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Report Number: ICRR0024165

1. Program Information

Country	**Practice Area (Lead)**
Ethiopia	Macroeconomics, Trade and Investment

Programmatic DPF

Planned Operations	**Approved Operations**
3	3

Operation ID	**Operation Name**
P168566	Ethiopia Growth and Competitiveness

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-63360,IDA-D3870	30-Nov-2019	1,192,202,874.42
Bank Approval Date	**Closing Date (Actual)**	
30-Oct-2018	30-Nov-2019	

	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	1,200,000,000.00	0.00
Revised Commitment	1,200,000,000.00	0.00
Actual	1,192,202,874.42	0.00

Country	**Practice Area (Lead)**
Ethiopia	Macroeconomics, Trade and Investment
Operation ID	**Operation Name**
P169079	Ethiopia Growth and Competitiveness DPF2 (P169079)

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-63360,IDA-65640,IDA-67010,IDA-D3870,IDA-D5740,IDA-D6720	26-Feb-2021	747401494.67
Bank Approval Date	**Closing Date (Actual)**	
19-Mar-2020	26-Feb-2021	

	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	750,000,000.00	0.00
Revised Commitment	750,000,000.00	0.00
Actual	747,401,494.67	0.00

Country	**Practice Area (Lead)**
Ethiopia	Macroeconomics, Trade and Investment
Operation ID	**Operation Name**
P169080	COVID19 Supplemental to Ethiopia DPF2 (P169080)

L/C/TF Number(s)	**Closing Date (Original)**	**Total Financing (USD)**
IDA-65640,IDA-67010,IDA-D5740,IDA-D6720		0
Bank Approval Date	**Closing Date (Actual)**	
08-Jun-2020		

	IBRD/IDA (USD)	**Co-financing (USD)**
Original Commitment	0.00	0.00
Revised Commitment	0.00	0.00
Actual	0.00	0.00

Prepared by	**Reviewed by**	**ICR Review Coordinator**	**Group**
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The DPF was originally designed as a series of three operations (DPF1-3). The Project Development Objective (PDO) for the Ethiopia Growth and Competitiveness was originally defined in DPF-1 as: *(i) maximizing finance for development; (ii) improving the investment climate and developing the financial sector; and (iii) enhancing transparency and accountability,"* PD (p. 16) and ICR (para. 16).

The PDO was not stated in any of the three financing agreements (FAs).

In December 2019 while DPF-2 was being prepared, a three-year, US$2.9 billion IMF ECF/EFF program was approved which supported the transition to market-determined exchange rates over a three-year period, as well as fiscal consolidation, revenue mobilization, SOE reforms, and the phased elimination of monetary deficit financing and financial repression. In June 2018, a debt-reprofiling agreement with China reduced the debt burden by US$4.5 billion, including US$2.5 billion owed by the railway SOE. In the context of the changes in circumstances, the PDO for the second DPF series was reformulated as:

This DPO series aims at boosting economic transformation in Ethiopia by increasing private sector participation and promoting good governance practices.

This modification in the PDO was seen to retain the three substantive elements of the original DPF, but the revised framing was intended to sharpen the series' focus on accelerating Ethiopia's economic transformation to complement the IMF program more closely and restructuring of bilateral debt.

The Supplemental DPF provides financing in continuation of a reform program that is proceeding on schedule and in accordance with the agreed policy agenda, so there are no new Prior Actions (PAs) or changes in the PDO. However, in this case the COVID-DPO presented the PDO as:

"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".

The last DPF in the series, DPF-3, was dropped.

For the purpose of this ICRR, the PDOs of the series are taken to be:

- ***PDO1:*** *moving towards a sustainable financing model for Ethiopia's development.*
- ***PDO2:*** *improving the investment climate and developing the financial sector.*
- ***PDO3:*** *enhancing public transparency and accountability to promote good governance.*

b. Pillars/Policy Areas

The series had three pillars as follows:

i. maximizing finance for development;
ii. improving the investment climate and developing the financial sector; and

iii. enhancing transparency and accountability.

c. Comments on Program Cost, Financing and Dates

DPO-1 was approved on August 28, 2018, became effective on December 5, 2018, and closed on November 30, 2019. An IDA credit for US$600,000,000 was approved and US$596,101,437 was disbursed. An IDA grant for the same amount (US$600,000,000) was approved and US$596,101,437 was disbursed. The difference reflects exchange rate movements.

DPO-2 was approved on March 19, 2020, became effective on April 14, 2020, and closed on February 26, 2021. An IDA credit for US$187,800,000 was approved and US$185,861,368 was disbursed. An IDA grant for US$312,200,000 was approved and US$309,042,215 was disbursed. The difference between the approved and disbursed amounts reflects exchange rate movements.

The Supplemental COVID DPO was approved on June 8, 2020. An IDA credit for US$125,000,000 was approved and US$126,248,956 was disbursed. An IDA grant for the same amount (US$125,000,000) was approved and US$126,248,956 was disbursed. The difference reflects exchange rate movements.

DPO-3 was originally envisaged with Indicative Triggers (IT) in the programs of DPO-1 and DPO-2 but was subsequently dropped.

3. Relevance of Design

a. Relevance of Objectives

Country context

At the time of the first DPO's appraisal, Ethiopia urgently needed to address macroeconomic vulnerabilities and revive a stalled structural transformation process. Although GDP growth rates had been high between 2014 and 2018 under the country's state-led public investment-intensive development model, structural transformation and productivity growth had been weak, while macroeconomic imbalances had increased, including heightened debt vulnerabilities, increasingly binding fiscal constraints, depleted liquidity buffers, and foreign-exchange (FX) shortages. Government policies controlling the allocation and use of FX created incentives to route FX demand through informal channels, increasing premiums in the parallel market. An overvalued exchange rate combined with trade protectionism enabled cheaper imports but undermined external competitiveness. As previously contracted non-concessional loans matured, debt-service obligations increased, leading to Ethiopia's risk of debt distress increasing from moderate to high risk in 2017. Financial repression, monetary financing of the fiscal deficit, and directed lending to state-owned enterprises (SOEs) contributed to substantial credit and investment misallocations, high inflation, and undermined the solvency of state-owned banks. A complex, restrictive, and unpredictable regulatory environment slowed the growth and entry of private firms. Foreign investment in several key sectors, including telecoms, transportation, and finance, was prohibited or severely restricted.

Ethiopia had dominant SOEs in key sectors, including energy, trade logistics, and telecom, which undermined the business environment, worsened operational efficiency, and inflated consumer and fiscal costs,

while limiting opportunities for private sector investment and financing. Weak institutional, governance, and oversight arrangements impeded their performance, posing substantial fiscal risks. Many of the largest SOEs failed to fulfill their mandates and provided inadequate returns on investment, resulting in inefficient service delivery, financial losses, and debt accumulation. The state-dominated banking sector channeled resources to SOEs, while the private sector faced tight credit constraints. SOEs were the financial sector's main borrowers. As a result, asset-liability mismatches, risk concentration, and loan quality risks linked to the general operational inefficiency of SOEs were beginning to threaten the solvency and liquidity of state-owned banks. Weak institutional and governance arrangements, including fragmented oversight mechanisms, contributed to a lack of operational autonomy, transparency, and disclosure among SOEs, weakening accountability for the use of public resources. Additionally, public-sector dominance and regulatory restrictions severely constrained the role of the private sector and crowded out both foreign and domestic investment. Ethiopia also had a weak regulatory framework, institutional capacity, and foreign exchange environment for public-private partnerships (PPPs), further limiting private sector participation in key sectors.

