

WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

For the Democratic Republic of Ethiopia 2018-2022



WORLD BANK GROUP



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Abbreviations and Acronyms

AAU	Addis Ababa University
AGP	Agricultural Growth Program
ASA	Advisory Services and Analytics
BoP	Balance of Payment
BB	Bank Budget
BP	Bank Policy
BSC	Balance Score Card
CASCR	Country Assistance Strategy Completion Report
CDD	Community Driven Development
CE	Citizen Engagement
CJCP	Competitiveness and Job Creation Project
CLR	Completion and Learning Review
COMESA	Common Market for Eastern & Southern Africa
CPF	Country Partnership Framework
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
CRGE	Climate Resilient Green Economy
CRW	Crisis Response Window
CSA	Central Statistical Agency
CSO	Civil Society Organization
DAG	Development Assistance Group
DFID	UK Department for International Development
DHS	Demographic and Health Surveys
DLI	Disbursement Linked Indicator
DP	Development Partners
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECHO	European Community Humanitarian Aid Office
EIO	Ethiopian Institution of the Ombudsman
ENREP	Electricity Network Reinforcement & Expansion Program
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESAP	Ethiopia Social Accountability Program
ESPES	Enhancing Shared Prosperity through Equitable Services
ETB	Ethiopian Birr
EW	Economic Work
FAO	Food and Agriculture Organization
FCV	Fragility, conflict and violence
FDI	Foreign Direct Investment
FGM	Female Genital Mutilation
FTA	Financial Transparency and Accountability
FY	Fiscal Year
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GEQIP	General Education Quality Improvement Project
GIL	Gender Innovation Lab
GoE	Government of Ethiopia
GRM	Grievance Redress Mechanism

GTP II	Growth and Transformation Plan II
HCES	Household Consumption and Expenditure Survey
HU	Highly unsatisfactory
ICR	Implementation Completion Report
ICT	Information and Communication Technology
IDA	International Development Association
IE	IDA Eligibility country
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IPP	Independent Power Producer
ISR	Implementation Status and Results Report
JIP	Joint Implementation Plan
LCU	Data Description. Series: GDP (constant LCU) (NY.GDP.MKTP.KN) Definition: . . . GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.
LSMS	Living Standards Measurement Study
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MoFEC	Ministry of Finance and Economic Cooperation
MSME	Micro, Small and Medium Enterprises
MU	Moderately unsatisfactory
MW	Megawatts
NCB	Non-Concessional Borrowing
NSDS II	National Strategy for the Development of Statistics II
OP	Operations Policy
OPCS	Operations Policy and Country Services
PBS	Protection of Basic Services
PCDP	Pastoral Community Development Project
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PforR	Program for Results
PLR	Performance and Learning Review
PPP	Public-Private Partnerships
PSNP	Productive Safety Nets Program
PSW	Private Sector Window
RAI	Rural Access Index
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goals
SFC	Sana'a Forum for Cooperation
SLMP	Sustainable Land Management Program
SME	Small and Medium Enterprise
SNNPR	Southern Nations, Nationalities and Peoples Region
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
TA	Technical Assistance
TF	Trust Fund
TFP	Total Factor Productivity
U	Unsatisfactory
ULGDP	Urban Local Government Development Program

UN	United Nations
UNDP	United Nations Development Program
UNHCR	United Nations Refugee Agency
UNICEF	United Nations Children’s Fund
UPSNP	Urban Productive Safety Nets Project
USAID	United States Agency for International Development
VAT	Value Added Tax
WASH	Water Supply, Sanitation & Hygiene
WBG	World Bank Group
WEDP	Women Entrepreneurship Development Project
YoY	year on year

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INTRODUCTION



I. INTRODUCTION

Ethiopia has achieved substantial progress in economic, social and human development over the past decade. Poverty rates declined from 55.3 percent in 2000 to 33.5 percent in 2011,¹ with significant progress towards achieving the Millennium Development Goals (MDGs). New challenges lie ahead as Ethiopia seeks to attain lower middle-income status by 2025, as articulated in its Second Growth and Transformation Plan II (GTP II). This Country Partnership Framework (CPF) for Ethiopia, for the period FY18 to FY22, is designed to support GTP II while supporting the World Bank Group's (WBG) twin goals of eliminating extreme poverty and boosting shared prosperity and achievement of the Sustainable Development Goals (SDGs).

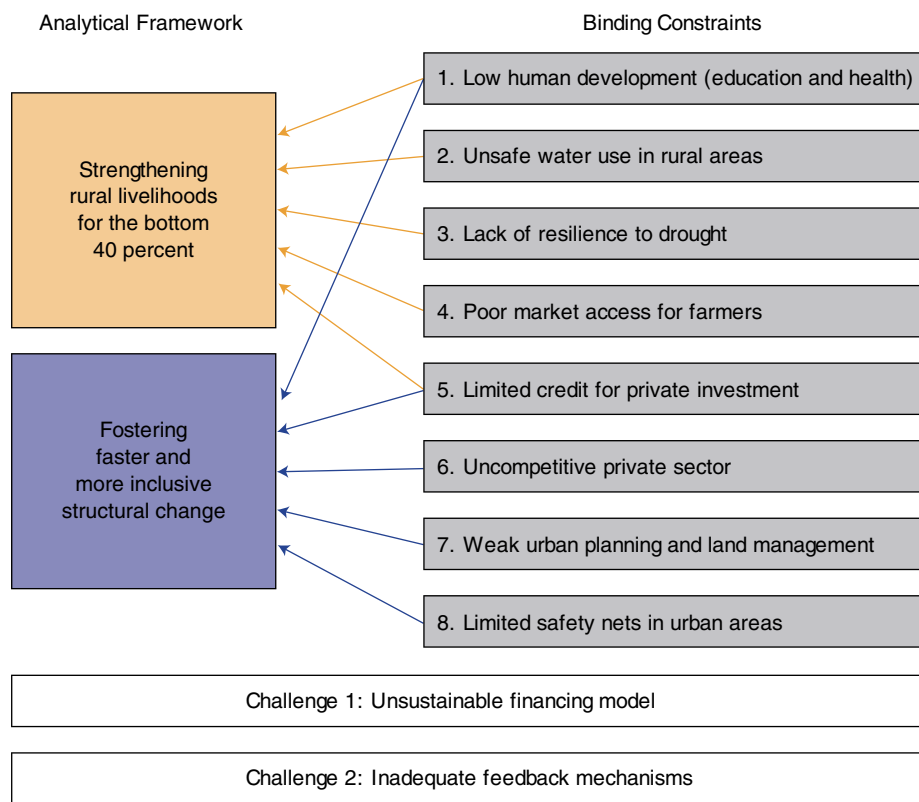
The CPF draws on the findings of the WBG's 2016 Systematic Country Diagnostic (SCD)² for Ethiopia, which identified eight binding constraints to ending extreme poverty and boosting shared prosperity, along with two overarching challenges: the need for a sustainable financing model for growth, and inadequate feedback mechanisms to facilitate citizen engagement and government accountability. The SCD analytical framework, and the resulting binding constraints for Ethiopia, are presented in Figure 1. Highlights of the key findings of the SCD, along with the binding constraints and two challenges, are depicted in an infographic in Annex 9. This CPF succeeds the Ethiopia FY13–FY16 Country Partnership Strategy (CPS), which was discussed at the Board on August 29, 2012 (Report No. 71884-ET). It also reflects lessons learned and resulting suggestions from the CPS Completion and Learning Review (CLR), which is presented in Annex 2.

