ETHIOPIA: Country Assistance Strategy

1. This CAS presents an impressive and timely strategy for Bank lending and interventions in Ethiopia. I agree with the Bank’s emphasis on economic growth and poverty alleviation. The CAS framework recognizes that the government’s pace in introducing reforms has been slower and more “cautious” than during the initial phase of structural adjustment. However, given the close relationship of the Bank with the GFDRE, the Bank should encourage aggressive implementation of the reform strategy. Swift implementation could make the difference between success and failure in Ethiopia’s efforts to achieve rapid and widespread growth.

2. Past Policy Framework Papers have committed the GFDRE to structural reforms that build on achievements in macroeconomic stabilization. However, I understand that some reforms have not been completed, or have made little progress. I encourage the Bank to continue to engage the government in the areas where the Bank and government disagree and where there is an “all-round cautiousness” in undertaking the second generation of reforms (paragraphs 26-33). The Bank’s Economic Management Project, which presumably would address these kinds of issues, is not expected to begin until the year 2000. Is this correct? If so, I would appreciate staff comment on the possibilities of moving this forward so that implementation can begin as quickly as possible.

3. The Bank’s new focus on high quality analytical work -- what it terms “knowledge assistance” -- as part of its assistance package should help the GFDRE accelerate its reform process. However, the Bank may be overly optimistic about the government’s capacity to undertake independent policy analyses. The government needs to develop sources of information independent of the Bank, to build confidence in its ability to undertake change and choose policy options. The Bank’s “knowledge assistance” should help build government capacity so the government can generate its own analyses. How will the “knowledge assistance” increase government capacity to undertake and utilize policy analyses?

4. Regarding policy implementation, I believe that the proposed assistance should not only focus on improving capacity to implement policies, but also on building capacity and systems for...
evaluating the impact of their implementation and adjusting policy according to findings from such evaluations. Are there any plans for supporting development of such evaluative capacity?

5. The CAS focuses on investment in sectors which are of high priority for the government and major donors. The Sources of Growth “cluster”, which focuses on agriculture, export and small and medium enterprise (SME) development, is particularly important. Proposed Bank analysis and investments in these sectors could catalyze greater government emphasis. Have the recent Bank studies on agriculture, exports and SMEs been shared with bilateral donors? Have GFDRE strategies in these areas been articulated? The CAS does not discuss tourism as a source of growth. What is the potential for growth in this sector?

6. The CAS comments on the need to increase and diversify exports and mentions an Export Development Study. Could staff please summarize the findings of this study? When will a final draft be available for review? Ethiopian President Meles recently participated in a roundtable with representatives from international agribusinesses and encouraged foreign investment in Ethiopian agriculture. Are agricultural exports a source of potential growth? How does the Export Development study tie in with the government's food security strategy which was presented at the last Consultative Group meeting? What is the Bank’s role in helping to implement this strategy?

7. I am pleased that IFC has established an office in the Bank’s Resident Mission in Ethiopia. The CAS notes that this field presence will help focus resources on both policy advice and investment assistance. The IFC and MIGA program in Ethiopia to date has been relatively non-existent as illustrated in Annex A3. What activities do IFC and MIGA plan for the future?

8. The Poverty and Human Development “cluster” appropriately focuses on education, health, population, gender, food security and water supply. I was particularly pleased by the mention in the CAS of early childhood development and nutrition programs. I hope that the Bank becomes more active in these areas that are so crucial to the health and education of the Ethiopian population. Although population was mentioned as an area of involvement in the CAS, there was not much discussion. To what extent is the Bank involved in this critically important area? What is the Bank’s role in the area of women’s reproductive health? In particular, what is the Bank doing to address the harmful practice of female genital mutilation where Ethiopia has a reported 90% prevalence rate? I was very pleased to note the level of lending and non-lending activity in the gender area, especially the proposed free-standing operation addressing high-priority gender issues that are not easily dealt with in the course of other activities. Could staff please explain the nature of this proposed operation?

