas poverty only declined from 36.9% to 35.1%. Income inequality increased marginally with the Gini-coefficient rising from 0.28 in 1996 to 0.304 in 2005.



Source: MoFED. Planning and Research Directorate

2.1.35 Preliminary government estimate indicates that poverty headcount index declined to about 29.2% in 2010 from 38.7% in 2005. A new HICES currently underway is expected to show further decline, given the recent impressive growth and high growth elasticity of poverty reduction (estimated at -1.7).

2.1.36 Unemployment particularly in urban areas is high (17.6%) and affects women (23.3%) more than men (13.6%). Regional

disparities in poverty levels exist, reflecting differences in ecological and climatic conditions, the rate of land degradation, stress on natural resources, and proximity to urban centers and markets. This underscores the importance of inclusive growth, which is a major preoccupation of Government.

2.1.37 Gender Equality. The Government key development and sector policies support the promotion of gender equality. Legislation against violence targeted at women and their rights to land inheritance have been enacted. The National Gender Action Plan provides the framework for mainstreaming gender issues. Its focus areas include economic empowerment; education and training; reproductive rights; and institutional mechanisms for gender mainstreaming. Ethiopia has made some progress in addressing gender disparities, especially in primary education where gender parity has almost been achieved. Also, maternal mortality ratios declined from 670/100,000 in 2005 to 470 in 2008, which attests to rapid improvements in reproductive health care delivery.

2.1.38 As a result of affirmative action, seats held by women in Parliament rose to 30% in the 2010 elections from 22% previously. Nonetheless, significant gender inequality continues to exist, particularly in terms of enrollment at post-primary education, economic empowerment and political representation. The *World Forum Global Gender Report* (2009) ranked Ethiopia 122 out 134 countries surveyed, which attests to the generally slow progress towards gender equality. Capacity constraints to mainstream gender equality in policy formulation and implementation at federal and regional levels are partly responsible for this outcome.

2.1.39 Environment and Climate Change. Ethiopia's ecological system is highly fragile and vulnerable to climate change.

This is compounded by population pressure and stress on natural resources, especially land. The key challenges include soil degradation, deforestation and loss of biodiversity. All these have important implications for sustainable livelihoods. In response, GoE has established appropriate policy frameworks, including an Environmental Policy and Bio-Diversity Strategy. The Government is also addressing environmental challenges at federal and sub-national levels, linked to the sectoral plans. GoE recently launched a carbon neutral growth strategy while the GTP articulates actions and targets for mitigation and adaptation. These include projects for sequestration of green house gases through planting trees to cover 2,000 km² of degraded land.

2.1.40 Looking ahead, there is need for more clarity on operational/implementation frameworks for climate proofing in sector plans/investments and how to establish climate resilient institutional and regulatory frameworks. Linked to this is the need to strengthen water resources management and ensuring sustainable development of these resources. Ethiopia is constructing a series of large hydropower dams, which has raised concern among some International NGOs on their environmental and social impacts.

2.1.41 The development of renewable energy sources such as hydro, wind and geothermal is central to the country's efforts to shift towards a green growth path. Ethiopia plays an important advocacy and leadership role on global climate change issues. The Government is engaging DPs, including the Bank, on the issue of accessing finance for implementation of its climate resilience strategy.

2.2 Strategic Options

2.2.1 Country Strategic Framework

2.2.1.1 Ethiopia's overriding development objective is to achieve inclusive, accelerated and sustained economic growth to eradicate poverty. A new five year development plan, the GTP, was launched in late 2010. It is the vehicle for poverty reduction and laying the foundation for structural transformation. The specific objectives of GTP include: (i) maintaining at least 11% average annual growth rate; (ii) expanding and ensuring quality of education and health services and achieve the MDGs; (iii) establishing suitable conditions for sustainable nation-building through creation of a stable democratic and developmental state and; (iv) ensuring growth sustainability by fostering a stable macro-economic framework. The GTP underwent broad stakeholder consultations at national and regional levels.

2.2.1.2 Ethiopia's development efforts under GTP will be pursued through seven strategic pillars, (see Box 1). The GTP sees rapid growth as key to achieving the ambitious targets in employment and poverty eradication. Investment in growth-oriented sectors will be expanded.

Box 1: Growth and Transformation Plan Pillars

- Sustain rapid and equitable economic growth
- Preserve agriculture as a major source of economic growth;
- Create favorable conditions for industry to play a key role in the economy;
- Infrastructure development;
- Expand provision and quality of social services;
- Build public institutional capacities and deepen good governance; and
- Promote women, ensure youth empowerment and broaden social inclusion.

Source: MoFED. Macroeconomic Policy and Management Directorate

2.2.1.3 Agriculture is a key sector in this strategy. The emphasis includes, *inter alia*,

enhancing productivity through scaling up model smallholder farmer practices, the expansion of small and medium scale irrigation, development of rural infrastructure, including all-weather roads and markets, and the promotion of commercial farming. In addition, efforts to conserve natural resources, mitigate and adapt to climate change will be pursued. Higher agricultural productivity is expected to spur industrialization and export growth

2.2.1.4 GTP accords priority to the industrial sector, especially small & medium enterprises (SMEs) in order to create employment opportunities for a growing population, especially in the urban areas.

2.2.1.5 In infrastructure, GoE's priority is to expand the federal and regional road network and link up all districts (*Woredas*) with all-weather roads. Railway lines are also planned, including a line to Djibouti. To address the energy shortfall, renewable energy sources will be further developed and energy infrastructure expanded. GoE's target is to install 8,000 Megawatt (MW) in new generation capacity, mainly through hydropower development. This will raise Ethiopia's total generation capacity to 10,000 MW to meet domestic demand and allow for export of the surplus.

2.2.1.6 GTP's social development objective is to expand access to education and health services with an emphasis on equity and quality. GoE will continue efforts to deepen good governance and strengthen institutional capacity while paying more attention to gender equality, youth and children. The policies to promote gender equality include entrepreneurial development, provision of credit, and greater women participation in decision-making and discouraging harmful traditional practices. Some of the GTP targets are shown in Box 2.

2.2.1.7 The total investment required for GTP is estimated at ETB 1.26 trillion (US\$

77 billion). About 54.8% of this will be funded directly from the budget, out of which 11% is expected from DPs while 45.1% will be contributed by state enterprises. Given the financing challenge, GoE plans to expand tax revenues and domestic savings mobilization, to reach 15% of GDP, respectively.

2.2.1.8 Although highly ambitious, GoE views the GTP's stretched targets as necessary given Ethiopia's immense development challenges. There is a sense of urgency to accelerate the pace of development and achieve transformational growth. While the Bank welcome this bold approach, concern remains regarding the public investment dominance, associated financing and macro-economic risks, and implementation challenges.

2.2.1.9 The private sector is expected to play a major role in GTP implementation. However, clearer strategies for crowding in private investment need to be articulated, particularly in the context of the current weaknesses in the financial sector and the business environment. These will constitute core issues for dialogue during the CSP implementation.

2.2.2 Strengths and Opportunities

2.2.2.1 **Natural Resources Potential.** Ethiopia is endowed with fertile land and large bodies of lakes and rivers. These offer opportunities for expansion of irrigated agriculture, fish production and hydroelectric power generation. Ethiopia is known as the water tower of Africa and its hydropower potential is conservatively estimated at 45,000 MW, less than 5% of which is developed. With this potential, and provided that environmental and social sustainability issues are addressed effectively, the country could well meet its energy needs and leave a large surplus for export to the regional markets.

Box 2: Main Targets of GTP (2011-2015)

- Reduce poverty from 29.2% to 22.2%;
- 11% real GDP growth rate per annum (base case scenario); and 15% (high case scenario);
- Increase exports from 10.5% to 31.2% of GDP;
- Increase road density from 44.5 km/1000km² to 123.7;
- Increase power generation capacity from 2000 MW to 10,000 MW;
- Raise industry's contribution to GDP from 13% to 18.7%.

Source: MoFED. Macroeconomic Policy and Management Directorate

2.2.2.2 **Human Resources.** Besides natural resources, Ethiopia has abundant and cheap labor. If harnessed effectively (through vocational education and skills development programs and robust labor laws), this could support labor-intensive manufacturing.

2.2.2.3 **Market Size and Geographical Location.** Ethiopia has a large population, which with rising incomes could provide a large market, thereby supporting a range of economic activities. Ethiopia's proximity to the Middle East also gives it a distinct advantage in accessing lucrative foreign markets. Addis Ababa has become a regional air transportation hub, due to rapid expansion of the national airline. This offers opportunities for exporting high value horticultural products and tourism, as well as expanding trade and investment links.

2.2.2.4 **Developmental Policies.** Despite the capacity challenges, GoE has demonstrated strong ownership of its policies and development strategies. This has served it well in implementing its programs and achieving development results.

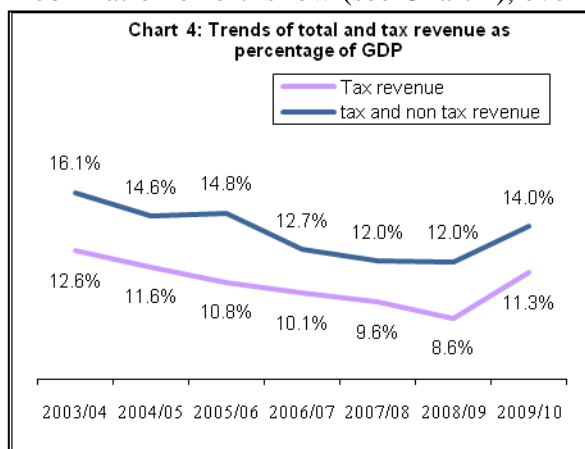
2.2.3 Challenges and Weaknesses

2.2.3.1 **Macro-economic fragility in the context of high growth.** The country is highly vulnerable to price and weather shocks, thus increasing vulnerability and aggravating poverty. There is growing concern about the resurgence of inflationary

pressures on the back of recent increases in global food and fuel prices. The challenges underscore the need for economic diversification and strong economic management to enhance resilience.