Following a decade of strong economic growth in Ethiopia, the CPF addresses the challenges of forging a growth path that is more broadly inclusive and sustainable. Lending and non-lending interventions will continue to leverage Ethiopia's federal system, with its regional decision making, as the vehicle through which to address inequality in Ethiopia and provide more equitable access to quality services in all *woredas* (district level). The CPF program will focus on: (i) *promoting structural and economic transformation through increased productivity*; (ii) *building resilience and inclusiveness (including gender equality)*; and (iii) *supporting institutional accountability and confronting corruption*.

This CPF adopts a *spatial lens* through which this five-year program will seek to deliver bold results and to tackle two of the greatest *spatial challenges* to Ethiopia's quest to achieve lower middle-income status by 2025. First, because of *intra-regional* and *inter-woreda disparities* in resource endowments and access to services (see maps in Section II), there are pockets of poverty even in relatively well-off areas of the country. These areas require targeted interventions to support more inclusive growth. Similarly, certain regions (such as the lowlands) or population groups (such as pastoralists or women) may require customized development solutions to meet their particular needs. Second, growth-enhancing investments need to focus on maximizing the potential to create jobs, deliver services, and connect farms to towns and secondary cities and leverage corridors that can help to boost value addition and competitiveness. This CPF therefore adopts a *spatial lens* through which this five-year program

¹ Based on the US\$1.90/day in 2011 purchasing power parity terms. During the same period, using the national poverty line, the rate of poverty fell from 44.2 percent to 29.6 percent.

² <http://documents.worldbank.org/curated/en/913611468185379056/Ethiopia-Priorities-for-ending-extreme-poverty-and-promoting-shared-prosperity-systematic-country-diagnostic>

Figure 1: SCD Binding Constraints

will seek to tackle these challenges. The analytical underpinnings for this spatially inclusive approach to growth are presented in Annex 8.

This CPF will leverage the full range of WBG institutions and instruments. It will address each of the *IDA18 special themes*, access *IDA18 special windows*, and seek to be *increasingly agile* in preparing operations and advisory/analytical work that respond creatively to client demand. Given the importance of supporting *private sector-led growth*, this *joint CPF* will feature an even more prominent role for both the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). In particular, IFC will adopt a holistic approach to help open new markets and crowd in capital from the private sector. This includes active use of the principles of the WBG “*cascade approach*” to infrastructure, which seeks to expand infrastructure financing options by optimizing scarce public funds—in cases where commercially viable options are limited—and helping to effect policy reforms that will crowd in private sector capital and create new markets.

A CPF for maximum impact. The increased focus on outcomes marks a departure from the past input/output approach. These are but a few of the highly ambitious CPF targets:

- The number of people with access to electricity (on- and off-grid) will be increased to 50 percent by the end of FY21;
- Learning outcomes for girls in grades 4 in English and Math will improve by about one quarter and one third, respectively;

- The contraceptive prevalence rate for rural women will be boosted from 32 to 45 percent;
- Stunting prevalence in children aged 0–23 months will decrease by 36 percent;
- Agricultural productivity for female-headed households, as measured by a yield index for cereals and pulses, will increase by 23 percent;
- Up to 14 million people will be protected from food insecurity;
- The number of people with access to improved water sources and basic sanitation will increase by 20 percent and 43 percent, respectively;
- Travel time on upgraded roads will be reduced by more than half (56 percent), accelerating market access for farmers; and
- The area of reforested lands and the number of land-use certificates issued will double.

COUNTRY CONTEXT AND DEVELOPMENT AGENDA



II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Social and Political Context

Geographic and Regional Context

Ethiopia is a large and diverse country, spanning a land mass of more than 1 million km² and an estimated population of approximately 92 million (World Bank, 2016), more than 80 percent of whom live in rural areas. With an annual population growth rate of 2.5 percent (2015), Ethiopia's population is estimated to reach 150 million by 2035 (World Population Prospects, 2015 Revisions, United Nations (UN)). Ethiopia is a country of 98 nationalities and peoples, with roughly 93 languages spoken.

Landlocked Ethiopia, surrounded by a number of fragile and conflict-afflicted states, plays an important role in promoting regional integration and mitigating regional conflicts. Ethiopia's geopolitical landscape is complicated by fragility and conflict in neighboring countries and the resulting flow of refugees who are fleeing those conditions. Relations with Djibouti are especially close, as Ethiopia relies on Djibouti for 90 percent of its land-based trade while Djibouti receives power and fresh water from Ethiopia. Since the 1993 independence of Eritrea, when Ethiopia lost access to the sea, most trade-related cargo is shipped via Djibouti. In order to improve regional stability, Ethiopia has supported peace-building efforts in Somalia, Sudan and South Sudan by mediating peace talks and contributing personnel to peace-keeping operations.

