



**The World Bank**

COVID-19 Supplemental Financing to the Second Ethiopia Growth and Competitiveness Programmatic Development Policy Financing (P169080)

# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 25-May-2020 | Report No: PIDA29389



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Ethiopia	P169080	COVID-19 Supplemental Financing to the Second Ethiopia Growth and Competitiveness Programmatic Development Policy Financing (P169080)	P169079
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	18-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Federal Democratic Republic of Ethiopia	Ministry of Finance		

**Proposed Development Objective(s)**

This DPO series aims at boosting economic transformation in Ethiopia by increasing private sector participation and promoting good governance practices, including moving towards a sustainable financing model for Ethiopia’s development.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	250.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	250.00
World Bank Lending	250.00

Decision



## **B. Introduction and Context**

### Country Context

The proposed operation provides US\$250 million in supplemental financing for the Second Ethiopia Growth and Competitiveness Programmatic Development Policy Financing (DPF2) to help the Government of Ethiopia (GoE) cover an unanticipated financing gap that has opened due to the impact of the COVID-19 outbreak. DPF2, approved by the World Bank Board on March 19, 2020, was the second operation in a series of projects that foster economic transformation by increasing private sector participation and promoting good governance practices, including moving towards a sustainable financing model for Ethiopia's development. DPF2 has provided critical support to advancing the reforms announced in September 2019 under Ethiopia's Homegrown Reform Agenda. The COVID-19 crisis is resulting in disruptions in government operations and coordination, as well as a large impact on the Ethiopian economy, threatening the attainment of the development policy objective of this series and the country development goals.

Anticipating the exponential surge in the number of infections experienced in other countries, the Government has taken swift measures to contain the spread of the pandemic in the Ethiopian territory. Since March, authorities have implemented surveillance at borders and conducted contact tracing; established designated quarantine facilities in each region and new temporary isolation rooms in selected hospitals; disseminated health education materials across the country and conducted a door-to-door communication effort in Addis Ababa; ensured supply drugs and protective equipment for case management and infection prevention, as well as laboratory equipment, reagents and consumable supplies. Containing the transmission of the virus is of utmost importance in a country that ranks second to last in Africa in terms of hospital beds (at 0.3 per thousand people).

In order to help contain the spread of the virus, the State of Emergency was declared on April 8, introducing a nationwide ban on gatherings of more than four people, making the wearing of masks compulsory while in public, and regulating the operation of transportation services, hotels and restaurants under reduced capacity, among other measures adopted. The severity of needed containment measures coupled with disruptions to air travel and the collapse in international demand for some exported goods already taking a toll on the economy. There are an estimated 1.8 million jobs at risk and the income and livelihoods of several million informal workers, self-employed and farmers are expected to be dwarfed. In order to mitigate impacts on people and firms, authorities have announced several economic measures, including tax and social security payment deferrals, liquidity injections and extension of forbearance rules in the financial sector, and expansion of safety nets. Containment of COVID-19 and mitigation of social impact of the public health crisis will urgently require substantial resources, while revenue collection is expected to drop.

Despite the COVID-19 crisis, Ethiopia keeps making progress in terms of reform implementation and towards the development objective of this DFP series. Even as the Government is dealing with the COVID-19 outbreak, the implementation of the reform program is continuing where possible. The Investment Proclamation supported under DPF2 was published in the official gazette on April 2, a new e-Transactions Proclamation is being expedited and has already been approved by the Council of Ministers, and in April the Ethiopian Communications Authority finalized and disclosed for public consultation three draft directives intended to govern the new sector structure, and launched the call for Expression of Interest on new telecom licenses. The proposed supplemental DPF will enable the Government of Ethiopia to cover the growing financing gap caused by the COVID-19 pandemic, and to sustain the ambitious reform agenda supported by the DPF series.



#### Relationship to CPF

The CPF is organized around three focus areas: (i) promoting structural and economic transformation through increased productivity, (ii) building resilience and inclusiveness, and (iii) supporting institutional accountability and confronting corruption. This DPF series will help achieve some specific goals set in the CPF, including: an enhanced business and investment climate; improved access to finance for micro, small, and medium enterprises; adoption of new approaches for sustainable infrastructure financing and debt management; and strengthened citizen engagement and accountability of government entities.

#### **C. Proposed Development Objective(s)**

This DPF series aims at boosting economic transformation in Ethiopia by increasing private sector participation and promoting good governance practices, including moving towards a sustainable financing model for Ethiopia's development.

#### Key Results

Reforms supported by the proposed parent operation (DPF2) are expected to have an important impact across sectors. Pillar (i) actions are expected to help identify sustainable ways of financing infrastructure, while improving efficiency in key growth-enabling sectors such as energy, telecom, and logistics. Pillar (ii) actions, aimed at improving the business climate, removing distortions from the financial sector, and developing the government security market, are expected to help attracting investment and increasing funding available to the private sector. Finally, under Pillar (iii), a strengthened CSO framework, coupled with SOE and privatization-related reforms are expected to lead to improvements in the delivery of critical services for businesses and consumers, improved transparency and accountability, a reduction in fiscal risks to the Government, and increased citizen engagement.