2.2.3.2 Low Agricultural Productivity. Agriculture is still largely rain-fed and characterized by low productivity. In the Bank's view, a simple scaling up of past approaches is not likely to lead to agricultural transformation. Rather, the solution is to address, in a holistic manner, key constraints such as security of land tenure, land fragmentation, poor rural (including irrigation) infrastructure, inadequate access to credit and extension services. Furthermore, for transformation of the economy, a move up the value chain is also necessary.

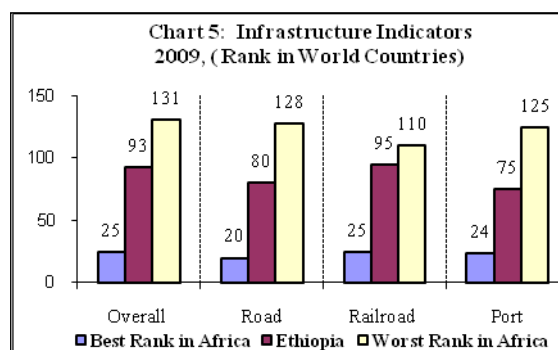
2.2.3.3 Low Domestic Resource Mobilization. Ethiopia's revenue mobilization effort is low (see Chart 4), even



Source: MoFED. Macroeconomic Policy and Management Directorate

when compared to its neighbors. Similarly, domestic private saving is low (around 5% of GDP). GoE will need to expand its domestic resource mobilization efforts through widening the tax base, strengthening tax administration, and financial sector deepening. Further, non-traditional sources of finance such as Public-Private Partnerships (PPP), Diaspora resources and carbon finance need to be tapped.

2.2.3.4 The quality and coverage of infrastructure is low (see Chart 5), even when compared to African peers. Infrastructure development is critical for Ethiopia to sustain its high growth, increase competitiveness and further reduce poverty levels. Presently, only 41% of the population has access to grid electricity, while at 44km/1000km² of land, the paved road density is among the lowest in SSA. In the *Bank's Infrastructure Index*, Ethiopia is



Source: AfDB Statistics Department

ranked 52 out of 53 countries. The inadequacy of Ethiopia's infrastructure stems largely from resource and capacity constraints. The financing required to meet Ethiopia's infrastructure needs is massive, estimated at US\$ 5 billion per annum.

2.2.3.5 Finding gainful employment for a youthful population. In spite of Ethiopia's high growth, the capacity to absorb new entrants into the labor market is limited. About 55% of the population is less than 18 years of age and young people (0-24 years of age) make up 65% of the population. An increasing number of graduates from TVET and tertiary education are set to join the labor market annually. Moreover, rural employment data show that substantial surplus farm labor exists, which needs to be absorbed in off-farm productive activities.

2.2.3.6 Ethiopia's integration to regional and global markets is limited. As noted earlier, this is attributed to the poor state of

transport corridors and weak trade facilitation (which result in high trade costs), as well as slow progress in implementing regional trade liberalization commitments.

2.2.3.7 Ethiopia's financial sector remains small, fragmented and lacks depth. The financial sector is not able to offer adequate and competitive services on the scale required. This is a major impediment to the expansion of productive activities, especially for SMEs, and development of export capacity. The private sector considers inadequate access to risk capital and credit as major impediments to doing business.

2.2.3.8 Institutional Capacity: Weak institutional capacity, particularly at lower levels of government, is a challenge. This is aggravated by high staff turnover due to inadequate incentives, among other factors. Overall, there is a shortage of highly skilled manpower, including accountants, technicians and engineers.

CPIA Ratings

2.2.3.9 The trend in the Bank's CPIA ratings for Ethiopia over the period 2005-2010 shows improvement. Ratings for the policy clusters of business regulatory environment, gender equality, equity in public resource use, and building human resources have increased. In contrast, the CPIA ratings for the financial sector, regional integration and trade restrictiveness have changed little, and in some cases, have been below average. The specific challenges in these policy areas have been elaborated in preceding sections of this report and will inform the policy dialogue with GoE.

2.3 Aid Coordination and Bank Positioning

2.3.1 In recent years, the number of DPs has increased and includes non-traditional donors such as China and India. The Development Assistance Group (DAG) serves as the main platform for donor

coordination. It is being re-organized to enhance its effectiveness as a network, strengthen dialogue with GoE, and advance the aid effectiveness agenda. A core aspect entails the restructuring of sector and technical working groups, and support for the national M&E system.

2.3.2 The Bank is a major donor in Ethiopia. In November 2010, it became a permanent member of the DAG's Executive Committee. Through the Ethiopia Field Office (ETFO), the Bank also participates actively in sector/technical working group meetings in transport; water supply and sanitation; agriculture, rural development and food security; private sector development and trade; and public financial management.

2.3.3 The Bank is also a member of the Aid Effectiveness Task Force, jointly constituted by the Government and DPs. This Task Force will promote harmonization and delivery of aid effectiveness commitments. The Bank also co-chairs the *Protection of Basic Services* (PBS) Donor Group, which has been instrumental in strengthening dialogue on inter-governmental fiscal relations and accountability in basic services delivery. The presence of emerging donors such as China and India has also created opportunities for broadening partnerships.

2.3.4 With respect to the aid effectiveness agenda, the Bank has made good progress in Ethiopia (see Annex VIII). The 2010 OECD Paris Declaration Survey showed that the Bank has increased its use of country systems and does not use parallel project implementation units (PIUs). Disbursements channeled through country systems have doubled from 20% to 40%. The Bank sees scope for further improvement in this and other areas, including joint missions and coordinated Economic & Sector Work (ESW). A major factor hindering greater use of country

systems is the weak procurement capacity at various levels of government and an unfinished PFM reform agenda. To this end, the Bank and other donors are working with GoE, through the CPAR and PEFA processes, to strengthen procurement and financial management capacity in the public sector, especially at decentralized level.

Bank's Positioning in Ethiopia

2.3.5 Since operations started in Ethiopia in 1975, Bank Group commitments to the country have reached UA 1.9 billion to finance 92 operations. In addition, the Bank has supported two operations from its private sector window.

2.3.6 Currently, the Bank's ADF portfolio consists of 12 operations (including one regional operation and one study) for a net commitment of UA 633.93 million. Public utilities account for the bulk of commitments (47.9%), followed by transport (27.6%), agriculture (13%) and multi-sector (11.5%). By commitment value, infrastructure now accounts for 76% of the portfolio, thus placing the Bank among the three largest donors in infrastructure.

2.3.7 There has been a shift towards few but larger projects, as reflected in an average project size of UA 52.38 million, which is more than double the Bank's average (UA 20.6 million). Significantly, overall portfolio performance rating improved from 2.15 in 2008 to 2.51 in 2010. While improvements were noted in all sectors, multi-sector operations and public utilities received the highest ratings. During the same period, the disbursement rate rose from 40.6% to 58%. Fiduciary compliance has also improved, evidenced in more timely submission of quality audited financial statements. These improvements stem largely from enhanced decentralization and improved collaboration with MOFED and the executing agencies (see Box 3).

2.3.8 These gains notwithstanding, a major challenge is the long period taken to implement projects and undertake studies in

Box 3: Bank Decentralization: The Case of the Ethiopia Country Office

The Ethiopia Office was established in 2002 among the first batch of Field Offices under the Bank Group's Decentralization Strategy. The Office has recruited staff members in a range of fields of expertise, enabling staff members to participate in technical missions within the country and the region.

A strong office has made it possible to undertake country programming, portfolio management and donor coordination activities entirely from the field. The important joint financing and monitoring of the Government's program work on the Protection of Basic Services could not have been accomplished without strong field presence. There is now closer collaboration with MoFED and executing agencies, leading to significant improvement in the performance and quality of the Bank's project portfolio in Ethiopia.

With Addis as the hub for Africa-wide activities, our presence in the country has also had much wider and strategic impacts for the Bank's initiatives and outreach—notably on climate change.

The country economist for Ethiopia is based in the country, supported by a number of experts. ETFO has prepared several pieces of analytical work to inform the Bank's policy dialogue with key stakeholders in Ethiopia as well as improve the design of new operations. This CSP has been written in the field and the planned Energy Study will also be supervised in Addis.

Under the Decentralization Roadmap, greater responsibilities will be delegated to the Field Office, particularly in portfolio and fiduciary management, and the Office is being staffed accordingly.

Ethiopia. Weak incentives have contributed to frequent turnover of project staff. During the 2010 Country Portfolio Performance Review (CPPR), the Bank and GoE developed a Country Portfolio Improvement Plan (CPIP) (see Annex II). A key element was the adoption of a "Readiness Filter", aimed at enhancing quality-at-entry for new operations and helps reduce implementation delays. The application of these filters is already yielding results (see Box 4).

Box 4: Improving Quality-at-entry through the “Readiness Filter”

The “Readiness Filter” was a key part of the Bank’s CPPR held in September 2010. The key elements agreed with the Government in the Filter include ensuring (i) that key project staff are designated by project appraisal; (ii) compliance with environmental, social and fiduciary requirements; (iii) project implementation plan is ready; (iv) counterpart funds for 1st year are available; and (v) bidding documents are ready before Board approval.

Since its adoption, the Readiness Filter is already yielding positive results; evidenced in the drastically reduced time for entry into effectiveness for the PBS II Supplementary Loan and Electricity Transmission System Improvement Project, as well as the rapid progress of procurement activities in the latter project. In the preparation of new operations, the Bank and the Government will ensure adherence to the Filter in order to consolidate gains and improve quality at entry.

2.3.9 To complement its lending activities, the Bank conducted a number of ESWs that are published in DARMS. These include: (i) Financial Sector Diagnostic Study, (ii) Policy Note on Private Sector Development, (iii) Women Migrant Returnees study, and (iv) Public Finance Reviews for Amhara and Benishangul Gumuz Regions.