Ethiopia is a member of regional communities such as the Common Market for Eastern and Southern Africa (COMESA), the Intergovernmental Authority on Development (IGAD), and the Sana'a Forum for Cooperation (SFC). According to the Regional Integration Index 2016,³ Ethiopia is an average performer on regional integration among IGAD countries, and the lowest performer overall on regional integration within COMESA. In terms of trade relations with its neighbors, exports to regional markets (Somalia, Djibouti, Sudan, Kenya and Egypt) account for approximately 20 percent of Ethiopia's total exports. Major exports to Somalia included *khat*, live animals, and fruits and vegetables; while key exports to Djibouti were *khat*, live animals, fruits and vegetables, and electricity. Beyond official statistics, there is significant cross-border trade that is not measured but is an important source of income for border communities.

Ecology and Resilience

The nature of agriculture-based livelihoods varies considerably across the country based on agro-ecological conditions. The wet highlands, predominantly in the central, northern and western parts of the country, are home to 80 percent of the population who are primarily dependent upon rain-fed cultivation. The eastern and southern parts of the country are hot, arid lowlands, which are home to mobile pastoralists. Climate change has already had an impact: temperatures have increased

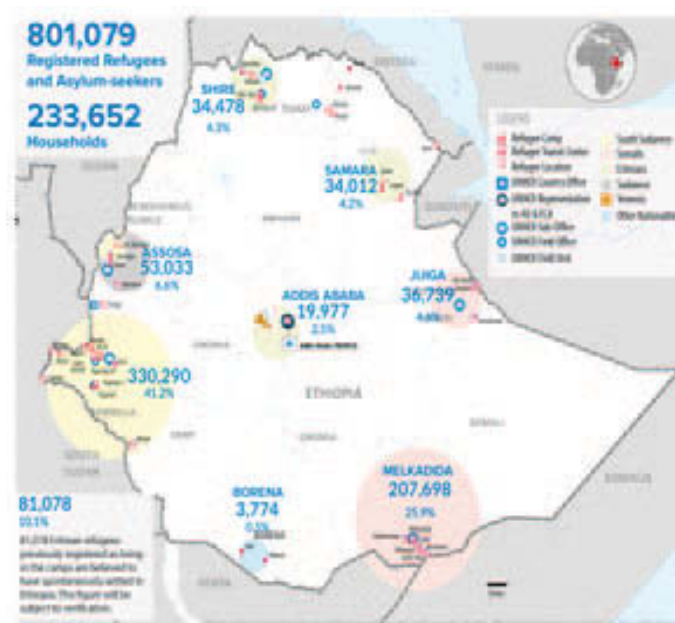
³ The index, which is a joint project of the African Development Bank, the African Union Commission and the Economic Commission for Africa, covers the following dimensions: free movement of persons, trade integration, productive integration, regional interconnections and infrastructure, and macroeconomic policy convergence.

by approximately one degree Celsius since the 1960s. Agricultural systems are highly dependent on climate and are vulnerable to more frequent and extreme droughts and floods. Droughts alone can reduce total gross domestic product (GDP) by one to four percent, and rising population densities are placing added pressure on these fragile ecosystems through land degradation, forest loss, and increased water stress and soil erosion. Differentiated approaches are required to increase the productivity and resilience for highland and lowland agriculture-based livelihoods.

Ethiopia's ability to manage drought has improved dramatically over the past decade, but frequent droughts remain a challenge. Past droughts resulted in widespread hunger and extremely poor nutritional outcomes. Ethiopia has experienced more than 15 drought events in the last 50 years, including the 2015/2016 El Niño drought and the "Indian Dipole" event in 2017. The majority of agriculture is rain fed and highly vulnerable to drought. Pastoral communities in the fragile, semiarid lowlands are also prone to climatic shocks. Over the past decade, Government of Ethiopia (GoE) has built resilience by rehabilitating land, improving watershed development and management, and expanding irrigation coverage, including introducing new irrigation techniques in many parts of the country. Ethiopia improved the resilience of the poorest through cash or food payments and by engaging them in community-driven public works programs aimed at landscape restoration, water management, and smallholder farming (see description of the Productive Safety Nets Program (PSNP) in Box 1 below). Despite these efforts, the current drought has brought acute water and food shortages to pastoral areas of southern Ethiopia and across the Horn of Africa. GoE issued a humanitarian appeal in January 2017 for 5.6 million people, at an estimated cost of US\$948 million. The rising frequency and severity of these droughts call for urgent action, to move even further from reliance on humanitarian responses and towards development of robust systems including disaster risk financing mechanisms.

Ethiopia hosts the fifth largest refugee population in the world, and is the second largest host of refugees in Africa (after Uganda). Ethiopia is accommodating more than 800,000 refugees displaced by conflicts, political events, and civil wars in neighboring countries—South Sudan, Somalia, Eritrea, Sudan and Yemen (see Figure 2). There are also an estimated 450,000 internally displaced Ethiopians within

Figure 2: Refugees in Ethiopia





Box 1: Resilience and the Productive Safety Nets Program (PSNP)

Ethiopia remains highly vulnerable to a range of shocks, notably the severe drought of 2015/2016. In December 2014, the Government announced that 18.2 million people required emergency food aid, while millions more suffered from lost assets and livelihoods.

The Government response, the largest in the history of Ethiopia, with US\$700 million allocated from the national budget and hundreds of millions more from the international community, allowed the GoE to protect its people and development gains from the worst effects of the drought. Support from the international community included two infusions of resources from the IDA17 Crisis Response Window (CRW) totaling US\$200 million. In most of the affected areas, the Productive Safety Nets Program (PSNP)* played a key role in the Government's response, providing predictable cash or food payments to eight million of the poorest people. Contingency budgets at the *woreda* and federal levels enabled the Government to scale up support further, by providing safety net support to additional households or extending the duration of support. A series of impact evaluations revealed that the PSNP improved the food security of the poorest households in rural Ethiopia, with the food gap among PSNP public works clients falling, on average, from about three months in 2006 to 1.75 months in 2014. Distress asset sales have also declined: in 2010, 54 percent of public works households reported making a distress sale of assets in order to meet food needs and 26 percent did so in order to obtain cash for nonfood emergency cash needs. By 2014, these percentages had dropped to 25 and 13 percent, respectively.