The energy sector's weak fundamentals constrained its ability to ensure household energy access, support faster growth, and enable energy exports. Ethiopia's electrification rate was just 43 percent. With no nominal tariff adjustments since 2006, the tariff rate was the second lowest on the continent, so that inadequate cost recovery compromised service quality and asset maintenance. The two key utilities, the Ethiopian Electric Utility (EEU) and Ethiopian Electric Power (EEP), financed long-term power assets primarily with shorter-term bonds, creating a cashflow problem and a significant debt overhang. These operational inefficiencies and financial mismanagement resulted in the need for the government, as the sole stakeholder, to absorb the utilities' net losses by recapitalizing EEP thrice in the preceding decade.

Inefficient trade logistics increased costs and undermined Ethiopia's external competitiveness. The sector was dominated by the state-owned Ethiopian Shipping and Logistics Services Enterprise (ESLSE), which was also the only operator of dry ports, and impeded the efficient provision of shipping and multi-modal logistics services. The state-monopolized transportation and logistics sector was also unable to cope with growing demand.

A highly inefficient SOE monopolized the telecom sector, limiting innovation, restricting network expansion, and limiting the range of services available in Ethiopia, while also inhibiting the growth of mobile-money platforms and other fintech products. Lack of competition and weak oversight resulted in very low mobile and broadband penetration rates.

A complex legal framework for registering civil society organizations (CSOs) hampered their ability to support public accountability and promote transparency. Restrictions on access to foreign funding and the types of permissible activities contributed to a decline in the number of CSOs, further weakening public oversight in the context of limited information disclosure and limited public participation in decision-making. Although Ethiopian law acknowledged the rights of citizens to access information held by public bodies, it omitted important provisions on data availability and disclosure requirements.

World Bank (WB) Strategy

The DPF was aligned with WB's Ethiopia CPF 2018-2022, which had specific goals including 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 holding government entities accountable.

The DPF series complemented activities already supported through WBG operations in Ethiopia on the social and economic inclusion agenda, human capital development, and resilience.

The DPF was also targeting key challenges identified in the 2016 Systematic Country Diagnostic (SCD), which included the need for a sustainable financing model for growth and inadequate feedback mechanisms for facilitating citizen engagement and government accountability. It also targeted binding constraints identified in the SCD, including limited credit for private investment and the uncompetitive private sector.

The DPF series contributed to the objectives set in the IFC country strategy and supported recommendations in the Country Private Sector Diagnostic by including measures to improve efficiency and promote private sector development in key enabling sectors such as energy, logistics, and telecom, as well as measures to streamline business licensing and other regulatory requirements, improve the corporate governance and management of SOEs, and update the privatization legislation.

Country development agenda

The DPF supported the government's 2016-2020 Growth and Transformation Plan II (GTPII) which emphasized the need to maintain high rates of economic growth and expand the role of the private sector. GTPII called for exploring alternative mechanisms for financing infrastructure, investment, and strengthening economic governance.

The DPF played a strong role in supporting the Homegrown Economic Agenda Reform (HGERA) that was launched in 2019 by the new government. The HGERA recognized the limitations of the state-led economic model which was increasingly unsustainable. The plan prioritized macroeconomic, structural, and sectoral reforms to address macroeconomic vulnerabilities, ease financial repression, and support-private sector-led growth by opening strategic sectors to private investment and competition.

PDO relevance

The PDOs were relevant to the Ethiopian context at the time. PDO1 sought to support a more sustainable financing model for Ethiopia's development at a time when debt sustainability was decreasing. PDO2 sought to reduce state intervention in the economy, increase the role for the private sector, and support initial steps to strengthen access to credit, if only starting in DPO-2. These steps were expected to boost economic transformation in Ethiopia. The PDO2 in DPO-1 sought to support a more market-determined exchange rate in a context where there was no IMF program. However, by the time of DPO-2, an IMF program was in place that intended to address this, and the trigger was dropped. The IMF program was signed in 2019 and there was a staff level agreement on the first and second reviews, but it expired in 2021, thereby undermining PDO2. PDO3 was also an important step forward to improve governance overall, especially of SOEs given their significant role in the economy and increasing public accountability.

b. Relevance of Prior Actions

Rationale

The two approved operations had a total of 15 PAs and, under DPF1, three (3) second tranche release conditions (TRCs) as presented below. Supplemental DPF do not have additional PAs. For the PAs under DPF, the below Table also indicates whether there was a change from the Results Framework (RF)

presented in DPF1, and whether the change was material. The Indicative Triggers (IT) for the proposed DPF3, which was subsequently dropped, are not presented.

Table 1. PAs for Ethiopia Growth & Competitiveness DPL Series

PAs and Second TRCs under DPF1	PAs under DPF2
PDO1: Moving *towards a sustainable financing model for Ethiopia's development*	
PA1 [DPF1-PA1]*:* Parliament has approved the PPP Proclamation, and MoF has issued the PPP Directive to establish a regulatory framework and institutions that manage fiscal risks and enhance transparency, fairness, and long-term sustainability in implementing privately financed projects.	**PA2** [DPF2-PA1]: The PPP Directorate General issues PPP Implementation Guidelines with the required procedures and authorizations to undertake PPP transactions, including an assessment of the contingent liabilities related to the sovereign contractual obligations. **No change**
PA3 [DPF1-PA2]: The Recipient's Council of Ministers has approved a multi-year electricity tariff increase framework with a detailed implementation schedule to improve cost recovery while protecting the poor.	**PA4** [DPF2-PA2]**:** Under supervision of the EEA, the EEU and Ministry of water, irrigation and energy (MoWIE) have announced the implementation of a second electricity tariff increase under the multi-year electricity tariff increase framework in December 2019. **Material change with strengthened PA.** **PA5** [DPF2-PA3]**:** The Government's Macroeconomic Committee has approved a phased restructuring of EEP's debt in the power sector and the Ministry of Finance has implemented a conversion of loans on-lent to EEP into equity. **Material change with strengthened PA**
PA6 [DPF1-PA3]: The Ethiopia Investment Board has lifted restrictions limiting the logistics sector to domestic participation only and permitted minority foreign investment in critical logistics services (including freight forwarding and shipping agency services, warehousing, cargo consolidation, and packaging) to foster competition.	**PA7** [DPF2-PA4]**:** The Government's Macroeconomic Committee has issued a decision that encourages competition by allowing the private sector, including foreign firms, to access and offer value added logistics services in dry ports. **New PA**
Second TRC#1*:* Council of Ministers has approved the establishment and constitution of an independent regulator for the telecom sector.	**PA8** [DPF2-PA5]**:** (i) The Prime Minister has appointed the Board for the Ethiopian Communications Authority (ECA); (ii) The ECA has convened a public consultation on the selection process for new telecom operator licenses. **Material change with strengthened PA**
PDO2: Improving the investment climate and developing the financial sector	
PA9 [DPF1-PA4]: The Ministry of Trade has reduced the number of licensing categories by half and eliminated the requirement for annual competence certificates for at least 70 percent of trade-licensing	**PA10** [DPF2-PA6]**:** The Council of Ministers has approved for submission to Parliament a draft Investment Proclamation enabling foreign participation in a broader set of economic sectors