Lessons from Previous Strategies

2.3.10 The Bank has distilled some key lessons from the implementation of the previous CSP and recent Project Completion Reports to guide the design of the new CSP. These include: (i) need for strategic selectivity both across pillars and within sectors of intervention; (ii) need for a robust results framework with baseline data and effective tools to track and monitor progress; (iii) country dialogue is most effective when supported by evidence-based analytic work; (iv) need for a “Readiness Filter” to enhance implementation readiness of operations; (v) mainstreaming capacity building in operations is important for implementation performance; (vi) the need to adapt the Bank’s project design and lending instruments to Ethiopia’s changing

institutional context, particularly decentralization.

2.3.11 During the previous CSP period, portfolio management improved significantly, which attests to the importance of pro-active and coordinated efforts with the government. Also, the Bank demonstrated flexibility in managing its lending program, in the wake of Government’s withdrawal of Gibe III hydropower project in June 2010. However, the Bank could have done better in leveraging resources, particularly from the private sector.

III. PROPOSED BANK GROUP STRATEGY

3.1 Rationale for Bank Intervention

3.1.1 Ethiopia is at a critical stage in its development trajectory and will need to consolidate the results achieved thus far to meet the MDG targets. The country faces many challenges and continued Bank support will be necessary to assist GoE in mobilizing resources for GTP implementation. The Bank recognizes the need for selectivity in its interventions and ensuring complementarities with other actors.

3.1.2 In the new strategy, the Bank is guided by the lessons learned from the previous CSP, aid effectiveness principles, the Bank Group’s Medium Term Strategy and ADF XII guidelines (see Box 5).

Box 5: Guiding Principles for CSP Preparation

- Alignment with Ethiopia’s GTP;
- Strategic focus and selectivity based on comparative advantage and value addition;
- Division of labor across DPs.
- Bank Group Medium Term Strategy (2008-2012) prioritizing infrastructure, regional integration, governance and private sector development;
- Managing for Results Agenda
- Greater private sector engagement in ADF countries
- East African Regional Integration Strategy
- Lessons from Bank’s past strategies and portfolio performance in Ethiopia

3.1.3 In selecting the sectors and thematic areas of assistance, the Bank has consulted broadly with key stakeholders for validation of the proposed strategy (see Box 6).

Box 6: CSP Consultations

Besides GoE officials, the Bank held consultations with other key stakeholders from civil society, the private sector and donor community. Their main comments were as follows:

(i) The Bank's proposed focus on infrastructure, improving the business climate and enhancing access to quality basic services was largely right.

(ii) Stakeholders appreciated the focus on a limited number of areas, but some requested the Bank to take a higher profile on governance issues.

(iii) The Bank should engage more in private investment promotion and encourage business climate reforms.

(iv) Strengthening the capacity of CSOs to monitor the public sector and to engage Government on development issues should be a key goal for the Bank.

(v) Donors encouraged the Bank to emphasise sustainable development issues, including environmental and natural resource management, as well as climate change. Donors further encouraged the Bank to expand the use of programmatic instruments as these would leverage policy reform through joint dialogue.

3.1.4 There was a general consensus that the Bank Group assistance should aim to create an enabling environment for broad based growth and economic transformation focused on (i) improving access to infrastructure, especially energy and roads and; (ii) enhancing accountability and access to quality basic services, as well as improving the business climate. The Bank will leverage its comparative advantage in supporting Ethiopia address its development challenges.

3.1.5 The Bank's planned assistance is part of a coordinated response by DPs to meet

the resource needs of the GTP. The selection of the Bank's proposed areas of intervention takes into account GTP priorities, the Bank's past performance, and the support provided by other DPs. Regional integration is an important consideration as well. The Bank will continue its support to the new and ongoing regional infrastructure development initiatives. However, the Bank does not foresee direct support to new water sector operations during ADF XII period, consistent with the principles of strategic selectivity. Similarly, the Bank does not envisage funding new operations in agriculture. Its support for the latter will be through the financing of infrastructure and basic services delivery at local level.

3.2 Pillars for Bank Group Support

Pillar 1: Support for Improved Access to Infrastructure

3.2.1 Inadequate infrastructure is a major constraint to growth and poverty reduction in Ethiopia. Poor infrastructure services raise the cost of doing business, erode competitiveness, and limit access to markets, both domestic and foreign. The main objective for Bank support is to enable Ethiopia improve access and quality of infrastructure services, mainly in roads and energy. In the draft Eastern Africa Regional Integration Strategy Paper (RISP), the Bank's strategic goal is that of a well connected, economically prosperous and peaceful region. In line with the RISP, Bank support will focus on regional operations that have the potential to drive market integration and growth. The interventions will promote inter-connectivity through integrated development of infrastructure, trade facilitation and capacity building.

3.2.2 Given the substantial investments required under GTP, the Bank will encourage GoE to use some of the resources provided to promote public-private

partnerships and mobilize co-financing for specific projects.

3.2.3 Road Sector. Currently at 44.4 km per 1,000km², the road density in Ethiopia is still very low, even when compared to neighboring countries. Under GTP, GoE's objective is to improve the efficiency of transport sector operations, provide access to all *Kebele* (sub-districts) centers and develop capacity for construction and maintenance. The Road Sector Development Program (RSDP) entails ETB 125 billion for construction and upgrading of 97,000 km of roads.

3.2.4 Previous Bank support has focused mainly on major road corridors, particularly trunk roads linking areas of high agricultural potential (e.g. coffee) to markets and trade (including regional) corridors. This thrust will be maintained during the CSP period, to further improve interconnectivity and help diversify Ethiopia's access routes to the seaports. Bank Group lending will be complemented by technical assistance and advisory services to improve transport and trade facilitation, including harmonization of customs procedures and transit management systems.

3.2.5 Energy Sector. Ethiopia faces an energy shortfall that may put a brake on the growth momentum. GoE's priority in the energy sector is to increase electricity access and reliability. To this end, GoE seeks to harness the country's vast renewable energy resources through additional hydropower plants and grid expansion. Previous Bank assistance supported the construction of power transmission lines; including the recently completed Ethiopia-Djibouti Inter-connection Project, and more recently, expanding the distribution network under the Universal Electrification Access Program.

3.2.6 In the energy sector, Bank Group interventions will mainly focus on power generation, expansion of the transmission and distribution networks to meet domestic and regional demand. Climate change mitigation and adaptation measures will be mainstreamed in energy sector projects. Ethiopia is among the countries that will benefit from the Scaling up Renewable Energy Program for Africa.

Pillar II: Support for Enhanced Access and Accountability in Basic Services and Improving the Business Climate

3.2.7 According to Ethiopia's federal constitution and consistent with the decentralization strategy, Regions and *Woredas* (*districts*) are mandated to deliver basic services. Almost 80% of budgetary resources of Regions are provided through the federal block grant system, of which more than two third are earmarked for basic services. Decentralization also seeks to enhance accountability in service delivery by bringing decision making closer to citizens.

3.2.8 Since 2006, DPs (including the Bank) have supported GoE's efforts to protect decentralized basic services, and improve transparency and accountability through the PBS. Increased block grant transfers have enhanced the budgetary capacity of *Woredas* to deliver basic services. For instance, strong progress is being made in primary school net enrolment, immunization coverage and access to agriculture extension services. Still, budgetary resources are not sufficient to enable sub-national entities to improve the quality of basic services. Local accountability mechanisms also require further strengthening.

3.2.9 The GTP envisages further decentralization as a vehicle for growth and transformation. The Bank and other DPs see the PBS as an effective instrument for enhancing accountability and transparency under a setting of decentralized governance and will continue their support to PBS, in line with Bank's Governance Strategy.

3.2.10 Enabling Business Climate. The Government is committed to improving the country's business climate to enable the private sector contribute to growth and employment. Bank Group assistance will seek to enhance the capacity of public institutions to offer quality services to the private sector. This includes strengthening the policy, institutional and regulatory frameworks and leveling the playing field. Bank support will also include advisory services and analytic work.

3.2.11 Currently, there are two operations in Ethiopia supported under the private sector window - Derba Midroc Cement project and Ethiopian Airlines aircraft fleet expansion. Although Ethiopia's private sector is at a nascent stage, opportunities for private sector investment have increased in recent years. This is evidenced in the surge of FDI, especially from the emerging economies of Asia. Working in partnership with other financing institutions, the Bank Group will strive to expand its private sector portfolio in the country. This would be achieved through a combination of targeted outreach to project sponsors, frequent business information sessions to raise awareness, and investment promotion seminars. Opportunities exist in the mining and manufacturing sectors, agri-business, financial intermediation, and for PPPs in infrastructure, notably in the energy sector.

3.3 Deliverables and Targets

3.3.1 The Bank and GoE have agreed on the indicative lending program for ADF XII

(see Box 7). The Bank's pipeline is shown

Box 7: ADF XII Indicative Lending Program

- Mombasa-Nairobi-Addis Ababa (Phase III) Road (regional)- UA 105 million
- Bedele-Metu Road-UA 65 million
- Gebba Hydro Power (possibly PPP and NSGL) - UA 100 million
- Scaling up Renewable Energy Program - (USD 50 million)
- East African Power Interconnection (regional)- UA 212 million
- PBS III- UA 120 million

in Annex IIIA. The ADF XII pipeline includes two regional operations, namely Phase III of road corridor linking Ethiopia to Kenya's port of Mombasa and power interconnection with East Africa, through Kenya. These two projects are among the priority list of Regional Operations in the draft Eastern Africa RISP. While maintaining the strategic thrust of ADF XII, the lending program for ADF XIII will be firmed up during Mid-Term Review of the CSP planned for 2013. The Bank will, in collaboration with Government and its agencies, undertake necessary project development activities for the concerned operations, to ensure readiness for implementation.