There is also evidence that PSNP can improve participants' resilience. In highland regions, households living in areas that experienced a minimum of two droughts but also received PSNP payments for two or more years did not see their food security decline, and households receiving four or five years of payments experienced an increase in their livestock holdings. Following a period of drought, households participating in the PSNP appear to recover faster than households that are not in the program.

Beyond the direct benefits to households, the public works of the PSNP address rural vulnerability by contributing to Government investments in sustainable land management. PSNP public works show significant improvements in the majority of watersheds in land cover, range of plant species, increased production of forage and medicinal plants, increased groundwater and improved spring yields, reduced run-off and soil loss, reduced flooding on private croplands, and increased cropping land through land reclamation. To date, some 1.2 million hectares have been treated through soil and water conservation (SWC) activities within closed areas, resulting in increased income for community groups adopting new livelihood activities such as bee-keeping, and increased crop yields. Recent research indicates that public works activities are enhancing climate resilience in Ethiopia: soil samples from PSNP public works sites have identified up to a 300 percent increase in carbon sequestration rates, together with markedly improved soil fertility.

* PSNP is a program managed by the GoE and funded by eleven development partners, including the World Bank.

the country, and more than 86,000 Ethiopians have sought refuge in other countries (mainly in Sudan). Ethiopia hosts more than 350,000 refugees from South Sudan alone, and the intense offensives currently taking place in Upper Nile state of South Sudan could lead to a significant and sudden increase in refugee flows. These numbers have risen sharply since the middle of 2016, with the escalation of conflict in South Sudan and drought-related migration from Somalia; and the presence of these refugees is having an impact on the food security, public services, and livelihoods of host communities. A joint World Bank-United Nations Refugee Agency (UNHCR) report, "Forced Displacement and Mixed Migration in the Horn of Africa," concluded that support to refugees must ensure that host populations also benefit, through

better access to services and greater livelihood opportunities, so that they continue to welcome the refugees. A recent WBG mission to Ethiopia traveled around the country, visiting refugee camps and meeting with multiple stakeholders on this proposed approach. Their findings and recommendations are summarized in the “Informational Annex on Forced Displacement in Ethiopia” in Annex 13.

Ethiopia is a rapidly changing country, yet its social and political institutions have not fully kept pace with the past decade of economic growth. Until 1991, increasing state centralization was underpinned by a political culture reflecting strong hierarchies and deeply rooted social stratification. The ruling party (the Ethiopian People’s Revolutionary Democratic Front—EPRDF) has been in power for more than 25 years since overthrowing the former military regime. The EPRDF set up a federal structure (primarily along ethnic lines) devolving powers and mandates first to regional states and then to the *woreda* (district) and *kebele* (village) levels. Ethiopia is a relatively new democracy: the results of the elections in 2005, and in 2015, in which the Election Commission declared an EPRDF victory, were contested.

Ethiopia’s impressive economic achievements have recently been accompanied by social unrest and widespread demonstrations in the Oromia and Amhara regions. The demonstrations exposed deep-rooted developmental, social and political concerns with Ethiopia’s state-driven model. Protestors were demanding greater political voice and participation and drew attention to the growing challenge of job creation for increasingly educated Ethiopian youth. The Government has acknowledged that some of the concerns raised by protesters were legitimate, and is working to find solutions through dialogue with opposition parties represented in Ethiopia and intensified citizen engagement.

A six-month state of emergency was declared in October 2016 and remains in effect. The GoE imposed a State of Emergency on October 9, 2016, in response to growing unrest in the Amhara and Oromia regions. The GoE announced on March 15, 2017, that it was lifting most of the emergency restrictions. Notwithstanding this partial easing, the Ethiopian Parliament voted unanimously at end-March 2017 to extend the state of emergency by an additional four months. While some opposition parties welcome the dialogue the Government is seeking, there is criticism inside and outside the country of the Government’s human rights record and lack of inclusion of all opposition groups. Most recently, the UN Commissioner for Human Rights was invited to visit and concluded that Ethiopia “is a country with tremendous assets—including, not least, the drive and creativity of its people. If it can build a new momentum in upholding human rights protection, and demonstrating confidence in its people, Ethiopia can shape a strong and cohesive society which truly benefits all. If it stumbles, mistrust and grievance will grow, and this may well have considerable negative impact on prospects for development and for the people’s well-being.”⁴

Economic Context

Ethiopia’s recent growth acceleration was accompanied by a substantial decline in poverty. Real GDP growth averaged 10.5 percent between 2003/04 and 2015/16, according to official data. Growth was driven mainly by services and agriculture on the supply side, and private consumption and investment on the demand side. The services sector has overtaken agriculture as the largest, in terms of output, since 2010/11. Investment rates have increased substantially since the mid-1990s with a commensurate decline in public consumption. This is in line with the developmental state model which Ethiopia has adapted from the East Asian experience. However, this approach faces challenges related to governance and citizen engagement (Box 2).

⁴ <http://ohchr.org/en/NewsEvents/Pages/DisplayNews.aspx?NewsID=21582&LangID=E>



Box 2: Governance, Decentralization and Citizen Engagement

Ethiopia styles itself as a developmental state and seeks to ensure that citizens benefit from the results of development. Despite the strong results focus of the Government, there is a paradox of Ethiopia emphasizing **citizen engagement (CE)** at the service delivery and *woreda* level, while limiting such participation at the higher levels. Party members can advance by achieving visible results at the local level, such as an improvement in a *woreda's* rate of enrollment or provision of antenatal care. Decentralization brings service providers under the control of local governments, making them, in theory, accountable to the community. In order for accountability to occur, local residents must understand both the concept of service delivery and their options for voicing concerns.

The GoE has committed to enhancing citizens' public participation in the development of activities and processes through the good governance pillar in GTP II. This is consistent with the WBG strategic framework (2014) for mainstreaming CE—and give citizens a stake in decision making to help improve development outcomes—in 100 percent of WBG operations which have clearly identifiable beneficiaries by end-2018.