categories, to reduce the regulatory burden and simplify business entry, affecting over one million businesses.	(shift from positive to negative list of sectors). **No change for investment proclamation; competition proclamation dropped**
	PA11 [DPF2-PA7]**:** The Board of the NBE has repealed the 27 Percent Rule. **New PA that replaced Indicative Trigger (IT) on reforming two state-owned banks (CBE and DBE)**
	PA12 [DPF2-PA8]**:** The Board of the NBE has approved financing through instruments at market-determined rates, and the first auction of treasury bills was conducted in December 2019. **Revised to make more action- and time-specific, but key action to support development of the secondary T-bill market dropped from IT**
PDO3: Enhancing public transparency and accountability to promote good governance	
Second TRC #2: The Council of Ministers has approved for submission to Parliament a draft CSO Proclamation to promote greater CSO and citizen participation in the development process.	**PA13** [DPF2-PA9]***:*** The Council of Ministers has approved for submission to Parliament a Federal Administrative Procedure Proclamation that provides for routine consultations on draft Directives, subject to specified exemption(s), and consultation is one of the pre-requisites for adoption of Directives. **No material change**
PA14 [DPF1-PA5]: The Council of Ministers has approved Guidelines for privatizing SOEs that establish the objectives and principles of the privatization process, clear institutional responsibilities for managing private participation in strategic SOEs, and transparency and accountability provisions. ***Second TRC #3****:* MoF has expanded the scope of its existing debt reporting arrangements to (i) provide detailed coverage of domestic debt of SOEs including by instrument and debt holder, on a quarterly basis and (ii) disclose an annual report on public debt (including SOE debt), consistent with good practice—both by January 2019.	**PA15** [DPF2-PA10]***:*** (i) The Council of Ministers has issued Regulation No. 445/2019 authorizing the creation of a holding entity for SOEs. (ii) The Council of Ministers has approved for submission to Parliament a draft Privatization of Public Enterprises Proclamation, which sets out a framework for the privatization of public enterprises. **New PA**

The program documents (for DPF1, DPF2, and the Supplemental DPF) provided a clear rationale for the PAs, TRCs, and the expected results, as well as the rationale behind modifications and changes that were implemented in DPF2.

PDO1: Moving towards a sustainable financing model for Ethiopia's development

PA1 and PA2: At the time of appraisal, the government had implemented four PPP projects reaching financial closure, and several projects for investments by the Independent Power Producer (IPP) were at an advanced stage of preparation with more PPPs identified and under preparation. Yet Ethiopia lacked a sound regulatory framework and the institutional capacity necessary for PPPs to leverage private financing for infrastructure projects in a fiscally sustainable manner which had stalled several PPP projects that reached advanced stages of preparation. The PAs were important steps to achieve a more transparent, competitive, and efficient PPP selection process, help manage fiscal risks, improve long term sustainability, and increase private sector participation in infrastructure service delivery amidst public resource constraints. Yet, issues related to FX availability, convertibility, and transferability amid FX shortages and restrictions constituted binding constraints to PPP reforms, posing severe hurdles to the achievement of PDO1. Foreign firms bidding for government contracts required guaranteed access to FX for imported inputs to complete the public infrastructure projects and repatriate profits overseas. At the time of DPO-1's approval, the parallel market premium had reached around 30% and was exacerbating the FX shortage. DPO-1 included an IT to address the FX issue in DPO-3, and the IT was dropped by DPO-2 once an IMF program was in place that included this in its program agreement. **Relevance of: PA1: Moderately Satisfactory (MS); PA2: Moderately Satisfactory (MS).**

PA3, PA4, and PA5: Weak management of the energy sector constrained the expansion of household energy access (from 43 percent), faster growth, and energy exports. Inadequate cost recovery compromised service quality and asset maintenance. With no nominal tariff adjustments since 2006, the tariff rate had fallen to the second lowest on the continent. Operational performance was weak, with system losses at 23 percent and collection rates at 85-90 percent. In addition, the two key utilities, the Ethiopian Electric Utility (EEU) and Ethiopian Electric Power (EEP), financed long-term power assets primarily with shorter-term bonds, creating a cashflow problem and a significant debt overhang. As the sole stakeholder, the government had to absorb the utilities' net losses by recapitalizing EEP thrice in the preceding decade. The approval of a multi-year electricity tariff increase framework (**PA3**), implementation of a second tariff increase (**PA4**), the approval of a phased restructuring plan for EEP's debt and the conversion of loans on-lent to EEP into equity (**PA5**) were necessary steps to increase revenue and improve sector debt dynamics and financial sustainability. The PA in DPF-2 was strengthened relative to the indicative triggers by requiring the initiation of debt restructuring for public energy utilities, but the indicative triggers comprising institutional strengthening were dropped. The proposed Power Sub-sector Committee (which was a part of the indicative triggers) had already been established, and some aspects of the indicative triggers were maintained for DPO-3, which was eventually dropped. **Relevance of: PA3: Satisfactory (S); PA4: Satisfactory (S); PA5: Satisfactory (S).**

PA6 and PA7: Inefficient trade logistics undermined Ethiopia's external competitiveness, posing an especially serious constraint for a landlocked country. The state-owned Ethiopian Shipping and Logistics Services Enterprise (ESLSE) enjoyed a de facto monopoly in the sector and was also the only operator of dry ports, thereby impeding the efficient provision of shipping and multi-modal logistics services while inflating costs. The state-monopolized transportation and logistics sector was unable to cope with growing demand driven by Ethiopia's integration into global value chains. In 2017, the cost of shipping a 20-foot container from Ethiopia to Germany was 247 percent higher than the cost from Vietnam and 72 percent higher than from Bangladesh. **PA6** was a critical step to improve efficiency, reduce costs, and attract private investment. **PA7** allowed for the private sector, including foreign firms, to access and offer value added logistics services in dry ports, thereby increasing competition in activities including storage and warehousing, cold storage, packaging, consolidation and deconsolidation of volumes, and import and export clearance. However, as the PA did not address the regulations that required importers to use ESLSE services for shipping, they

preserved its monopoly status and were a key impediment to private investment. For both PA6 and PA7, FX shortages inhibited investment that would only be addressed by DPO3. **Relevance of: PA6: Moderately Satisfactory (MS); PA7; Moderately Unsatisfactory (MU).**

TRC1 & PA8: Ethiopia's telecom sector was one of the last 3 in the world with a national monopoly on all telecom services including fixed, mobile, internet, and data communications. The highly inefficient SOE - Ethio Telecom – limited competition, which combined with weak oversight, reduced innovation, restricted network expansion, led to a reduced range of services in Ethiopia relative to other countries, and resulted in very low mobile and broadband penetration rates. The growth of mobile-money platforms and other fintech products was also inhibited by the underdevelopment of the sector. In June 2018, the opening of the telecommunications sector for foreign competition was announced. The Second **TRC1** and **PA8** provided necessary reforms for progress in the sector. They were accompanied by significant complementary plans by the government to privatize Ethio Telecom and supported by WBG TA to reduce its dominance in the sector. Yet other obstacles including regulatory, tax, customs, and infrastructure sharing issues remained. **Relevance of PA8: Satisfactory (S).**