3.3.2 The indicative country allocation for Ethiopia under ADF-XII amounts to UA 396.38 million, of which UA 132.13 million is available for commitment in 2011. The Bank's lending program will concentrate on a few but large sized operations. The CSP Results Measurement Framework (see Annex I) shows the results chain, which links outputs of specific interventions to their expected outcomes, as well as GTP targets and goals. The Bank's energy sector operations will contribute to GoE's objective to expand electricity coverage from 41% in 2010 to 75% by 2015 while road sector interventions will contribute towards improving the road density, from 44.5 to 123.7 km/1000km².

3.3.3 Given the magnitude of Ethiopia's financing needs, particularly in infrastructure, the Bank will pursue co-financing opportunities to close any funding gaps. Resources will be sought from the Private Sector Window to support bankable private sector projects and PPPs. Also, the financing opportunities available under Trust Funds and facilities will be exploited, including climate financing instruments.

3.3.4 The Bank will assist the implementation of Ethiopia's and the CSP RMF by supporting Ethiopia's national statistical system for enhancing its data generation capacity through (i) the Bank's Statistical Capacity Building (SCB) grants to be coordinated by the CSA; and, (ii) statistical capacity assistance to sectors within the CSP pillars under M&E components of the Bank's projects and programs.

3.3.5 A major lesson from the previous Bank strategy is the importance of flexibility in the choice of instruments. To this end, the Bank proposes to use a combination of project and programmatic instruments, including budget support for PBS. The ADF Partial Risk Guarantee could also be deployed, where feasible, to support Private Sector Participation in infrastructure development. Consistent with Bank Group policy, cross-cutting issues - gender, HIV/AIDS and environment (including climate change) will be given attention in the design of all operations.

Non-Lending Operations

3.3.6 The Bank will undertake extensive ESW to support policy dialogue and the design of new operations. The core objective is to deepen knowledge on how Ethiopia can maximize its potential to achieve inclusive growth and economic transformation. The ESW planned during the CSP period is shown in Annex IIIB. Key products include:

Energy Sector Flagship (see Box 8); Public Private Partnership Study; Domestic Resource Mobilization; Pension Reform and Industrial Competitiveness Flagship. Opportunities for coordinated ESW will be pursued with other DPs.

Box 8: Deepening Country Knowledge through Analytic Work - Energy Sector Study

The development of Ethiopia's energy sector is crucial to achieving the goals of GTP. In response to Government priorities, the Bank is conducting an Energy Sector study. The study will, among others, assess the contribution of the energy sector to growth, poverty reduction and Ethiopia's transformation agenda.

The study will contribute to the Government's efforts to utilize its energy resources to drive industrialization and regional integration, the latter through increased power exports to neighboring countries. The study will also highlight the policy, institutional and financing issues that will need to be addressed to ensure that Ethiopia harnesses its renewable energy resources (particularly hydropower). The energy study illustrates how the Bank Group's knowledge activities complement its lending operations.

Monitoring & Evaluation

3.3.7 The CSP Results Measurement Framework is anchored in the national M&E system (see Box 9). It will provide the basis for monitoring the CSP implementation and progress towards achievement of Ethiopia's MDG and other development targets. It consists of specific output, intermediate and outcome indicators drawn from the GTP Policy Matrix. This will provide the basis for measuring Bank Group's contribution to GTP. To facilitate results measurement, M&E systems will be incorporated in all Bank Group operations.

3.3.8 The Bank has prepared a Country Statistical Profile for Ethiopia that evaluated the national statistical system and identified areas requiring assistance. The Profile will serve as an important instrument for dialogue with GoE and DPs for coordinated statistics development in Ethiopia.

3.3.9 The Bank will undertake a Mid Term Review (MTR) of the CSP during the second quarter of 2013. The MTR will assess progress, and where needed, adjustments will be made to ensure that the results of the CSP are achieved. The MTR will also draw on inputs from GTP Annual Progress Reports and MDG Reports. A CSP Completion Report will be prepared in 2015.

Box 9: Results Measurement Framework

GoE has set up a comprehensive Results Measurement Framework (RMF) for monitoring performance on the priority pillars of GTP. The M&E system of the GTP is managed by MoFED. Central Statistical Agency (CSA) is responsible for generating data for measuring output, outcome and impact results. Although the National M&E system is generally robust, weaknesses exist in data generation, which is particularly acute in sectors. These weaknesses are being addressed under the on-going National Strategy for Development of Statistics (NSDS).

Ethiopia's national RMF framework and its data platforms also serve to measure the performance of donors' project activities. Development partners contribute to supporting Ethiopia's M&E system through (i) DAG Pool Fund focusing on capacity support to MoFED and CSA; (ii) M&E components of their projects; (iii) PBS and, (iv) other ad-hoc assistance. The DAG M&E thematic Working Group provides the platform for dialogue and monitoring of results.

3.4 Potential Risks and Mitigation

3.4.1 The Bank has identified five major risks that may affect CSP's implementation and achievement of GTP objectives. These risks and mitigation measures are discussed below:-

(i) **High Vulnerability to Exogenous shocks.** Ethiopia's economy is highly vulnerable to exogenous shocks, particularly drought and commodity price shocks. A major deterioration in the terms of trade (e.g. decline in coffee prices and a surge in oil prices) would affect GTP implementation. To mitigate this risk, GoE is pursuing policies and strategies for the

economic diversification and expanding the use of irrigation to enhance resiliency in the agriculture sector and growing the industry sector.

(ii) **Weak institutional capacity.** Perhaps this constitutes the biggest risk to implementation, particularly at decentralized levels of Government. Deepening capacity building efforts will be crucial for mitigating this risk. Under GTP, Government is putting emphasis on capacity building and skills development. In configuring its assistance, the Bank will integrate capacity building components in the projects. Further, the Bank's CSP Completion Report has noted that executing agencies in the infrastructure sector have better capacity and knowledge of the Bank's procurement and fiduciary requirements.

iii) **Financing and Macro-economic risks.** The GTP financing plan assumes that almost 45% of total expenditures will be financed from domestic sources. This might prove difficult to achieve, forcing GoE to resort to deficit financing. Increased public sector borrowing risks fuelling inflation and macro-economic instability. It could also crowd-out private sector investment. Mitigating this risk will require prudent monetary policy and debt management strategy. A bigger role for the private sector and scaling up domestic resource mobilization will also be critical.

(iv) **Governance.** In the GTP, GoE has reaffirmed its commitment to strengthening the capacity of democratic institutions in Ethiopia. However, DPs see risks posed by a narrowing democratic space, which could undermine the sustainability of the country's development process. DPs are engaged in dialogue with the authorities on political governance issues. Specifically for the large multi-donor supported programs, DPs are working with GoE to strengthen safeguards

and accountability mechanisms to limit political distortion of aid.

(v) **Regional Insecurity.** Ethiopia lies at the vortex of a turbulent region. The continued tensions with Eritrea and instability in Somalia pose important risks for CSP and GTP implementation. A resumption of military conflict with Eritrea could derail Ethiopia's development efforts. Peace keeping efforts by the international community have stalled and this risk is likely to persist in the near term.

3.5 Country Dialogue Issues

3.5.1 The core issues for dialogue include;

(i) **Portfolio Management and Aid Effectiveness.** The Bank will engage with GoE on consolidating the gains in portfolio performance and actions to deepen development effectiveness. ETFO will continue to play an active role in the ongoing efforts to enhance harmonization, use of country systems and mutual accountability, in line with the aid effectiveness agenda.

(ii) **Improving the Business Climate.** The Bank will intensify policy dialogue to encourage a re-balancing of public and private investment. The core issues include improving competition, and easing policy and regulatory barriers to private sector development. The dialogue will also cover policies for deepening financial intermediation.

(iii) **Energy and Transport Sector Reform.** In the energy sector, the dialogue will address issues such as tariff reform, restructuring of the Electricity Supply Industry to allow for private sector participation, ensure the viability of sector institutions, and promote independent regulation. In the roads sector, the core issues revolve around institutional capacity

for managing an expanding road network, strengthening funding bases for operations and maintenance, and developing contracting capacity.

(iv) **Regional Integration and Trade.** The Bank will deepen the dialogue on trade and transit transport facilitation measures for the regional road corridors to expand trade with neighbors, including Kenya, Sudan, Somalia, Djibouti and the rest of East Africa. In this regard, the Bank will closely engage Ethiopian authorities regarding the ratification of COMESA's Free Trade Area Treaty.

IV. CONCLUSION AND RECOMMENDATION

4.1 Ethiopia has achieved remarkable economic and social progress in recent years, and GoE is confident that the GTP's targets, though stretched, are achievable. The new CSP for Ethiopia is timely, and aligned to the GTP, which seeks to achieve further reduction in poverty and lay the foundation for Ethiopia to reach middle income status.

4.2 The Bank is of the view that GTP provides a good platform to support Ethiopia's development efforts. The CSP for 2011-2015 identifies two pillars for Bank intervention in Ethiopia: - support for improved access to infrastructure and enhanced access and accountability in basic services. The latter will include support for measures to improve the business climate while ensuring strategic selectivity across the pillars and interventions areas. The Private Sector operations and analytic products will complement the two pillars.