With support from donors, Ethiopia is testing and scaling up complementary strategies to strengthen citizens' voice and access to information. This has created an effective **citizen engagement** approach at the service delivery and *woreda* level. The donor-supported framework comprises: **financial transparency and accountability (FTA)**; the **Ethiopia Social Accountability Program (ESAP)**; and **Grievance Redress Mechanism (GRM)**. Ethiopia's **FTA** program makes information about local government budgets and spending publicly available in a simple, clear format. Through budget literacy training, citizens learn how to provide feedback to local authorities on budgets and provision of basic services. A new rule has been implemented whereby *woredas* are instructed to consult with citizens before voting on their budgets. **ESAP**, which started under protection of basic services (PBS) and is expanding more widely, uses structured social accountability tools such as community score cards, citizen report cards, participatory budgeting, and direct meetings between service providers and consumers to make services better, more accessible, and more effective. These tools are being used in more than 223 *woredas* by about 4.5 million consumers. An independent evaluation is underway to examine the impact of these tools and determine whether they should be made available nationally. PBS also helped to strengthen and expand the use of **GRM**. A grievance redress mechanism provides the opportunity for an impartial third party to review a transaction that has taken place between the government and a citizen or a group of citizens, who assert that a government service or benefit has been denied, or some other harm has occurred. The **Ethiopian Institution of the Ombudsman (EIO)** and the regional Grievance Handling Offices offer these services. The EIO is an independent entity that has regional branches and is accountable to the Federal Parliament. Grievance Handling Offices, established in all nine regional states, examine the validity of citizens' grievances and explore ways to rectify them. These interventions have generated an appetite in nonparticipating areas, especially with regard to social accountability and GRM, and all *woredas* increasingly see citizen engagement as a right that should be rolled out across the country.

This results culture, combined with the ambition of local officials to prove themselves by achieving results, has had unintended and unfortunate consequences as well. Targets and deadlines have been pursued regardless of the costs, on the assumption that the greater good outweighs the cost. Some of these unfortunate consequences have been noted by high officials as flagrant violations of national policies and standards. Given the decentralized nature of implementation in Ethiopia, it is difficult for federal or even regional officials to monitor such excesses. **Therefore, a focus during the CPF period is to support continued improvements in the reach and effectiveness of FTA, ESAP and GRM and to strengthen the EIO.**

Economic transformation—policies that actively pursue structural reforms—has not played a major role in the growth acceleration over the past decade. The WBG’s 2015 report “Ethiopia’s Great Run: The Growth Acceleration and How to Pace It” concluded that Ethiopia lags behind in reform areas such as domestic finance, the current account, the capital account, and services trade restrictiveness. Economic transformation has been lackluster, as state-owned enterprises (SOEs) continue to play a dominant role in the economy.⁵ This approach worked well during the period of growth acceleration as SOEs were used as vehicles for public investment to close the infrastructure gap and to ultimately crowd-in the private sector. On the other hand, the SOE dominance left (and continues to leave) little space for the private sector by crowding out credit markets and access to foreign exchange. More structural reforms, as envisaged by the GTP II, will be needed to facilitate economic transformation that ensures longer-term sustainability of the growth model. Even modest structural reforms could have considerable impact on GDP per capita growth. Indicative results presented in the SCD showed that if Ethiopia were to catch up with the average Sub-Saharan Africa (SSA) country in terms of financial liberalization, the rate of per capita GDP growth would rise by 1.9 percentage points per year.

Whereas structural transformation—the shift of economic activities and employment from low- to high-productivity activities—has taken place to some extent in Ethiopia, it has been driven by services. Ethiopia has only partly followed the traditional path of structural transformation often associated with East Asia, where a strong rise in manufacturing (and away from agriculture) fueled the growth of economies such as China, Korea and Vietnam. In Ethiopia, economic activity (output and jobs) has shifted from agriculture and into construction and services, largely bypassing the critical phase of industrialization.⁶ It is the more traditional form of structural transformation—which has created employment and job opportunities outside agriculture and in urban centers in East Asia—which is needed in Ethiopia. To facilitate industrialization, the Government strengthened its institutional, legal and regulatory framework with a focus on promoting Foreign Direct Investment (FDI) in light manufacturing, especially in the form of industrial parks. GTP II places primary focus on advancing more traditional structural transformation, with the goal that Ethiopia would become a manufacturing hub in Africa. This is an appropriate goal for enhancing the ability to create jobs through the manufacturing sector and its supply chains that need domestic inputs from the agriculture and service sectors.

The private sector in Ethiopia is nascent. This is visible, for instance, when measured in terms of private sector credit to GDP where Ethiopia lags behind its peers. Private sector credit is only about 9 percent of GDP in Ethiopia compared to more than 20 percent in SSA. The experience of East Asian developmental states such as China, South Korea, and Vietnam shows that private firm growth is needed to lead the development process. Yet firm competitiveness in Ethiopia is limited by entry barriers to starting a business: access to reliable energy; efficient trade logistics; and exporting based on a more neutral exchange rate.

Productivity

Fostering faster and more inclusive structural transformation in Ethiopia requires productivity-enhancing activities across all administrative levels, in all regions, and improvements in all factors of production. Solutions to increase productivity in Ethiopia need to address the constraints for

⁵ SOE investment is an important part of public investment and ranged between 3.4 and 10 percent of GDP between 2007/08 and 2013/14. State-owned banks accounted for about two-thirds of banking system deposits in 2014/15 and the SOEs’ share of credit from the banking system reached 20 percent of GDP in that same year.

⁶ Although Ethiopia has experienced high economic growth and some structural change in production away from agriculture toward services, the similar shift in employment has been much more modest. Nevertheless, agricultural employment did decline from 80 to 77 percent between 2005 and 2013. Because agricultural labor productivity is so low, this shift gave rise to static efficiency gains as relative labor shares increased in construction and services where the average value added of a worker is up to five times higher.

an efficient use of the production factors: land, labor, capital, and enterprise. Doing so in both rural and urban settings will also lead to more inclusive growth. Productivity enhancements in rural settings will require improved management of natural resources including soils, water and forests. In terms of labor, poor nutrition, health, and low skill levels of workers pose limits on job growth; and there are labor market frictions in the intermediation between supply and demand for jobs.