PDO2: Improving the investment climate and developing the financial sector

PA9 and PA10: The growth and entry of foreign and domestic private firms was inhibited by a complex, restrictive, and unpredictable regulatory environment. Burdensome licensing and elevated registration costs slowed the creation of new enterprises, and frequent changes to various licensing regimes created a substantial compliance burden for existing businesses – thereby constraining investment and undermining competition. Moreover, foreign investment in several key sectors, including telecoms, transportation, and finance was prohibited or severely restricted. Reforms supported by **PA9** and **PA10** were a key step forward to ease the regulatory burden, improve the business environment by simplifying business entry and streamlining licensing requirements as well as enabling foreign participation in more economic sectors would pave the way towards PDO2. Yet, DPF-2 dropped the approval of a Competition Proclamation (which had been a trigger in DPF1). Unresolved foreign exchange market distortions and shortages deterred investors. **Relevance of: PA9: Moderately Satisfactory (MS); PA10: Moderately Satisfactory (MS).**

PA11: Ethiopia's financial system was shallow and did not sufficiently support economic transformation. Access to finance was identified as the main obstacle to doing business by 40 percent of firms in the 2015 Enterprise Survey, and credit to the private sector was just 13 percent of GDP in 2018. Access to long-term finance was especially limited, and the banking system provided a limited range of financial products and services, with a virtual absence of mobile money or other fintech innovations. The two state-owned banks, Commercial Bank of Ethiopia (CBE) and Development Bank of Ethiopia (DBE), represented 63 and 6 percent of total banking assets, respectively, as of end 2017 and served as a key source of finance for infrastructure investments, SOEs and developmental projects. However, their business models, operating environment, and funding modalities contributed to constraints within the financial system and restricted the flow of financing to the private sector. In addition, private commercial banks were required to buy five-year NBE Bills equivalent to 27 percent of all loans disbursed through a so-called "27 Percent Rule" in five-year bonds issued by the NBE at nominal interest rates that delivered a negative real rate of return. This represented an implicit tax on financial intermediation which reduced the resources available for private banks to lend and increased the cost of financial intermediation and limiting resources for private sector investment. The proceeds from this arrangement largely funded the DBE, which then provided lending for private sector projects, and in doing so re-injected mopped-up excess liquidity back into the financial system and undermined monetary policy implementation. The ITs for the second operation in the series were to approve an action plan to improve the operations of CBE, including an operational, governance, and financial plan, as

well as a comprehensive reform plan for DBE; however, these two PAs were dropped in DPF2 due to delays in their preparation. Instead, they were replaced with **PA11** which led the Board of the NBE to repeal the 27 Percent Rule. This was a strong reform and highly relevant to support improving the investment climate and developing the financial sector. **Relevance of PA11: Moderately Satisfactory (MS).**

PA12: Ethiopia's state-driven development strategy had relied on allocating financial resources to the public sector and priority economic sectors through administrative measures and repressing interest rates. However, selling T-Bills to captive public sector investors at below market rates (that were negative in real terms) was unsustainable and had contributed to a misallocation of credit and concentration of risks in state-owned financial institutions, thereby hindering financial deepening and slowing the development of financial markets. The PA to issue new Treasury bills at market-determined rates via auctions was crucial to support the development of the financial sector. The IT for DPF3 to publish a calendar of T-bill auctions for FY21 was dropped. **Relevance of PA12: Satisfactory (S).**

PDO3: Enhancing public transparency and accountability to promote good governance.

TRC#2 and PA13: Civil society organizations (CSOs) were limited in their ability to support public accountability and promote transparency by the Ethiopian Charities and Societies Proclamation of 2009, which imposed serious organizational, operational and regulatory limitations against CSOs. It restricted permissible activities as well as access to foreign funding. This reduced the number of CSOs and weakened public oversight in an environment with limited information disclosure and limited public participation in decision-making. Ethiopia's Freedom of Mass Media and Access to Information Proclamation (2008) acknowledged the rights of citizens to access information held by public bodies but did not include provisions on data availability and disclosure requirements. Public institutions provided limited information and rarely disclosed performance information. In addition, procedures for consulting on regulatory issues were ad hoc. **TRC #2** would remove restrictions on CSO operations by relaxing funding constraints and expanding the range of activities for CSO engagement. Approval of regulations to implement the CSO Proclamation which would have supported implementation of the law were included as an IT for DPF2. An Access to Information Proclamation was included as an IT for DPF2 and had undergone a first round of consultations with media and government institutions but was under review by the Attorney General at the time of DPF2 and was therefore added as an IT for DPF3. **PA13** replaced the two ITs for DPF2 and led the Council of Ministers to approve for submission to Parliament a Federal Administrative Procedure Proclamation that provided for routine consultations on draft Directives, subject to specified exemptions. The implementation of this action would further require effective regulations, which were included as an IT for DPF3 which was dropped. **Relevance of PA13: Satisfactory (S).**

PA14, TRC#3, and PA15: Ethiopia's economy was dominated by SOEs, accounting for about 30 percent of GDP, and the 40 wholly state-owned public enterprises were present in key strategic sectors such as infrastructure, industry, construction, and finance, and in competitive sectors such as hotel and tourism, and printing and management services. Yet they faced weak institutional, governance, and oversight arrangements and many performed poorly, with inadequate returns on investment, weak service delivery, financial losses, and debt accumulation. There was a lack of operational autonomy, transparency (such as lack of disclosure of financial statements), and disclosure among SOEs. This opacity undermined efforts by the Ministry of Finance and line ministries to properly oversee the SOEs, as well as to assess fiscal risks, and/or restructuring needs, undermining efforts to privatize and attract private sector financing. Together, the three reforms supported by **PA14**, **TRC#3** and **PA15** marked a key step forward for Ethiopia

and were relevant reforms to enhance public transparency and strengthen governance. **Relevance of: PA14: Satisfactory (S); and PA15: Satisfactory (S).**

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Table 2. Results Indicators (RIs) by Objective and PAs; baseline and target values; status and achievement.

Results Indicator	Associated PAs	RI Relevance	Baseline (year)	Target (year)	Actual (year)	As % of targeted change	RI achievement rating
PDO 1: Moving towards a sustainable financing model for Ethiopia's development.							
RI1 Proportion of PPP contracts for which more than four bids are received (Percentage)	PA1, PA2	MU	0 (2018)	80 (2021)	100 (2021)	Over 100%	[High]
RI2 Power sector has achieved cost recovery (Percentage)	PA3, PA4, PA5	MS	31 (2018)	75 (2022)	40 (2022)	20%	Negligible
RI3 Power sector losses (commercial and technical) (Percentage)	PA3, PA4, PA5	MU	23 (2018)	18 (2021)	7% (EEP) No reduction in technical losses, 20% distribution loss (EEU,2022)	Not reported explicitly in the ICR.	Negligible
RI4 Power sector debt service coverage (Ratio)	PA3, PA4, PA5	MS	-1.84 (2017)	0.5 (2022)	0.15 (2022)	85%	Substantial