4.3 The Board is hereby requested to consider and approve this 2011-2015 Country Strategy Paper for Ethiopia.

Annex I: 2011-2015 CSP Results Framework

Key Development Objectives in Growth and Transformation Plan	Issues hindering achievement of desired outcomes/Sector Issues	Final Outcome Indicators (expected by 2015)	Final Output of Bank interventions (by 2015)	Mid-Term Outcome Indicators (by 2013)	Key actions and Mid-term Output Indicators (by 2013)	Bank Group Interventions during CSP period ((on-going and proposed)
CSP Pillar 1: Support for Improved Access to Infrastructure (Roads & Energy)						
To improve access and quality of infrastructure in order to sustain rapid and equitable economic growth	<p>1. <u>Roads</u></p> <p>poor access to road network</p> <p>low road density</p> <p>insufficient financial resources for road expansion</p> <p>long time taken to reach nearest all-weather road.</p> <p>High transport and trade transaction costs</p> <p>Limited Institutional capacity</p>	<p>Road density expanded to 123.7 (km/1000km²) from 44.5</p> <p>Average time taken to reach nearest all weather road reduced to 1.4 hrs from 3.7 hrs</p> <p>Improved road safety- (number of car accident death registered per 1,000 vehicle reduced from 70 in 2009/10 to 27</p> <p>Implementing agencies capacitated</p> <p>Border formalities reduced through establishment of One Stop Border Post at Moyale</p>	<p>Expanded road network- 800 km paved road constructed</p> <p>Bilateral trade and transport facilitation arrangements with Kenya streamlined</p>	<p>Road density expanded to 89.3 (km/1000km²) from 44.5</p> <p>Average time taken to reach nearest all weather road reduced to 1.9 hrs from 3.7 hrs</p> <p>Improved road safety- (number of car accident death registered per 1,000 vehicle reduced from 70 in 2010 to 36 Policy, Institutional and Regulatory regimes for Transport & Trade with Kenya harmonized</p>	<p>500km paved road constructed</p> <p>Transport & Trade Facilitation Agreement with Kenya operational</p>	<p><u>Lending Activities</u></p> <p><u>On-going</u></p> <p>1) Jimma – Mizan road (249 km) 2) Wacha – Maji road (175 km) 3) Ageremariam – Mega road (193 km)</p> <p><u>Proposed</u></p> <p>1) Bedele- Metu Road (220 km) 2) Mombasa-Nairobi-Addis Ababa (Phase III) Road (170 km)</p> <p><u>Non-lending activities</u></p> <p>1) Transport Sector Review /Addis Ababa Mass Transit (ESW) 2) Sector policy dialogue 3) Advice /Support for regional trade facilitation</p>
	<p>2. <u>Energy</u></p> <p>Low access to electricity; this affects firm level efficiency</p> <p>Low hydro generation capacity</p> <p>High dependence on</p>	<p>Increased number of consumers with access to electricity (in million) to 4 from 2.03</p> <p>Increased access to electricity services from 41% to 60%</p>	<p>20,000- km length of distribution lines constructed</p> <p>3,840 - km length of transmission lines constructed</p> <p>437 Km of length</p>	<p>Increased number of consumers with access to electricity (in million) to 3 from 2.03</p> <p>Increased access to electricity services from 41% to 75%</p>	<p>10,000 km length of distribution lines constructed</p> <p>2,300km length of transmission lines constructed</p> <p>376 Km of length</p>	<p><u>Lending Activities</u></p> <p><u>On-going</u></p> <p>1) Rural electrification II 2) Electricity Transmission System Improvement Project</p> <p><u>Proposed</u></p> <p>1) Gebba Hydropower generation</p>

Key Development Objectives in Growth and Transformation Plan	Issues hindering achievement of desired outcomes/Sector Issues	Final Outcome Indicators (expected by 2015)	Final Output of Bank interventions (by 2015)	Mid-Term Outcome Indicators (by 2013)	Key actions and Mid-term Output Indicators (by 2013)	Bank Group Interventions during CSP period ((on-going and proposed)
	biomass fuels High power losses Poor energy mix Insufficient financial resources Weak institutional capacity Weak regulatory environment	Reduced power wastage of power transmission and distribution sub-stations from 11% to 5.6% Increased hydropower generation capacity to 10,000 MW from 2,000 MW	cross-border transmission line constructed 2,341 - MW hydropower gy generation constructed Sustainability of Power Sector enhanced (improved internal financing capacity)	Reduced power wastage of power transmission and distribution sub-stations from 11% to 5.6%	cross-border transmission line constructed Restructuring of Electricity Supply Industry completed Tariffs adjusted to reflect Long Run Marginal Cost	Project (371 MW) 2)Scaling up renewable energy (5 MW) 3)East African Power Interconnection (total 1200km of line out of which 437 km in Ethiopia) <u>Non-lending activities</u> 1) Energy sector flagship study 2) Energy Sector policy dialogue
Pillar 2: Support for Enhanced Access & Accountability in Basic Services Delivery and Improving the Business Climate						
To improve access and quality of basic services and strengthen accountability in decentralized basic service delivery	Low access & poor quality of decentralized basic services Low fiscal space at local level Limited PFM capacity at local level weak accountability in basic services provision low public access to key fiscal information	Primary NER increased to 100% from 87.9% Female primary completion rate increased to 79% from 44% Farm households receiving agricultural extension services increased to 14.6 million from 5.1 million Federal & Regional audit capacity strengthened Federal & Regional procurement capacity strengthened 80% government institutions implement effective and transparent financial systems fully (program budgeting, IFMIS, standards on	Block Grant Transfer increased in line with MEFF	Primary NER increased to 93.4% from 87.9% Female primary completion rate increased to 60% from 44% Farm households receiving agricultural extension services increased to 11.4 million from 5.1 million Professional audit and accounting standards Board established All Regions adopt new Public Procurement Proclamation & Directives Number of auditors and accountants trained	Block grant transfer to regions increased in line with Medium Term Expenditure & Fiscal Framework /	<u>Lending Activities</u> <u>On-Going</u> 1) PBS II supplementary loan <u>Proposed</u> 1) PBS III <u>Non-lending activities</u> 1) Scoping Study for Assessing Implementation of 2011 CPAR 2) Domestic Resource Potential Study 3) Pension Reform

Key Development Objectives in Growth and Transformation Plan	Issues hindering achievement of desired outcomes/Sector Issues	Final Outcome Indicators (expected by 2015)	Final Output of Bank interventions (by 2015)	Mid-Term Outcome Indicators (by 2013)	Key actions and Mid-term Output Indicators (by 2013)	Bank Group Interventions during CSP period ((on-going and proposed)
	<p>Limited citizen engagement on budget & service delivery issues</p> <p>Weaknesses in tax collection</p> <p>Weak business climate affecting level of private investment</p>	<p>accounting and auditing)</p> <p>All Woredas and service delivery units posted 'laypersons' budget and expenditure templates</p> <p>Domestic Revenue Mobilization Enhanced from 11 % to 15 % of GDP</p> <p>Regulatory & Institutional Framework for PPPs established</p>		<p>increased</p> <p>Procurement Capacity Building strategy under implementation</p> <p>Audit coverage increased from 50 to 60 percent</p> <p>All Woredas and service delivery units posted 'laypersons' budget and expenditure templates</p>	<p>PPP Study Completed</p>	<p>Policy Dialogue through (Joint Aid & Budget Review)</p> <p>PPP ESW Study</p> <p>Policy dialogue</p>

Annex II: Ethiopia - Country Portfolio Improvement Plan (CPIP-2010)

CPIP 2010				Status	
Project Implementation & Management					
1. Poor Quality at Entry	<p><u>Adopt Readiness Filter</u></p> <ul style="list-style-type: none"> • Ensure project implementation plan is ready • Ensure counterpart funds for 1st year available • Designate key staff by project appraisal (i.e. project manager, procurement specialist, financial management specialist and M&E specialist) • Ensure compliance with environmental, social, financial management & procurement • Ensure bidding documents for 1st year are ready by Board • Ensure projects designed with appropriate indicators for tracking. 	Ratification of the Loans Agreements by the House of Parliament within 90 days after signature.	MoFED and Line Ministries	January 2011 onwards	<p>PBS II Supplementary Loan was ratified in Dec. 2010, one month after Board Approval in Nov. 2010.</p> <p>The loan and grant for Electricity Transmission System Improvement Project was ratified by Parliament in March 2011, three months after Board Approval in Dec. 2010.</p>
2. Quality at Implementation	<ul style="list-style-type: none"> • Recruit/Assign and retain qualified staff at the PIU • Provide adequate incentives to enable retention of staff • Inadequate levels of Delegation of Authority to Field Office 	<ul style="list-style-type: none"> • Reduced no. of project staff leaving • Increased no. of projects task managed from ETFO. 	<p>MoFED/MoARD/MoWR/MoST/ERA/EEPCo</p> <p>AfDB (ETFO/OWAS/OITC/ ONEC/OSAN)</p>	<p>Continuous</p> <p>Jun-11</p>	<p>Ongoing. No resignations were reported by EAs/ PIUs to date. PATTEC Ethiopia Project has recruited 3 staff.</p> <p>OITC plans to transfer Task Manager for transport projects to the field in July 2011.</p> <p>Decentralization Road Map approved by the Board on 8, April 2011.</p>
	<ul style="list-style-type: none"> • Timely submission and review of QPRs 	<ul style="list-style-type: none"> • 50% of project field supervisions conducted by ETFO. • 100% submission of QPRs within 45 days • Bank comments provided within 2 weeks of receipt of APRs 	<p>ETFO</p> <p>EAs/PIUs/</p> <p>AfDB (ETFO/ OSAN/ OWAS/ ONEC/OITC)</p> <p>AfDB (ETFO/EADI)</p>	<p>Continuos</p> <p>Continuos</p> <p>Continuos</p>	<p>On track.</p> <p>90% of QPR's submitted within the 45 days. Done.</p>