9. I believe that the Bank should continue to support the government’s formulation of Sector Investment Programs (SIPs) in key sectors. So far, the process of initiating and designing the programs has been relatively transparent and participatory. However, the SIPs do not represent a comprehensive development approach, particularly in a country with decentralized authority. Regional governments play a critical role in the planning and implementation of SIPs in Ethiopia. The Bank should ensure the inclusion of key federal and regional players, such as MEDAC - the Ministry of Economic Development and Cooperation - and other planning
bureaus, in the SIP process. In that regard, I am pleased that the Bank will be strengthening its ability to implement the SIPs by appointing an Operations Adviser and a SIP Specialist in the Resident Mission. The addition of these staff should help to ensure that all relevant actors are involved in the process.

10. I am concerned that the SIP process may not take into account civil service reforms and, therefore, is not well integrated with the ongoing GFDRE efforts to develop a medium-term economic plan, a public investment plan, and an eventual public expenditure plan. Integration is critical, given the heavy recurrent cost implications of investments under the three SIPs now on the table (Roads, Health and Education). I urge the Bank to emphasize integration of civil service reform considerations in its dialogue with the GFDRE.

11. There are two additional issues related to the on-going SIPs which the government must address: 1) The trade-off between expansion of services and the provision of quality services. Expansion must be commensurate with resources allocated to quality enhancing inputs; and 2) Government investment must be prioritized, so that when there are funding shortages, cutbacks can be planned rather than ad hoc. The Bank should consider attaching triggers which are geared to these issues, where appropriate. I would appreciate staff comment on this suggestion.

12. The identification of key performance "triggers" for enhanced assistance could, if skillfully applied, help the government overcome development obstacles. However, the triggers as currently formulated in the CAS leave wide scope for interpretation. For example, a high case scenario trigger "beginning of the implementation of an effective food security program" is too vague. It seems to me that a more precise formulation of triggers is necessary. Specific numeric targets could be defined on a rolling basis to allow for adjustments. In addition, it is not clear whether the GFDRE must attain all triggers, or a selected subset, to move to a higher level of Bank assistance.

13. With regard to portfolio management, the CAS notes that project disbursement has been a problem in the past. While improved portfolio performance is a base case trigger, I question whether Ethiopia can implement $1.2 billion (or more) in new loans during FY98-00. Bank lending totaled $74.8 million, $142.2 million, $155.7 million and zero, respectively, for the years 1994-1997. Will the Bank goal of increasing disbursement ratios from 14% in 1997 to 19% by 2000 be sufficient to implement well over $1 billion in new projects, plus the current portfolio?

14. What is the absorptive capacity of the government to deal with this significantly higher level of borrowing? The CAS notes there are serious weaknesses in implementation capacity. What is the role of the Africa Capacity Building Initiative in addressing these constraints?

15. The CAS correctly highlights the close collaboration among donors in the preparation of SIPs. Outside of the SIPs and a few other areas, however, my authorities believe there has been a marked decline in Bank openness with bilateral donors over the past several years. The document suggests that the CAS is based on various consultative missions and analytical studies, as well as extended policy dialogue with the GFDRE. While most donors, including USAID, are active in many of the areas proposed for Bank intervention, collaboration with bilateral donors
and sharing of analytical findings has been minimal. For example, although the Bank notes that successful government dialogues and completed studies in non-lending areas (pg. 46) has a donor audience, none of these studies were shared with donors locally. The trend also is apparent in the agriculture sector.

16. In areas such as the Civil Service Reform Program, better communication would help avoid overlap. My government would like a more collaborative relationship with the Bank and hopes that the Bank will share its findings from upcoming analyses, such as the labor market study and the rural/urban poverty studies. This would help all donors, including USAID, develop, refine, and implement bilateral programs.

17. Notable exceptions to this reported insufficient collaboration have been in the Public Expenditure Review exercises and the last stages of development of the health and education SIPs, where Bank outreach is appreciated.

18. Finally, I understand that the Bank enjoys an extremely close and positive relationship with the senior leadership of the government. This may allow the Bank to address critical issues in the CAS with the GFDRE more directly and effectively than other donors. However, another side of this close relationship is the perception by several donors that the Bank is sometimes generous in its assessments of government performance, and occasionally gives credit for expressions of good intentions when actual achievements have lagged. The Bank should be highly commended for its constructive relationship with the GFDRE, but reminded of its responsibility to engage the government in frank exchanges. This CAS has been very candid about the differences between the government and the Bank as well as areas where GFDRE performance has been somewhat lacking. The extent to which the Bank is prepared to engage in difficult exchanges with the government over the next few years may well determine how directly the government will confront its "policy frontier".