RI5 number of days to clear imports by customs (Number)	PA6, PA7	MU	13.5 (2018)	10 (2021)	6 (2021)	Over 100%	[High]
RI6 Number of days to clear exports by customs (Number)	PA6, PA7	MU	5.5 (2018)	4 (2021)	1 (2021)	Over 100%	[High]
RI7 FDI in logistics sector (cumulative) (USD million)	PA6, PA7	S	0 (2018)	120 (2021)	22.5 (2021)	19%	Negligible
RI8 Percentage of type of license, permit, certificate or other requirements that are automated under the Electronic Single Window (Percentage)	PA6, PA7	U	0 (2018)	66 (2021)	66.6 (2021)	Over 100%	[High]
RI9 Number of licensees operating in Ethiopian Telecom Sector (Number)	PA8	S	1 (2018)	3 (2021)	1 (2021)	0%	Negligible
RI10 Price of 1GB of data per month as percent of GDP per capita (Percentage)	PA8	MS	12.6 (2018)	5 (2021)	2.6 (2021)	Over 100%	[High]
RI11 Usage of mobile money,	PA8	MS	0.32 (2017)	5 (2021)	6.9 (2021)	Over 100%	[High]

share of age 15+ population (Percentage)							
PDO 2: Improving the investment climate and developing the financial sector							
RI12 Share of business activities required to obtain certificates of competence (Percentage)	PA9, PA10	S	100 (2018)	10 (2021)	1.9 (2021)	Over 100%	High
RI13 Number of investment permits issued in sectors previously closed to foreign investors (Number)	PA9, PA10	S	0 (2018)	20 (2021)	84 (2022)	Over 100%	High
RI14 Credit to the private sector as a share of total credit (Percentage)	PA11	MS	30 (2018)	37 (2021)	43 (2021)	Over 100%	[High]
RI15 Share of instrument at market rate in the total stock of government bonds (Percentage)	PA12	S	0 (2018)	10 (2021)	90 (2021)	Over 100%	High*
PDO 3: Enhancing public transparency and accountability to promote good governance							
RI16 Percentage of CSOs	TRC2, PA13.	MU	0 (2018)	80 (2021)	100 (2021)	Over 100%	[High]

registered by the Ethiopian Charities and Societies Agency under the new proclamation (Percentage)							
RI17 Number of SOEs that have published on their website timely annual audited financial statements prepared using IFRS (Number)	PA14, PA15,	MU	1 (2018)	9 (2021)	0 (2021)	0%	Negligible

Note: *Achievement ratings in the table reflect the level of achievement based on actual change relative to the targeted change of the RI. Where the achievement rating is shown in brackets, the RI is not deemed adequate for assessing achievement, and the ratings have been adjusted (noted in the Efficacy section).*

Source: PD and ICR

PDO1: Moving towards a sustainable financing model for Ethiopia's development

RI1: PA1 and PA2 intended to establish the regulatory framework and implementation guidelines to achieve a more transparent, competitive and efficient PPP selection process. While RI1 - *proportion of PPP contracts for which more than four bids are received* – would have captured a crucial stage of implementation of the PPP process, to measure progress towards the PDO also relied on other factors to be in place, including the access to foreign exchange and an accommodating business environment for the PPP process to move forward.
To measure a further step in the process, it could have considered the number of bids approved. **Relevance of RI1: Moderately Unsatisfactory (MU).**

RI2, RI3, RI4: PA3, PA4, and PA5 targeted implementing a tariff increase framework, a second tariff increase, and a phased restructuring plan for EEP's debt. As such, RI2, RI3, and RI4 – cost recovery in the power sector, commercial losses, and the debt service coverage ratio would measure the impact of these reforms. However, the impact of currency devaluation would increase financial costs. Given that ITs for institutional strengthening were dropped, the approved reforms would only indirectly affect technical losses. Technical and commercial losses are difficult to ascertain without sophisticated metering, billing, and collection systems in place, thereby affecting the measurability of RI3. **Relevance of: RI2: Moderately Satisfactory (MS), RI3: Moderately Unsatisfactory (MU); RI4: Moderately Satisfactory (MS).**

RI5, RI6, RI7and RI8: PA6 removed restrictions to minority foreign investment in the logistics sector, intending to expand foreign investment in critical logistics services to foster competition, improve efficiency, reduce costs, and attract private investment. PA7 allowed for the private sector, including foreign firms, to access and offer value added logistics services in dry ports, thereby increasing competition. The PAs did not address foreign exchange issues or regulations that required importers to use ESLSE services for shipping—both of which we were a key impediment to private investment. Measuring this by increased FDI in the logistics sector (RI7) is reasonable. A reduction in the number of days to clear imports and exports by customs (RI5 and RI6) would be affected by many other factors. RI8 (type of license, permit, certificate or other requirements that are automated under the Electronic Single Window) was related to an IT for DPF3 which was dropped, although progress has continued on the reforms. **Relevance of: RI5 Moderately Unsatisfactory (MU); RI6: Moderately Unsatisfactory (MU); RI7: Satisfactory (S); RI8: Unsatisfactory (U).**

RI9, RI10, RI11: TRC1 supported an independent regulator for the telecom sector, while PA8 appointed the Board for the Ethiopian Communications Authority (ECA) and included a reform for ECA to convene a public consultation on the selection process for new telecom operator licenses. In doing so, they would both have a direct impact on the number of licensees operational in the Ethiopian Telecom Sector (RI9), and indirectly on the price of 1 GB of mobile data (RI10). The share of the 15+ population using mobile money would also be impacted (RI11), although the impact would be indirect and broader factors would also affect this. **Relevance of: RI9: Satisfactory (S); RI10: Moderately Satisfactory (MS); RI11: Moderately Satisfactory (MS).**

PDO 2: Improving the investment climate and developing the financial sector

RI12 and RI13: PA9 reduced the number of licensing categories by half and eliminated requirements for annual competence certificates for at least 70 percent of trade-licensing categories, which would be clearly and directly measured by the share of business activities required to obtain certificates of competence (RI12). PA10 intended to enable foreign participation in a broader set of economic sectors (shift from positive to negative list of sectors), which would be measured directly by the number of investment permits issued in sectors previously closed to foreign investors. **Relevance of: RI12: Satisfactory (S); RI13: Satisfactory (S).**

RI14: With PA11 repealing the 27 percent rule, this was directly expected to help commercial banks free up loanable deposits which could be lent to the private sector. In doing so, this would increase credit to the private sector as a share of total credit from commercial banks (as noted in the ICR) thereby helping develop the financial sector, although this would continue to be constrained by other distortions in the financial sector and government directives including borrowing constraints on SOEs and could be also determined by other factors such as GDP growth. This could have been specified as credit "from commercial banks," which would have better captured the intent behind elimination of the "27 percent rule". **Relevance of RI14: Moderately Satisfactory (MS).**

RI15: PA12 issued new treasury bills at market-determined rates, which would further support financial deepening and the development of financial markets. This would be directly measured by the share of instrument at market rate in the total stock of government bonds, which would measure progress towards achieving the PDO. **Relevance of RI15: Satisfactory (S).**

PDO3: Enhancing public transparency and accountability to promote good governance

RI16: TRC2 and PA13 intended to increase the numbers of CSOs and their activity to increase public oversight, as well as for consultations on government directives. RI16 measures the percentage of CSOs registered by the Ethiopian Charities and Societies Agency under the new proclamation. While this measures a portion of the

process for CSOs to increase government oversight, it does not measure activity beyond their registration that would contribute towards achievement of the PDO, such as activities that would hold the government accountable, and it also does not measure the contributions of consultations on government directives towards achieving the PDO. **Relevance of RI16: Moderately Unsatisfactory (MU).**