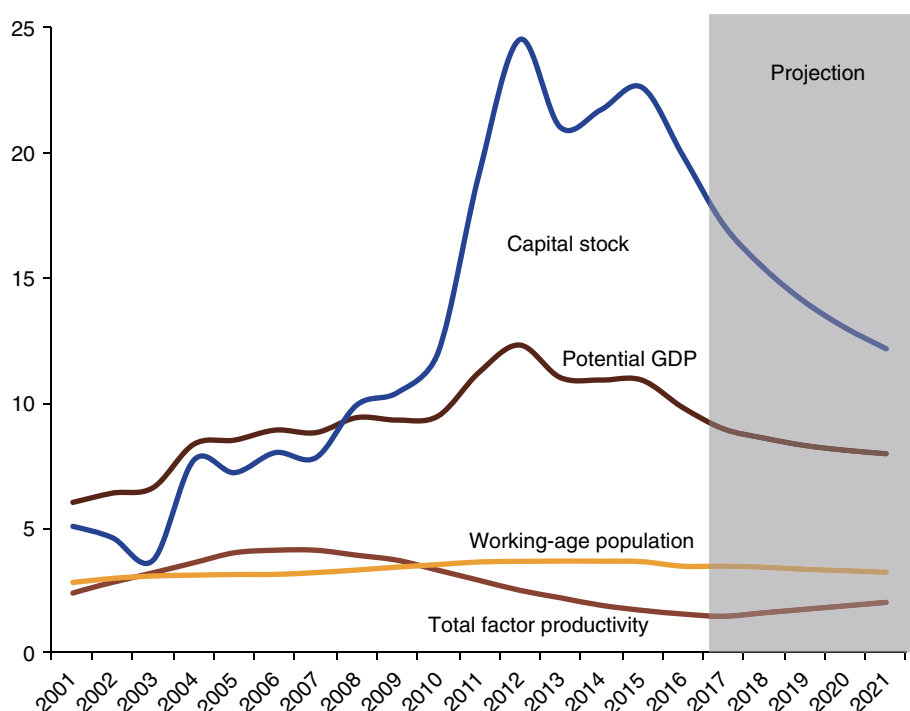
Improved Information and Communication Technology (ICT) is important to increase productivity, advance structural transformation and contribute to poverty reduction and shared prosperity. The SCD identified ICT as a possible constraint for the future. The SCD found that Ethiopia's ICT sector ranks among the bottom decile in most international indices⁷ and indicative simulations showed that if Ethiopia were to achieve ICT services similar to those in China, labor productivity of Ethiopian firms could rise by between 3.1 and 4.1 percent. As the Government implements GTP II, including the drive to become a manufacturing hub, the challenges and opportunities of ICT become more obvious and urgent. This is consistent with the argument in the SCD that as other constraints to firm competitiveness are addressed, limited ICT coverage and costly access will increasingly become a constraint to firm growth. ICT can also potentially help reduce extreme poverty and promote shared prosperity by improving the flow of information and services, decreasing the relevance of distance, expanding potential markets for businesses, providing opportunities for economic diversification, and serving as a source of jobs.

Competitiveness

The current government economic strategy embodies a series of policy trade-offs that prioritize public infrastructure investment and constrain the private sector. Currently, the allocation of rationed credit and foreign exchange still benefits public investment through cheaper capital imports. At the same time, however, this also crowds out the private sector. Likewise, the overvalued real exchange rate cheapens public capital imports but undermines external competitiveness. Substantial levels of domestic and external public borrowing to finance public infrastructure have increased indebtedness. In sum, limited progress on structural economic reforms is preventing the realization of associated efficiency gains. While the current approach worked well during the growth acceleration to close the infrastructure gap through public investment, more structural reforms will be needed in the future to fully establish market-based principles in competitive markets.

Projections of potential GDP growth indicate a slowdown in the medium term on account of declining capital growth and lower-than-previous total factor productivity (TFP) growth. Figure 3 presents the historical trends since 2001 and projections for potential GDP growth. Potential GDP growth is computed as a function of changes in the capital stock, labor force and TFP along the lines of the Solow decomposition. Potential GDP growth increased from 6.4 percent in 2001 to 12.3 percent in 2012. It subsequently declined to 9.8 percent in 2016, and is expected to decline further in the 2017–21 projection period to about 8.3 percent (see also Table 1). Capital growth has been exceptionally high over the past years and started to decline only recently with a projected continuation of that trend declining over the CPF period. TFP growth was very high during the growth acceleration in the first decade of the 2000s, but it has declined significantly over the past five years. This was not surprising, and the SCD found that this was primarily due to a natural decline in TFP growth after the earlier period of rapid growth. A rising working-age population provides some growth impetus, but is insufficient to counter the overall decline of GDP (over the period 2005 to 2013, 13 percent of per capita growth was

⁷ For example, the ICT Development Index of the International Telecommunications Union ranks Ethiopia as 162nd out of 166 countries in 2016 (34th out of 38 SSA countries), the Network Readiness Index of the World Economic Forum ranks Ethiopia as 130th out of 143 countries in 2015 (24th out of 32 SSA countries), and the web index of the World Wide Web Foundation ranks Ethiopia as 86th out of 86 countries in 2014 (21st out of 21 SSA countries).

Figure 3: Potential Output and Factor Productivity Growth, percent

Source: World Bank staff calculations based on World Bank MFMOD Economic Model.

attributed to the demographic effect). As a consequence, the focus of this CPF is on productivity enhancing activities, which are projected to add momentum to a renewed trend increase in TFP growth—albeit slowly—over the CPF period.

A large external trade deficit contributed to Ethiopia's historical current account deficit. Since 2014, the deficit has deteriorated further on account of weak export performance associated with the collapse of the global commodities prices (especially primary commodities), an unfavorable global economic environment from main trading partners (notably China), and the appreciated real effective exchange rate. The low manufacturing base of the economy was unable to compensate for changing commodity prices of overall exports. At the same time, imports continued to increase as the demand for large infrastructure investments remains strong. Debt-financed capital-goods imports for public infrastructure investment contributed to the widening of the trade balance. The current account deficit is expected to continue to improve slightly, to reach –6.8 percent of GDP in 2021.