CPIP 2010				Status	
	<ul style="list-style-type: none"> Provision of regular training to EA/PIU staff Continuity of Task Managers Improve Results based supervision Minimize no. of aged projects in the portfolio 	<ul style="list-style-type: none"> Organize at least one training event every year Reduce no. of Task Managers changed within a year to 1. No. of cases with proper handing over process High quality Aide Memoires, focusing on problem resolution, clear reporting on results and core sector indicators. No. of Quarterly Portfolio Management meetings with MoFED and EAs/PIUs. No. of requests for extension of closing dates reduced by 75%. No. of aged projects decrease from two in 2010 to zero in 2012 	<p>AfDB (OWAS/OITC/ONE C/ OSAN/ ETFO)</p> <p>AfDB(OWAS/ OITC/ONEC/ OSAN/ ETFO)</p> <p>ETFO/MoFED/ PIUs/EAs</p> <p>MoFED & AfDB (OSAN/OWAS/ONE C/OITC/ETFO)</p>	<p>Dec-012</p> <p>Continuous</p> <p>Continuous</p> <p>Dec-012</p>	<p>Done. Joint EADI/ETFO/MoFED Project Implementation Workshop conducted in April 2011</p> <p>So far, only RWSSI has changed TM and handing over was smooth.</p> <p>Mixed progress. Some Aide Memoires still not providing good reporting on results.</p> <p>Regular Meetings held with MoFED, EAs/PIUs and project specific meetings</p> <p>Only Harar Water Supply Project extension has been approved</p> <p>The two aged projects will exit portfolio by Sept. 2011.</p>
Financial Management & Disbursement					
1. Chronic delay in justification of advances to Special Accounts	<ul style="list-style-type: none"> Recruit adequate no. of qualified accountants 	<ul style="list-style-type: none"> Average time for justification of advances reduced from 18 months to 8 months. 	MoFED/EAs/PIUs	Dec-012	Ongoing. The average time for justification of advances now reduced from 18 months to 12 months.
2. Delays in submission of audit reports	<ul style="list-style-type: none"> Timely preparation of financial statements and engagement of auditors 	<ul style="list-style-type: none"> Draft financial statements to be submitted to auditors two months after closure of the project fiscal year 	EAs/ PIU/MoFED	Continuous	Ongoing. Currently, all projects have submitted draft financial statements within the stipulated time.

CPIP 2010					Status
3. Lack of effective follow up on implementation of audit recommendations	• EAs to regularly report on implementation status of audit recommendations in QPRs	• Audit recommendations are implemented within a year	EAs/ PIU	Continuous	Mixed progress. Challenges related to adequacy and of finance staff in EAs hindering progress.
		• No. of QPRs providing updates			Mixed progress. Only about 50% of QPR's provide regular updates.
Procurement					
1. Delay in submission and non adherence to Procurement Plans	• Submission of updated Procurement Plans	• Updated Procurement Plans submitted each year.	ETFO/EAs/PIUs/ Task Managers	From 31 Jan. 2012	Good progress noted. 90% submission rate.
	• Closer monitoring of procurement activities	• Level of compliance with targets in the plans	EAs/PIUs/Task Manager/ETFO	Continuous	Ongoing. 50% compliance rate.
2. Non Adherence to Contract Implementation Schedules	• Closer monitoring of implementation of activities to ensure adherence to contractual timelines.	• Delays in completion of contracts shortened to acceptable levels within 15% of the original durations.	EAs/PIUs	Continuous	50% of projects have reduced delays in completion of their procurement contracts to 10% of the original estimated duration.
	• Enhanced contract management consistent with provisions of the contracts	• Number of contracts completed within the original timeframe improved to 75%	EAs/PIUs	Continuous	Mixed progress. 50% of the procurement contracts completed within the original timeframe.
Environmental and Social Safeguards					
1. Inadequate capacity to implement and monitor environmental and social safeguards	• Develop key monitoring indicators for Env. & Social safeguards	• Projects to report on Env. & Social Safeguards bi annually	PIUs/AfDB (OSAN/ OWAS/ONEC/ OITC/ORQR/ ETFO)	Jan 2011	Assessment done for agriculture sector portfolio. All projects will be required to report on implementation of mitigation actions in June & Dec 2011 QPRs.
Project Specific Issues					
Rural Water Supply & Sanitation Project					
1. Delays in submission of procurement, implementation & disbursement plans.	• Timely submission of procurement, implementation & disbursement plans	• Procurement, implementation and disbursement plans submitted by 3rd October 2010	MoFED/MoWR	15-Oct-2010	Submitted in January 2011
Harar Water Supply and Sanitation Project					

CPIP 2010					Status
1. Inadequate power availability for the water supply scheme	<ul style="list-style-type: none"> Ensure timely and proper installation of the electromechanical equipment and transformers 	<ul style="list-style-type: none"> Installation of electromechanical equipment by 30th November 2010 	MoFED/ERA	30-Nov-10	Installed in February 2011.
Butajira-Hosanna Road Project					
1. Aged project.All activities completed	<ul style="list-style-type: none"> Cancel the balance and close the project 	<ul style="list-style-type: none"> Project Cancellation letter submitted 	MoFED	31-Dec-10	Cancellation Notice issued on 9 March 2011 will expire on 9 June 2011
Jimma-Mizan Road Project					
1. Delay in implementation of the Project	<ul style="list-style-type: none"> Accelerate Project Implementation with a close follow up on the contractors performance 	<ul style="list-style-type: none"> Contractual management issues resolved. 	ERA/MoFED	30-Nov-10	Resolved following a series of meetings between ERA and contractor. Additional human resources mobilised at site and progress noted in the works.
		<ul style="list-style-type: none"> Revised Work Program submitted to the Bank 	ERA	15-Nov-10	Revised Work Plan submitted in Feb. 2011.
Closed Projects with Balances not yet cancelled.					
1. Delay in submission of Audit Reports and justifications for outstanding SOE's	<ul style="list-style-type: none"> Education III and Primary Health Care projects to submit FY2008/09 audit reports and justifications for the outstanding SOE's 	<ul style="list-style-type: none"> FY 2008/09 Audit reports submitted and outstanding SOE's justified 	MoFED	31-Dec-10	FY2008/09 Audit Report not submitted. The two projects were closed on 30/6/09 and loan and grant balances cancelled on 25/3/11.
	<ul style="list-style-type: none"> MoFED Capacity Building Project FY2007/08 and FY 2008/09 not submitted 	<ul style="list-style-type: none"> MOFED Capacity building project to submit combined FY2007/8 and FY2008/09 audit report by Dec. 2010 	MoFED	31-Dec-10	Audit report for FY2007/08 & FY2008/09 submitted in November 2010. Pending unjustified SOE's. The project was closed on 30, September 2009 and grant balance cancelled on 15 December 2009.
	<ul style="list-style-type: none"> Unjustified SOEs for Institutional Support for Women Affairs Project 	<ul style="list-style-type: none"> ISWAP to submit all unjustified SOE's by Dec. 2010 	MoWA/MoFED	31-Dec-10	Project closed on 31 Dec. 2010 and grant balance cancelled on 25/03/2011.
	<ul style="list-style-type: none"> Submission of all pending payment requests to the Bank 	<ul style="list-style-type: none"> LDMPs payment requests submitted to the Bank by 5 October 2010 	MoFED	20-Oct-10	Submitted in December 2010. Closed on 30 June 2010 and grant balance cancelled on 1/2/2011.

Annex IIIA: Bank Group Indicative Program for 2011-2015

A: Lending Program

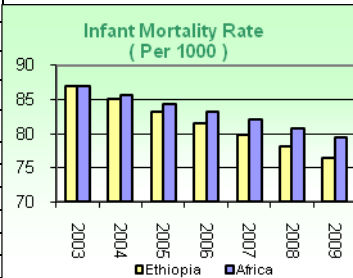
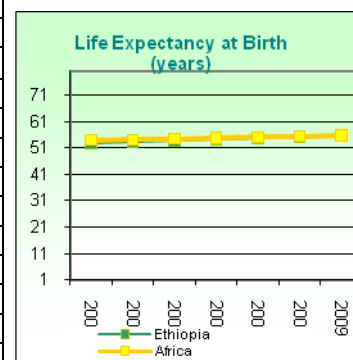
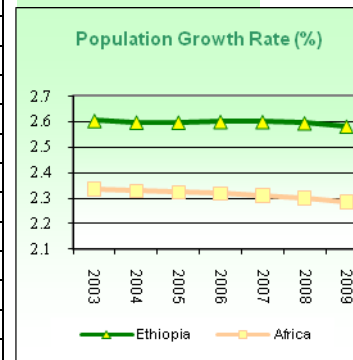
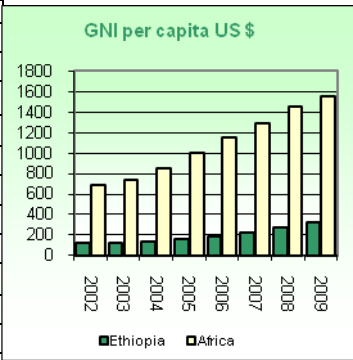
Project	ADF Cycle	Target Board Date	Amount (Million UA)	Status
Roads Sector				
<i>Pillar I: Support for Enhanced Access to Infrastructure</i>				
Bedele-Metu Road	ADF XII	Sept. 2011	65	Appraisal
Mombasa-Nairobi-Addis Ababa – (Phase III) (Regional)	ADF XII	Dec. 2011	105 (35 from PBA)	Preparation
Mizan-Dima Road (Regional operation)	ADF XIII	2014	TBD	Identification
Nekempte-Bure	ADF XIII	2015	60	Identification
Energy Sector				
Gebba Hydro Power Project	ADF XII	2012	100	Preparation
East African Power Interconnection (Regional)	ADF XII	2012	200 (67 from PBA)	Preparation
Rural Electrification III	ADF XIII	2015	75.00	Identification
<i>Pillar II: Support for Enhanced Access & Accountability in Basic Services & Improvement in the Business Climate</i>				
Protection of Basic Services III	ADX XII	2012	120	Identification
Institutional Support for Public Private Partnership	ADF XIII	2014	15	Identification
Total Amount- ADF XII Pipeline			590	
Total ADF XII Indicative PBA			396.38	