RI17: PA14, TRC3, and PA15 intended to provide guidelines and a framework for privatizing SOEs, expand SOE debt reporting, and create a holding company for SOEs which would strengthen SOE oversight. RI17 measures the number of SOEs that have published timely annual audited financial statements using IFRS. While this measures a key step in the process for strengthening the governance of SOEs, it measures only part of the full intention of the series of reforms by not measuring progress in the other areas of reform, namely guidelines and a framework for privatizing SOEs and creating a holding company for SOEs. **Relevance of RI17: Moderately Unsatisfactory (MU).**

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Maximizing finance for development, PAs 1-8 and TRC 1

Rationale

RI1: Proportion of PPP contracts for which more than four bids are received reached 100%, far over 80% target. As discussed in the ICR, though the RI target was exceeded, with 100 percent of PPP contracts receiving at least four bids versus a target of 80 percent, the desired outcome of increasing the use of PPPs to maximize finance for development was not realized: the number of PPP contracts that reached financial closure has remained zero. A growing parallel-market premium with respect to the official exchange rate, FX capital-account restrictions, and challenges related to FX convertibility, liquidity, and transferability rendered PPP projects unattractive to private investors. As a result, a total of 29 PPPs were at various stages of preparation but had not progressed. Two solar PPP projects completed a bidding process (with five bids received), but the winning bidder could not secure FX convertibility guarantees from the central bank. Moreover, an amendment to the PPP Proclamation in February 2023 allowed the direct negotiation of government-to-government (G2G) PPPs, which undermined transparency and represented a policy reversal. Finally, the recent conversion of the PPP Directorate General into a department within the MOF could negatively affect its ability to manage PPP processes fairly and transparently. Downgraded from High to Modest due to MU relevance: **Achievement Rating: Modest.**

RI2: Power sector has achieved cost recovery reached 40%, only 20% of the targeted improvement. **Achievement Rating: Negligible.**

RI3: Power sector losses (commercial and technical) declined to 7 percent in 2022 against a target of 18 percent for 2021. There was no reduction in technical losses. There was a distribution loss of 20% in the EEU. **Achievement Rating: Negligible.**

RI4: Power sector debt service coverage ratio improved from -1.84 percent in 2017 to 0.15% in 2021, reaching 85% of the targeted improvement. **Achievement Rating: Substantial.**

RI5: Number of days to clear import by customs decreased from 13.5 to 6, a far greater improvement than the 10 days targeted. However, the achievement rating is downgraded from high to modest due to the MU relevance rating**. Achievement Rating: Modest.**

RI6: Number of days to clear export by customs decreased from 5.5 to 1, far below the 4 days targeted. However, the achievement rating is downgraded from high to modest due to the MU relevance rating**. Achievement Rating: Modest.**

RI7: FDI in logistics sector (cumulative) reached only 22.5 million US$, far below the 120 million US$ targeted. Continued SOE dominance undermined the impact of the supported reforms, yet the ICR notes how total FDI increased to US$275.7 million in 2023. **Achievement Rating: Negligible.**

RI8: Percentage of type of license, permit, certificate, or other requirements that are automated under the Electronic Single Window reached 66.6%, over the 66% targeted. The achievement rating is downgraded from high to negligible due to the unsatisfactory relevance rating. **Achievement Rating: Negligible.**

RI9: Number of licensees operating in the Ethiopian Telecom Sector did not improve – staying at 1 [or 2 as discussed in the ICR writeup but not the results matrix] and did not reach the target of 3. As discussed in the ICR, the RI for the number of licenses was initially unmet due to pandemic- and conflict-related delays in the licensing process. Investor appetite has further declined amid worsening macroeconomic conditions and FX pressures, and a third telecom license auction in late 2023 failed to attract bidders. **Achievement Rating: Negligible.**

RI10: Price of 1GB of data per month as percent of GDP per capita fell from 12.6 to 2.6 percent, far below the 5 percent target. This is downgraded from high due to MS relevance: **Achievement Rating: Substantial.**

RI11: Usage of mobile money, share of age 15+ population increased from 0.32 to 6.9 percent, far above the target of 5%. This RI is downgraded from high to substantial due to the MS relevance rating. **Achievement Rating: Substantial.**

Rating

Moderately Unsatisfactory

OBJECTIVE 2

Objective

Improving the investment climate and developing the financial sector

Rationale

RI12: Share of business activities required to obtain certificates of competence declined from 100 to 1.9 percent, far below the 10 percent target. **Achievement Rating: High.**

RI13: Number of investment permits issued in sectors previously closed to foreign investors increased from zero to 84, far over the target of 20. **Achievement Rating: High.**

RI14: Credit to the private sector as a share of total credit increased from 30 to 43 percent, far over the 27 percent target. The ICR discusses how in November 2022, the authorities once again required that commercial banks purchase government bonds, effectively re-establishing the “27 percent rule.” In mid-2023, the authorities capped the nominal aggregate growth of bank credit at 14 percent, rendering the flow of credit negative in real terms. Downgraded due to policy reversals. **Achievement Rating: Negligible.**

RI15: Share of instrument at market rate in the total stock of government bonds increased from zero to 90 percent, far over the 10 percent target. The ICR discusses how higher interest rates helped incentivize increased commercial participation in T-bill auctions. However, following the significant drop in ODA due to the Tigray conflict, the government increased its use of monetary financing, reducing the supply of T-bills for auction. In addition, the reintroduction of the mandated purchase of government bonds by commercial banks reduced their participation in the T-bill auctions, so that their share in the total stock of T-bills dropped from 49 percent in December 2022 to 35 percent in December 2023. Downgraded due to related policy reversals undermining reform impact as raised in ICR. **Achievement Rating: Substantial.**

The combined rating of PDO2 is Moderately Satisfactory. While the ICR discusses how the broader investment climate has worsened considerably, the progress measured by RI12 and RI13 has been maintained for this specific investment climate concern.

Rating

Moderately Satisfactory

OBJECTIVE 3

Objective

Enhancing public transparency and accountability to promote good governance

Rationale

RI16: Percentage of CSOs registered by the Ethiopian Charities and Societies Agency under the new proclamation increased from 0 to 100 percent, over the 80 percent target. This is downgraded from high to modest due to the MU relevance rating: **Achievement Rating: Modest.**

RI17: Number of SOEs that have published on their website timely annual audited financial statements prepared using IFRS declined from 1 to 0, falling below the target of 9. **Achievement Rating: Negligible.**

The combined rating of PDO3 is Moderately Unsatisfactory

Rating

Moderately Unsatisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The combined rating of PDO1, PDO2, and PDO3, respectively, is Moderately Unsatisfactory, Moderately Satisfactory, and Moderately Unsatisfactory.