Sustainability of Infrastructure Financing

The current infrastructure financing model poses a risk to development outcomes. In Ethiopia's financial sector, domestic credit is a rationed resource allocated to competing uses. Directing the bulk of domestic banking sector credit to the rapid expansion of publically provided infrastructure and basic services led to a rapid accumulation of public external debt. To sustain high growth rates, analytical work prepared by the WBG suggests that Ethiopia needs to identify sustainable ways to finance infrastructure.⁸ This can be achieved, for instance, by supporting private investment through credit markets

⁸ <http://documents.worldbank.org/curated/en/693561467988949839/pdf/99399-REVISED-PUBLIC-thiopia-Economic-Update-2-11-16-web.pdf>

Table 1: Selected Economic Indicators

Fiscal Year Ending July 7	Average 2006–2016	2012	2013	2014	2015	2016	2017f	2018f ^d	2019f	2020f	2021f
Income and Economic Growth											
GDP growth at factor cost (annual %)	9.4	8.7	9.8	10.3	10.2	8.0	8.3	8.0	7.9	8.0	8.0
GDP per capita (US\$)	433	472	506	575	649	711	770	832	903	982	1,068
Prices											
Inflation, consumer prices (annual %, end of year)	10.9	20.8	7.4	8.5	10.4	7.5	8.0	8.0	8.0	8.0	8.0
Inflation, consumer prices (annual %, period average)	14.8	34.7	13.9	8.1	7.7	9.7	7.4	8.3	8.4	8.5	8.5
Fiscal											
Revenue (% of GDP)	16.2	15.5	15.8	14.9	15.4	16.0	16.3	16.4	16.6	16.9	17.0
Expenditure (% of GDP)	17.8	16.6	17.8	17.7	18.6	18.4	19.2	19.5	19.6	19.7	19.8
Debt service (% of GDP)	0.5	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6	0.5	0.5
Fiscal balance including grant (% of GDP)	–2.3	–1.2	–1.9	–2.6	–2.4	–2.4	–2.8	–3.1	–3.0	–2.9	–2.8
Fiscal balance excluding grant (% of GDP)	–4.9	–2.9	–3.5	–3.7	–3.4	–3.2	—	—	—	—	—
Primary fiscal balance including grants (% of GDP) ^a	–1.9	–0.9	–1.6	–2.2	–2.0	–1.9	–2.3	–2.5	–2.5	–2.4	–2.3
Total public debt (% of GDP)	43.8	32.7	37.4	45.7	55.3	54.2	55.6	56.4	55.9	54.5	53.1
External public debt (% of GDP)	23.4	17.9	20.5	25.2	31.0	30.2	30.0	30.3	29.4	28.2	27.0
External Accounts											
Export growth (% , yoy)	12.8	14.8	–2.3	5.7	–8.5	–3.7	3.4	10.8	12.0	6.0	4.5
Import growth (% , yoy)	15.6	34.0	3.7	19.7	19.9	1.6	3.4	7.6	7.0	5.3	6.5
Merchandise exports (% of GDP)	6.0	7.3	6.5	5.9	4.6	4.0	3.7	3.7	3.7	3.8	3.9
Merchandise imports (% of GDP)	25.6	25.5	24.1	24.7	25.5	23.1	21.5	20.9	20.2	19.1	18.3
Services, net (% of GDP)	0.9	0.4	1.2	1.3	–0.1	–0.6	–0.5	–0.5	–0.4	–0.2	–0.1
Service exports (% of GDP)	6.1	6.5	6.0	5.7	4.8	4.1	3.8	3.8	3.8	3.9	3.9
Service imports (% of GDP)	5.3	6.1	4.8	4.4	4.8	4.7	4.4	4.3	4.4	4.5	4.5
Private transfers, net (BoP, % of GDP)	8.1	7.5	7.5	7.3	7.6	8.3	4.9	4.8	4.8	4.7	4.7
Current account balance before grant (BoP, % of GDP)	–10.7	–10.6	–8.5	–10.6	–13.8	–11.9	–11.0	–10.4	–9.6	–9.3	–9.0
Current account balance after grant (BoP, % of GDP)	–6.4	–6.5	–5.3	–7.9	–11.5	–10.4	–10.4	–9.7	–8.8	–7.8	–6.8
Foreign Direct Investment (% of GDP)	3.0	2.5	2.6	2.6	3.4	4.2	5.8	5.8	5.8	5.9	6.0
External debt, total (% of GDP)	23.4	17.9	20.5	25.2	31.0	30.2	30.0	30.3	29.4	28.2	27.0
Gross official reserves (months of imports) ^c	1.8	2.0	1.8	1.5	2.0	1.9	1.9	1.9	2.1	2.2	2.2

(continued)

Table 1: Continued

Fiscal Year Ending July 7	Average 2006–2016	2012	2013	2014	2015	2016	2017f	2018f ^d	2019f	2020f	2021f
Poverty Rate											
Poverty headcount ratio at US\$1.9/day, 2011 PPP terms, % of population	28.8	32.4	29.6	28.3	27.1	26.4	25.6	24.8	24.1	—	—
Inequality—Income Gini ^b	33.2	33.2	33.2	33.2	33.2	33.2	—	—	—	—	—
Others:											
GDP (current LCU, billions)	1,080	739	853	1,047	1,231	1,528	1,782	2,070	2,413	2,817	3,292
Nominal GDP (current US\$, billions)	56	43	47	54	64	72	80	89	99	110	122

Source: World Bank staff calculations based on World Bank MMod Economic Model, GoE and International Monetary Fund (IMF) data.