B: Non-Lending Program

ESW	Year	Objective/Area of Focus	Linkage with GTP/CSP Pillar
Energy Sector Flagship	2011	Development of Energy Sector	
Public Private Partnership Study	2012	Establish Regulatory/Institutional framework for PPPs	Improving Business Climate & Infrastructure (Pillar II & I)
Domestic Resource Mobilization Study/Regional Peer Learning Event	2012	Improve Domestic Revenue Mobilization for Enhanced Basic Service Delivery	Decentralized Basic Services (Pillar II)
Pension Fund Reform	2012	Improve social security and resource mobilization through contractual savings schemes	Business Climate and Private Sector Development (Pillar II)
Scoping Study for 2010 Country Procurement t Assessment Recommendations	2013	Improve accountability & Transparency in Service Delivery	Decentralized Basic Service Delivery (Pillar II)
Transport/Trade Logistics Flagship Study	2013	Transport	Infrastructure (Pillar I) & Business Climate (Pillar II)
Addis Ababa Mass Transit Study	2014	Improve acces to efficient transport services	Infrastructure Development (Pillar I)
Watershed Management Study	2014	Multi-sector	Infrastructure
Industrial Competitiveness Study	2015	Improve regional and international competitiveness of Ethiopian Firms	Business Climate (Pillar II)
Financial Sector Diagnostic	2015	Enhance inclusiveness in finance & competition in banking sector	Private Sector Development (Pillar II)

Annex IV: Comparative Socio-Economic Indicators

	Year	Ethiopia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		1 104	30 323	80 976	54 658
Total Population (millions)	2010	85.0	1,031.5	5,629	1,069
Urban Population (% of Total)	2010	17.6	40.0	44.8	77.7
Population Density (per Km ²)	2010	77.0	3.4	66.6	23.1
GNI per Capita (US \$)	2009	330	1 550	2 780	39 688
Labor Force Participation - Total (%)	2010	49.3	39.5	45.6	54.6
Labor Force Participation - Female (%)	2010	47.9	41.4	39.8	43.3
Gender -Related Development Index Value	2007	0.403	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	157	n.a	n.a	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2005	39.0	42.3	25.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2010	2.6	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2010	4.4	3.3	2.4	1.0
Population < 15 years (%)	2010	43.2	40.3	29.2	17.7
Population >= 65 years (%)	2010	3.6	3.8	6.0	15.3
Dependency Ratio (%)	2010	86.5	77.6	52.8	49.0
Sex Ratio (per 100 female)	2010	99.0	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2010	23.5	24.4	53.3	47.2
Life Expectancy at Birth - Total (years)	2010	56.1	56.0	66.9	79.8
Life Expectancy at Birth - Female (years)	2010	53.0	57.1	68.9	82.7
Crude Birth Rate (per 1,000)	2010	37.2	34.2	21.5	12.0
Crude Death Rate (per 1,000)	2010	11.3	12.6	8.2	8.3
Infant Mortality Rate (per 1,000)	2010	74.9	78.6	49.9	5.8
Child Mortality Rate (per 1,000)	2010	123.1	127.2	51.4	6.3
Total Fertility Rate (per woman)	2010	5.1	4.4	2.7	1.8
Maternal Mortality Rate (per 100,000)	2008	470.0	530.2	440.0	10.0
Women Using Contraception (%)	2005	14.7	...	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	1.5	42.9	78.0	287.0
Nurses (per 100,000 people)*	2004	13.7	116.6	98.0	782.0
Births attended by Trained Health Personnel (%)	2005	5.7	52.7	63.4	99.3
Access to Safe Water (% of Population)	2008	38.0	64.9	84.0	99.6
Access to Health Services (% of Population)	2005	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	12.0	41.0	54.6	99.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	2.1	4.6	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	378.0	315.2	161.9	14.1
Child Immunization Against Tuberculosis (%)	2009	76.0	81.8	89.0	99.0
Child Immunization Against Measles (%)	2009	75.0	81.0	81.7	92.6
Underweight Children (% of children under 5 years)	2005	38.0	30.9	27.0	0.1
Daily Calorie Supply per Capita	2007	1 980	2 462	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	2.3	2.4	4.0	6.9
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	102.5	102.8	106.8	101.5
Primary School - Female	2009	97.8	99.0	104.6	101.2
Secondary School - Total	2009	34.4	35.0	62.3	100.3
Secondary School - Female	2009	30.0	30.6	60.7	100.0
Adult literacy Rate - Total (%)	2008	35.9	64.8	81.0	...
Adult literacy Rate - Male (%)	2008	50.0	74.0	86.6	...
Adult literacy Rate - Female (%)	2008	22.8	55.9	75.6	...



Sources : ADB Statistics Department Databases;

Annex V: Selected Macroeconomic Indicators

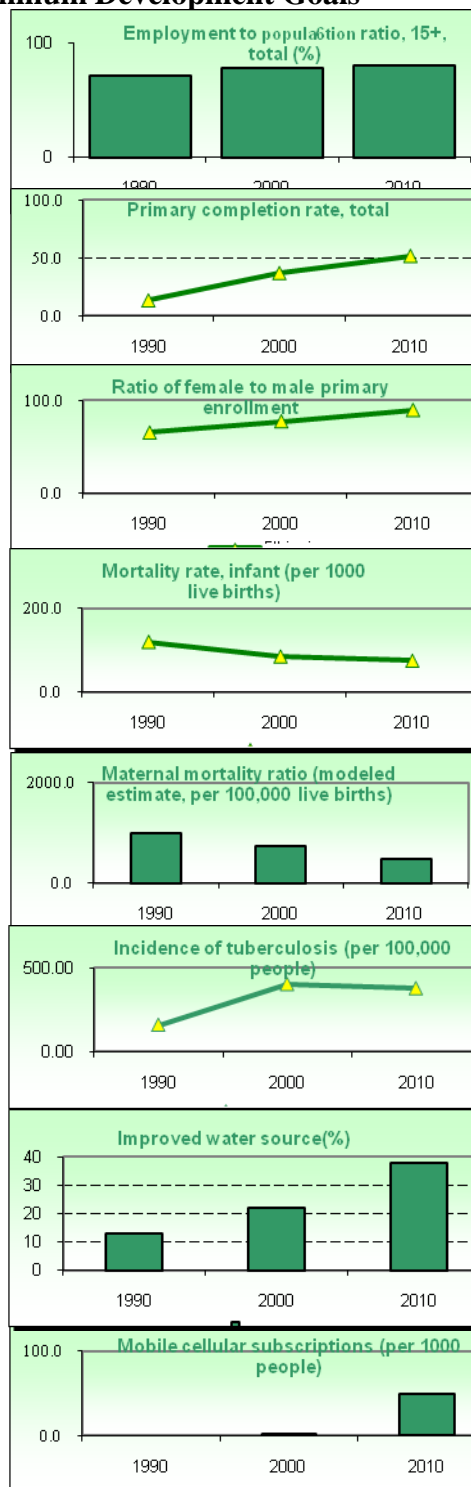
Indicators	Unit	2005	2006	2007	2008	2,009	2010 (e)
National Accounts							
GNI at Current Prices	Million US \$	12,250	15,095	19,196	25,931	28,489	...
GNI per Capita	US\$	160	190	220	280	330	...
GDP at Current Prices	Million US \$	12,306.4	15,164.3	19,556.9	26,893.4	32,254.3	33 626.2
GDP at 2000 Constant prices	Million US \$	10,750.4	11,991.0	13,405.3	14,903.5	16,386.3	17 829.1
Real GDP Growth Rate	%	12.6	11.5	11.8	11.2	9.9	8.8
Real per Capita GDP Growth Rate	%	9.8	8.7	9.0	8.4	7.2	6.1
Gross Domestic Investment	% GDP	23.8	25.2	25.8	22.5	22.4	24.0
Public Investment	% GDP	13.0	15.3	16.5	16.4	16.1	17.5
Private Investment	% GDP	10.8	10.0	9.2	6.2	6.3	6.4
Gross National Savings	% GDP	20.0	18.1	23.5	19.3	19.7	20.1
Prices and Money							
Inflation (CPI)	%	6.8	12.3	15.8	18.4	36.0	11.2
Exchange Rate (Annual Average)	Birr/US\$	8.7	8.7	9.0	9.6	11.8	...
Monetary Growth (M2)	%	18.6	20.0	22.2	23.4	...	...
Money/Quasi Money as % of GDP	%	44.0	42.7	39.3	32.9	...	...
Government Finance							
Total Revenue and Grants	% GDP	18.9	18.4	17.1	16.0	16.3	15.8
Total Expenditure and Net Lending	% GDP	23.3	22.3	20.7	18.9	17.2	18.1
Overall Deficit (-) / Surplus (+)	% GDP	-4.4	-3.9	-3.6	-2.9	-0.9	-2.3
External Sector							
Exports Volume Growth (Goods)	%	21.1	5.1	11.4	1.0	-1.2	1.9
Imports Volume Growth (Goods)	%	41.1	15.7	11.0	12.1	10.9	7.4
Terms of Trade Growth	%	5.0	2.9	5.9	2.8	-2.0	-3.9
Current Account Balance	Million US \$	-772.6	-1,386.1	-870.6	-1,503.7	-1,620.6	-2,208.9
Current Account Balance	% GDP	-6.3	-9.1	-4.5	-5.6	-5.0	-6.6
External Reserves	months of imports	2.0	1.2	1.6	0.8	1.5	...
Debt and Financial Flows							
Debt Service	% exports	8.2	4.5	3.6	2.9	2.4	3.8
External Debt	% GDP	48.2	41.8	12.1	11.6	14.1	15.5
Net Total Financial Flows	Million US \$	1,918.6	1,963.8	2,491.0	3,176.6	4,049.0	...
Net Official Development Assistance	Million US \$	1,927.5	1,980.5	2,577.8	3,327.8	3,820.0	...
Net Foreign Direct Investment	Million US \$	265.1	545.3	222.0	108.5	93.6	...