Overall Efficacy Rating

Moderately Unsatisfactory

6. Outcome

Rationale

The relevance of the PAs is rated **Moderately Satisfactory**

The overall efficacy rating is **Moderately Unsatisfactory**

The overall outcome rating is therefore **Moderately Unsatisfactory**

a. Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

Risks to the sustainability of development outcomes are high, although many risks have already been realized, and some reform areas are being further promoted with the WB's July 2024 DPF and IMF program. Many of these reforms, while ambitious, run counter to a long history in Ethiopia of following its own unique state-led development model and will require considerable political will to maintain progress. Continuing conflict presents

considerable risks to development outcomes and reform momentum. While the ICR suggests stronger citizen engagement does not appear to be at risk of reversal, continuing conflict has led to states of emergency announcements and could otherwise prompt a reversal on increasing oversight by CSOs.

The government's regular recourse to monetary financing, combined with the reintroduction of mandated purchases of government bonds already undermined development outcomes. While the WB's July 2024 DPF included PAs to strengthen the central bank's independence and mandate to promote financial stability, this can only be achieved and maintained by strengthening and maintaining the institutions that guard the central bank's independence over the longer term, while simultaneously increasing fiscal policy sustainability. This is similarly the case for allowing a market-determined exchange rate. While the central bank has allowed the birr to float in July 2024, it will need to eliminate a parallel market premium over the longer term and ensure sufficient supply of foreign exchange to offset private sector concerns in recent years.

The ICR also notes several other concerns about the institutionalization of reforms, government commitment, and already evident weaknesses. SOE audit reports are still not published on SOE websites, and it is unclear whether annual SOE audits will continue and become part of regular performance monitoring – although the inclusion of related reform measures in the July 2024 DPF are designed to help reduce this risk. Moreover, the PPP Directorate General was downgraded to a department within the MOF, while the new legal framework for PPPs and related efforts to build the government's capacity have not been adequately tested.

Power sector outcomes are also at risk, with the need to strengthen not just financial but also operational sustainability. A part of this is being addressed in the July 2024 DPF, which has reforms to continue raising tariffs considering current tariffs support only 18 percent of the cost recovery. However, institutional, and operational performance will likely be a continuing concern.

The government has demonstrated commitment to some reform areas identified for DPF3, which was dropped, but could reduce their sustainability risks. This includes amendments to the Commercial Code, the adoption of the revised SOE Proclamation, the establishment of the Electronic Single Window for customs clearance, awarding of telecom licenses to a private operator, moving forward with another round of electricity tariff increases, and domestic debt restructuring for SOEs.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The DPF series was very ambitious, seeking to reform many aspects of the Ethiopian economy in areas that had previously been off-limits for reform – including measures to increase foreign investment and competition in various key sectors (energy, telecom, logistics), increase exchange rate flexibility, reduce financial repression, and privatize SOEs, as well as opening up CSOs to foreign financing. In doing so, the DPF foresaw various political and economic risks, some of which were related with binding constraints that stymied achievement of some of the PDOs, and others which eventually materialized during the preparation of DPF2. The exacerbation of some of these political risks contributed to the cancellation of DPF3.

The DPF's results framework reflects design strengths and some weaknesses of the pathways from the PAs to the PDOs, with some variability across PDOs. While DPF2 reduced reform ambition in several areas, it also increased it in others.

- PDO1 is marked by reforms that were less successful because there were binding macroeconomic constraints that undermined the PA's progress towards the PDO. These raise the question of whether the reforms were premature without the binding macro constraints already having been addressed. Exchange rate adjustments were initially backloaded as a trigger for DPF3 even though DPF1 was negotiated well before an IMF program or the government's new reform program were in place. By DPF2, as an IMF program was in place which would support exchange rate flexibility, DPF2 dropped the DPF3 trigger on increasing exchange rate flexibility at the same time as acknowledging how important macroeconomic and exchange rate reforms were for the implementation and eventual sustainability of the reform program. As such, this could raise questions if DPF1 and DPF2 were premature as the non-implementation of exchange rate reforms compromised the effectiveness of the PPP, trade logistics, telecom (failure to attract more foreign vendors) reforms included in the series, undermining the success of the related PAs in reaching the PDOs. Progress in the logistics sector was also undermined by the monopoly status of ESLSE in shipping.
- PDO2 had only one reform in DPF1, a reform which reduced licensing requirements. It was followed by critical reforms in DPF2 for enabling foreign competition in a broader range of sectors, allowing T-bill auctions to be determined at market rates, and dropping the 27 percent rule—a strong reform newly added in DPF2, replacing the reform of 2 key state-owned banks. These were critical liberalization reforms in key areas of the economy. However, progress towards the PDO was undermined by dropping various key reforms, including the trigger for reforms for two key state-owned banks, as well as dropping a competition proclamation, which was critical given challenges created by the abuse of dominant positions and a general lack of competition. DPF2 also dropped an indicative trigger for increasing foreign exchange flexibility once the IMF program was in place. Ultimately, the financial sector reforms were undermined by policy reversals.
- For PDO3, reforms to enhance public transparency and accountability laid the foundations for future sector wide reforms, reflecting an important design strength. Opening up CSO registration and sharing of SOEs' financial statements publicly, while laying the foundation for SOE privatization and establishing an SOE holding entity are good examples of initial reforms in areas that had historically been off-limits.

The RF was relevant but had RIs to measure achievement of the PAs that had a few design-related weaknesses. While RI targets were either partially or completely achieved, there were gaps in achieving each PDO, due to the use of RIs that in some cases would not adequately measure the relatively ambitious PDO. Under PDO1, for example, the RI on PPPs fell short of measuring actual PPPs signed, instead stopping at an earlier stage in the results chain (bids received). Attribution for some RIs could be affected by factors beyond the adopted reforms, such as number of days to clear imports and exports and share of population using mobile money. Some RIs under PDO3 did not fully capture the broader impact of the reforms. For example, they only reflected CSO registrations, not the actual activities of CSOs to increase transparence and accountability. The target dates for most RIs were for 2021 but were not adjusted by the DPF2 approved in March 2020 when a DPF3 was still planned. This timeframe would have not allowed for measuring implementation results from the third DPF.

The DPF series was the country's first budget support operation in more than a decade. The PD indicates how it applied interdependent filters to guide the choice of sectors and reforms, which reflected key lessons learned from the World Bank's extensive experience in preparing DPFs: (i) the relative urgency of reforms; (ii) the presence of strong analytical underpinnings and a good knowledge base to inform the choice of actions; (iii)

robust implementation arrangements; (iv) a strong government commitment to implement the reforms within the operation's timeframe; and (v) coordination with other development partners.

Analytical foundations

The DPF series was broadly underpinned by the 2016 Systematic Country Diagnostic, which identified the need for a sustainable financing model for growth, as well as inadequate feedback mechanisms to facilitate citizen engagement and government accountability. It also targeted binding constraints identified in the SCD including limited credit for private investment and the uncompetitive private sector. The DPF series benefitted from extensive analytical work by the WB, Government of Ethiopia, and partners.

- PPP reforms were informed by WB global lessons, as well as WB TA and power systems work.
- Reforms in the power sector were informed by WB global analysis as well as analysis specific to Ethiopian Electric Power (EEP) and Ethiopian Electric Utility (EEU).
- Logistics sector reforms were informed by analysis from the African Development Bank (AfDB), Government of Ethiopia, and development consultancies.
- Telecom reforms were supported by the WBG 2016 World Development Report on Digital Dividends, as well as a Government of Ethiopia white paper on policy options for the telecom sector.
- Business regulations reforms were informed by various WB Ethiopia reports, including the 2014 CEM, as well as the Ethiopia Chamber of Commerce's Business Agenda
- Private sector credit and bond market reforms were informed by a WB analysis of SME finance reform in Ethiopia as well as IMF TA related to secondary market development in Ethiopia.
- CSO reforms were underpinned by a Government of Ethiopia CSO reform Action Options report; and SOE reforms relied on a number of analytical reports (sometimes unpublished).