#### **D. Project Description**

The focus of this supplemental financing operation is to safeguard the implementation of critical reforms under the parent operation in areas relating to growth-enabling sectors (energy, telecom, logistics), business environment and financing for development, and transparency and accountability. The unprecedented COVID-19 crisis and the resulting financing gap may put in jeopardy the ambitious reform program supported by the Growth and Competitiveness DPF series, that is otherwise proceeding on schedule and in accordance with the agreed policy agenda. The hit on exports, remittances and foreign direct investment caused by COVID-19 entails a large unanticipated external financing gap. In addition, the crisis could shake the confidence of many domestic and foreign investors about Ethiopia's ability to undertake the planned shift towards private-sector-led growth under the current circumstances. This, at the same time, could cool down support for the historical structural reforms the country is undertaking, as well as the momentum in implementation.

Despite the economic shock, the Government remains fully committed to achieving the development objectives under the Growth and Competitiveness DPF series and shield the gains achieved so far. Reforms under the Ethiopia Growth and Competitiveness DPF series were already showing results when COVID-19 hit. Following the public announcement that two new licenses for operators in the telecom sector will be issued, state-owned Ethio Telecom reduced prices by roughly



50 percent and improved the offering of services to the population. The country's first projects developed under the new PPP Proclamation, two solar energy PPPs, were awarded in September 2019 at a price of US\$ cents 2.56/kWh, the lowest-ever solar tariff in Africa and among the lowest globally. In addition, as a result of tariff adjustments, one of the two public energy utilities, EEU, reported a zero-loss during FY19. Meanwhile, the lifting of restrictions on the participation of foreign firms in logistics services has already led to some high-profile joint ventures involving DHL, Bollore Logistics, and CMA/CGM. The citizenry was also enjoying a higher degree of freedom and engagement. Following the adoption of the CSO Proclamation, the number of CSOs working on democracy, human rights and peace and conflict issues, which used to be negligible, has increased to more than 300.

This supplemental financing is expected to help the Government of Ethiopia respond to the crisis in a fast and decisive manner, while preserving macroeconomic stability. This would also help maintain the progress in the implementation of the ambitious Homegrown Reform Agenda, supported by this DPF series.

## **E. Implementation**

### Institutional and Implementation Arrangements

The Ministry of Finance of Ethiopia is the coordinating institution for monitoring and evaluation among all the participating ministries and federal government agencies. Given that the institutional and policy reforms supported by the programmatic DPF series fall under the purview of several ministries and federal government agencies, a Technical Committee was established for overseeing the preparation of DPF2 and DPF3. This Committee will remain in place during the implementation of the Program and until completion of the DPF series and keeps meeting virtually during the COVID-19 crisis. MoF is responsible for coordinating the work of this Committee and will coordinate with the relevant ministries and agencies, responsible for the implementation, on the monitoring and evaluation of the program.

Data availability and quality are appropriate to monitor progress of the DPF Program. The Program outcomes will be monitored through results indicators as detailed in the Policy and Results Matrix. Most of these results indicators are based on routinely published information and, for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators and providing these to the MoF on a timely manner. MoF will be responsible for submitting such information at a frequency and in a format satisfactory to the Bank. The World Bank will provide implementation support, including technical assistance in needed reform areas as described above, to ensure timely implementation and adequate data collection and monitoring of indicators and outcomes.

## **F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

### Poverty and Social Impacts

A prolonged COVID-19 crisis is likely to substantially reduce household income, possibly undermining welfare gains of the past 10 years. The measures outlined by the Government are expected to have a positive effect in terms of mitigating the anticipated poverty and social impacts of the COVID-19 crisis. The government has outlined an ambitious set of measures that comprise strengthening healthcare, temporarily expanding safety nets and food support programs, funding wage subsidies to minimize job losses, and providing support to micro, small and medium enterprises, including the self-employed. The proposed supplemental financing provides budget support towards those emergency measures,



which are expected to have positive poverty and social impacts. There are no changes to the Poverty and Social Impact Assessment of the structural reforms supported by the parent operation (DPF2), the majority of which were expected to have positive impacts in the medium term.

#### Environmental, Forests, and Other Natural Resource Aspects

There are no changes to the environmental issues set out in the March 2020 DPF2. A new environmental assessment will be undertaken as part of DPF3 in the series.

#### **G. Risks and Mitigation**

The overall risk rating for the project remains Substantial. The potential COVID-19 impact on the Ethiopian health system result in an increase of “other risk” rating from moderate to substantial. There are no additional changes to the risk ratings under DPF2, although macroeconomic and political risks, which are already rated as high, may be magnified further by the crisis.



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14-May-2020