Sources : ADB Statistics Department Databases;

Annex VI: Progress towards Achievement of the Millennium Development Goals

	1990 ¹	2000 ²	2010 ³
Goal 1: Eradicate extreme poverty and hunger			
Employment to population ratio, 15+, total (%)	71.3	78.4	80.6
Malnutrition prevalence, weight for age (% of children under 5)	47.7	37.1	...
Poverty headcount ratio at \$1,25 a day (PPP) (% of population)	60.5	55.6	...
Prevalence of undernourishment (% of population)	71.0	46.0	...
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females ages 15-24)	28.1	38.5	38.5
Literacy rate, adult total (% of people ages 15 and above)	27.0	35.9	35.9
Primary completion rate, total (% of relevant age group)	13.7	37.3	52.1
Total enrollment, primary (% net)	20.4	50.4	82.7
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national parliaments (%)	...	8.0	21.9
Ratio of female to male primary enrollment	65.3	77.4	89.4
Ratio of female to male secondary enrollment	75.4	57.2	72.3
Goal 4: Reduce child mortality			
Immunization, measles (% of children ages 12-23 months)	38.0	56.0	75.0
Mortality rate, infant (per 1,000 live births)	120.7	85.1	74.9
Mortality rate, under-5 (per 1,000)	211.2	142.8	123.1
Goal 5: Improve maternal health			
Births attended by skilled health staff (% of total)	...	5.6	...
Contraceptive prevalence (% of women ages 15-49)	4.3	8.1	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	990.0	750.0	470.0
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Incidence of tuberculosis (per 100,000 people)	159.0	403.0	378.0
Prevalence of HIV, female (% ages 15-24)	...	...	1.5
Prevalence of HIV, male (% ages 15-24)	...	...	0.5
Prevalence of HIV, total (% of population ages 15-49)	...	4.4	2.1
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP \$ of GDP)	0.5	0.5	0.4
Improved sanitation facilities (% of population with access)	4.0	13.0	12.0
Improved water source (% of population with access)	13.0	22.0	38.0
Goal 8: Develop a global partnership for development			
Net total ODA/OA per capita (current US\$)	20.9	24.9	41.2
Internet users (per 1000 people)	0.0	1.6	5.4
Mobile cellular subscriptions (per 1000 people)	...	2.1	48.9
Telephone lines (per 1000 people)	2.6	6.7	11.0

Sources : ADB Statistics Department Databases;



Annex VII: Donor Interventions in Ethiopia & Emerging Division of Labor

Areas of Intervention								
Donor	Growth					Human Development	Governance & Decentralized Basic Service Delivery	Vulnerability & Other crossing Issues
	Rural Dev. & Natural Resource Management	PSD/Financial Sector	Power	Roads	Water & Sanitation	Social sector	Public Sector Management/ Decentralized Basic Service Delivery/Local Governance	HIV/Gender/Environment/climate Change
AfDB	Small & Large Scale Irrigation (US\$110 million)		Rural electrification/Power Transmission/Regional Power interconnection (US\$ 345 million)	National trunk roads and regional transport corridor (US\$ 213 million)	Water supply & Sanitation (US\$ 148 million)		PBS II (US \$277 million)	
World Bank	Pastoral/Land Management/ Agriculture Growth Program	Private sector Development /financial sector capacity building/urban development	Energy Access Program /Regional Power interconnection (US\$ 575 million)	Trunk roads and transport corridor (US\$ 470 million)	Rural & Urban Water Supply	Health & Education Sector Development Programs/GEQUIP	PBS II (US \$960million) PSCAP II and Urban Development	Productive Safety Net Program & Nutrition
EU	Rural Development & Food Security	Private sector and trade	Regional Power Interconnection	National trunk roads and regional transport corridors (US\$ 284 million)			PBS II (US\$ 65.1 million) CSO Capacity Building,	Productive Safety Net Program
USAID	Food Security, Pastoral Dev & Agric Marketing.	Private sector/financial sector (credit guarantee schemes)		Rural roads		Education & Health	Democratization & Conflict Resolution	Productive Safety Net Program HIV Aids
DFID					Rural Water	Education & Health	Public Sector Reform (tax administration) PBS II (US\$ 260million)	Productive Safety Net Program, Gender & Climate Change
Canada	Rural Development & Food Security						Democratic Institutions Program	Gender, Environment & Productive Safety Net Program. Youth & Child
Italy	Rural Development & Food Security	Private sector Development	Hydropower development		Water and Sanitation	Health	PBS (Health MDG)	
Japan	Agric. & food Security	Private sector		Trunk & Link roads		Health and Education		
German-KFW	Sustainable Land Management	Engineering Capacity Building/ Financial	GIS mapping and database/				Governance/Urban Development.	

		Sector (Credit Guarantee Schemes)	Regional Power Interconnection				PBS II (US \$ 40.7 million)	
Ireland Development Cooperation	Agriculture & Food Security					Health	Democratic Institutions Program. PBS II (US \$29.2 million)	Productive Safety Nets Program and gender
Sweden		Private sector capacity building				Education & Health	Democracy & Human Rights	Gender
Netherlands		Private Sector Development (Value Chain Development)			Rural Water Supply	HSDP and ESDP	Governance including human rights	HIV/AIDS
Norway	Natural Resource Mgt and Food Security		Studies of Hydro Power Projects				Democratization/empowerment	Environment
France/AFD			Alternative Energy Sources (wind and geothermal)		Water Supply		Justice Reform & Urban development	
Spain	Food Security					Health	PBS II (US\$10.2 million)	Gender
Austria	Food Security & Natural Resource Management					Health	PBS II (US\$ 40.7 million)	
UN System	Food Security/Natural Resource Management (FAO)	Capacity building to private sector (UNDP)			Rural Water Supply (UNICEF)	Education (UNICEF) WHO (Health)	Democratic Institutions Program (UNDP)	Population/Reproductive Health (UNFPA)

Division of Labour, Coordination & Harmonization

The above table does not capture all existing donor activities in Ethiopia because of data limitation on donor flows, especially from non –traditional donors. The matrix, however, gives a broad indication of sectors and thematic areas where donors are actively involved and complementarities with the Bank’s areas of intervention. Currently the DAG is undertaking a mapping exercise as part of the Division of Labour exercise in the context of the aid effectiveness agenda. The following are key characteristics of the emerging division of labour among Development Partners in Ethiopia.

- Multilateral financial institutions are dominant in the infrastructure sectors. The three largest donors in roads are **AfDB, World Bank, and EU**. Road sector interventions and dialogue are coordinated within the framework of the RSDP and the Transport Sector Working Group. EU’s on-going support to roads is in form of sector budget support. The AfDB and World Bank collaborate closely in infrastructure, notably water and sanitation, power and roads. The WASH Program and the Rural Electrification Access programs, for example, are co-financed with the World Bank. The Bank has emerged as lead donor in the energy sector and is playing a leadership role in establishing a formal energy sector partnership structure. AfDB, EU and World Bank are viewed as having a comparative advantage in infrastructure, including cross border infrastructure networks.
- Bilaterals have a strong focus on human development, safety nets, and cross-cutting issues, including governance and gender. Bilaterals along with EU and UNDP are active in areas of democratization and civil society participation.

- Some of the bilaterals (e.g. DFID & CIDA) are re-balancing their support to Ethiopia to include economic growth/sustainable livelihood areas, like private sector development.
- Increasingly donor assistance to Ethiopia is being provided through joint and harmonized programs and pooled funds. There are, currently, four large multi donor programs; Public Sector Capacity Building Program; Protection of Basic Services Program; Productive Safety Net Program; Democratic Institutions Program.

Source: Development Assistance Group Donor Profile

Annex VIII: Monitoring Bank Group Commitments under the Paris Declaration

Indicators		2005 Reference	2007	2010 target	Performance of the Bank in 2010
1	Operational Development Strategies	C	B	B or A	The Bank's CSP and operations are aligned with the government's development strategy. Performance on this indicator both at the country and Bank level is satisfactory.
2 a	Reliable Public Financial Management systems	3.5	4.0	4.0	The PFM systems are generally strong and fiduciary standards are improving. The 2010 PEFA reveals an improvement of 5 % in the country ranking compared to 2007. There is scope for further improvement in areas such as audit and legislative oversight
2b	Reliable Procurement Systems	No indicators available			Procurement systems are weak. This has hindered the Bank from increasing the use of country systems. The Government are working to accelerate procurement reforms and build procurement capacity.
3	Aid flows are aligned to national priorities	74 %	62%	87%	Overall performance has declined on this indicator. However the Bank's performance has remained stable.
4	Strengthen capacity by coordinated support	27%	67%	50%	The Bank's rating on this indicator has fallen. This suggests that more effort is needed to coordinate capacity building.
5 a	Use of country PFM systems	45%	47%	63%	The Bank's use of country systems is increasing, though still low. The proportion of disbursements channelled through country system has doubled from 20 to 40 %. This is partly due to the PBS.
5b	Use of country procurement systems	43%	41%	N/A	As noted in 2b above, the use of country procurement systems is limited because of weak capacity.
6	Strengthen capacity by avoiding parallel PIUs	103	56	34	The Bank's performance has improved significantly. There are no parallel PIUs
7	Aid is more predictable	96%	73%	98%	Progress in aid predictability is slow. Improvement in predictability partly depend on the GoE's ability to meet fiduciary requirements
	Aid is untied	39%	82%	> 39%	Bank's assistance is untied
	Use of common arrangements/ procedures	53%	66%	66%	The Bank use of common arrangements continues to be limited. There is scope for the Bank to increase the use of common arrangements.
	Joint missions	27%	19%	40%	The number of Joint Missions undertaken by the Bank has increased. The shift towards programmatic support is likely to further increase the number of joint missions.
	Joint country analytic work	50%	52%	66%	Joint analytic work is still limited
	Results oriented frameworks	C	C	B or A	The Bank's CSP and operations are result oriented. However, Country M&E Systems require further strengthening.
	Mutual accountability	Yes		Yes	

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Annex X: Map of Ethiopia