Risk identification and mitigation measures:

The PDs identified the overall risk of the DPF series as substantial, which remained unchanged over the three series. Two high risk categories were i) political and governance risk; and ii) macroeconomic risks related to a high level of external indebtedness and weak revenue performance. In both areas, the identified risks gradually materialized.

Rising political unrest and related risks worsened between the approval of DPF1 (in October 2018), DPF2 (in March 2020), and the Supplemental DPF (in June 2020) and was well reflected in the PDs. Once the Tigray War only began in November 2020, the DPF3 did not move forward. Early risk mitigation measures (in DPF1) focused on careful monitoring of the political and governance situation. In DPF2, the Bank sought to lock-in reforms ahead of the elections to mitigate the risk of reversal.

Exchange rate pressures continued between the approvals of the DPF series. DPF2 indicated how the results of the DPF could be affected if foreign exchange market and overvaluation issues were not addressed. Mitigation measures were to closely monitor the IMF program and expectations of the next DPF (DPF-3) in this series. In the case of the exchange rate reforms, the World Bank could have better assessed the risks to a DPF series if it is not able to frontload binding constraints to the rest of the reform program. Foreign exchange shortages caused by the real overvaluation of the currency have been the binding constraint for Ethiopia's economic transformation, yet the government was not interested in addressing this at the time of DPF1 in December 2018. Not addressing the binding constraints could have and to some extent did make some structural reforms ineffective. Nevertheless, the WB supported critical reforms which were possible at the time, in the hope to

increase reform momentum and that the government may eventually address the exchange rate distortions - as finally occurred in July 2024.

The World Bank also faced questions around supporting a more focused reform program vis-à-vis supporting a broader program in which the government was interested. Supporting the broader program may have increased risks for individual sectors and increased the likelihood that vested interests may stymie reform in some areas, but the World Bank managed to continue some reform momentum across multiple sectors.

Consultations with stakeholders:

The DPF was coordinated with several development partners. The DPF series was coordinated with the budget support provided by the EU. France and Germany provided parallel financing for DPF2. The PD discusses how partners, including the EU and its member states, China, Japan, USA, the IMF, and the AfDB were engaged in providing technical and capacity building support in several areas covered by the DPF, including PPPs, domestic revenue mobilization, government bond market, public investment management, investment climate, logistics reform, financial sector reform, trade reform, SOE reform and SOE governance.

The PDs discuss consultations held by the government with relevant stakeholders in relation to key new regulatory initiatives supported by this DPF, including on the proposed electricity tariff framework, regulations and directives on PPP, business regulation, logistics and financial sector reforms. Moreover, the Law and Justice Advisory Council was established to provide policy recommendations on amending the CSO and anti-terrorism laws, and it held broad public consultations with academia, legal professionals, CSOs, and political parties “unprecedented in their scale and intensity in Ethiopian context.”

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Implementation was supported by the government establishing a Technical Committee (Project Coordination Committee) chaired by the State Minister at the MoF and comprising focal points from the different government agencies as well as development partners specific to this DPF series. As discussed in the ICR, the WB team received regular updates on implementation progress, including during the pandemic. In addition, a multi-donor WB-executed trust fund was set up by 2020 to provide comprehensive and coordinated technical assistance for the implementation of DPF-related reforms in the series over the subsequent four years. The Development Assistance Group (DAG), which is the existing architecture for aid coordination in Ethiopia, was to be leveraged to that effect.

New and emerging risks were identified for DPF2 and the supplemental financing for DPF-3.

DPF2 made relevant adjustments to strengthen reforms, including repealing the “27 percent rule” in the financial sector, strengthening reforms in the energy sector (requiring initiation of debt restructuring for energy utilities),

allowing private operators (including foreign firms) to access existing dry ports and invest in new dry ports, requiring that the board of the telecom regulator be appointed.

At least two supervision missions were held after the approval of DPF1. The first, in November 2018, reviewed progress towards reforms identified for DPF2. A second, in September 2019, focused on strengthening national systems for Environmental and Social Impact Assessment (ESIA).

The ICR discussed how the reforms supported institutional strengthening in several ways by strengthening the regulatory framework for competition, establishing an independent telecom regulator, streamlining business regulations, easing constraints on CSO registration, promoting PPPs, enhancing SOE oversight, and clarifying the roles and responsibilities of the MOF. Establishing an auction market for T-bills supported strengthening monetary policy and deepening the financial sector.

In several areas, additional technical assistance and operational engagement complemented reforms by building the capacity of relevant institutions and creating incentives to implement reforms, especially those involving PPPs, SOE audits, and the energy, telecom, and financial sectors. Technical experts and capacity-building training also helped advance the reform agenda, as well as complementary operations at the sector level, including policies such as the Sustainable Development Finance Policy to support SOE reforms.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

With Bank performance at both design and implementation rated moderately satisfactory, overall Bank performance is rated moderately satisfactory.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The DPF reforms had positive effects on the poor and vulnerable. Electricity tariff increases protected lifeline tariffs, thereby protecting poor households with monthly electricity consumption below 50 kwh. Reducing the cost of telecom would support the poor, as would increasing the voice of CSOs. Reforms such as phasing out the “27 percent rule” in the banking sector would help the poor indirectly, by helping to boost credit to the private

sector and thereby supporting job creation, although the impact of this reform is unclear given the policy reversals.

In addition, COVID-19 supplemental emergency funding covered about 20 percent of Ethiopia's additional financing needs for FY20 which also supported the poor and vulnerable. This helped the government bolster healthcare, expand safety nets and food programs, fund wage subsidies to reduce job losses, and support small and medium enterprises and self-employed workers.

b. Environmental

The DPF series promoted reforms to increase the fiscal sustainability of future investments in the energy sector, which would also help maintain the country's long-term low-emissions pathway, given how its electricity supply is almost entirely based on hydropower.

c. Gender

ICR did not discuss gender impacts.

d. Other

None.

10. Quality of ICR

Rationale

The ICR is of substantial quality. Assessments of both the relevance of the PAs and the results indicators were candid and included sufficient evidence to assess efficacy. The ICR provided further discussion of the reasons why various indicators were or were not met, and the broader context of achieving outcomes. It provided a clear analysis of the change in PAs over the DPF series, as well as of the WB's assessment of risks. The ICR's lessons were also based on evidence discussed in the report and would have value for future DPOs.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments

Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Moderately Unsatisfactory	Moderately Satisfactory	While many reforms were undermined by binding macroeconomic constraints and key dropped reforms, the DPF series supported a generally ambitious reform program.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

The ICR discusses 6 lessons, with which IEG broadly agrees. IEG highlights one key lesson below.

Frontloading difficult reforms early in the reform dialogue is critical for success, in recognition that reform momentum can decline in advance of elections. To the extent possible, promoting reforms on binding constraints early in the program is crucial, such as exchange-rate reforms and structural reforms targeting key sectors such as financial intermediation and logistics.

13. Project Performance Assessment Report (PPAR) Recommended?

No