Note: (a) calculations based on 2010 HCES; (b) Most recent value 2010; (c) National Bank of Ethiopia estimates; (d) figures for 2017 and 2018, from the Macro Poverty Outlook October 2016; and (f) refers to forecast. Forecasts of poverty and inequality over the CPF period are not reported. Those indicators rely on household survey data and new data have not been released since 2010/11. At the same time, recent shocks (drought conditions) increase the probability of estimation errors; this uncertainty is higher than in the case of macro and fiscal data. Hence, no full poverty and inequality forecasts are reported in the table.

and by raising domestic revenues. While total revenue (including grants) increased significantly in absolute values over the past decade, the tax elasticity was below 1, resulting in a decline in general government revenue and grants from 21 percent of GDP in 2003/04 to 15.1 percent in 2014/15. The tax-to-GDP ratio in 2014/15 was only 13.4 percent, which puts Ethiopia in the lowest third of SSA countries.

Additional resources could be raised through domestic savings mobilization and the eventual establishment of capital markets. While domestic savings have increased as a share of GDP in Ethiopia, the country has experienced a decline in the credit to GDP ratio, suggesting that increased savings are not always entering the formal banking system and/or are going into the booming real estate market. The Government has actively sought to raise domestic savings through measures such as expansion of bank branches among others. Indeed, bank branch expansions have had a demonstrable effect on domestic savings in the formal banking system. However, as shown in the same analysis, a key determinant of domestic savings is the real deposit interest rate. Since this rate is currently negative, households have strong incentives to channel monetary savings into informal savings mechanisms. A negative real interest rate is also a major obstacle to the development of a secondary market for treasury bills, as institutional investors would not earn a sufficient return for voluntary purchase of such assets.

Analysis suggests that the absence of a functioning capital market may become a binding constraint for growth and development as the country progresses. Since there are substantial needs for long-term financing in local currency by both the public and private sectors, a well functioning capital market (particularly the bond market) is essential to the long-term development of the Ethiopian economy. The current market is characterized solely by short-term treasury instruments of up to one year, the tenor of which does not match the long-term character of the actual investments. In addition, the money market is not functioning with virtually no existing interbank lending. However, there is an active informal market for equities, particularly for bank and insurance stocks, which in turn indicates that there is demand for services of a typical capital market. Failure to establish such a market may mean that future projects could not be financed in an ever-more developed economy. The evolution of this

viable capital market will take time, and a comprehensive but targeted approach is required given its current nascent state.

The general government fiscal stance is and remains prudent. The general government fiscal deficit (excluding SOEs, which are used as a vehicle to pursue public investment and have been a large taker of public external debt in recent years) was modest at 2.4 percent in 2015/16, similar to the preceding year despite increased spending for drought-affected areas. Increased revenue collection, mainly from non-tax sources, compensated for the increase in total expenditures and helped to contain the fiscal deficit. The fiscal deficit (including grants) improved from 5.8 percent of GDP in 2002 (following major drought) to 1.2 percent of GDP in 2012. It has since begun to relax again on account of new pressures arising from the cost of drought relief and public salary adjustments. With continuing increases in domestic resource mobilization, the general government fiscal deficit is expected to decline to –1 percent of GDP in 2021.

Poverty and the Spatial Dimension of Shared Prosperity

Poverty rates in Ethiopia have declined from 55.3 percent in 2000 to 33.5 percent in 2011, based on the measure of US\$1.90 per day. The latest poverty and household living conditions survey was conducted in 2015/16, and results are expected by mid-2017. While the strong economic growth during the past five years would hint at a further reduction in poverty, this most recent survey was undertaken amid the drought, which may result in a less favorable poverty trend. Life expectancy rose from 52 to 65 years during the same period, and there were sizable improvements in many of the human development indicators. Despite this progress, Ethiopia remains one of the world's poorest countries with a per capita income (GNI per capita) of US\$660 in 2016, far lower than the SSA average of US\$1,646. In 2015, Ethiopia ranked 174th out of 188 in the Human Development Index (HDI). Although there has been progress on nonmonetary dimensions of well-being, as in any other country, those who have moved out of poverty remain vulnerable to falling back into poverty, and 14 percent of nonpoor rural households are vulnerable to falling into poverty.

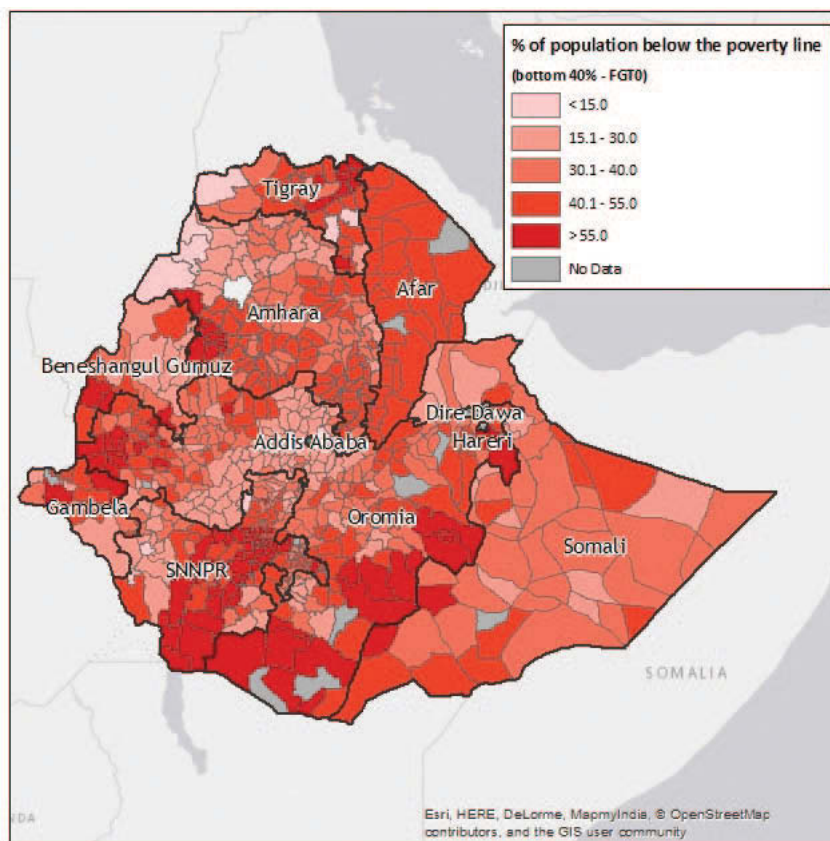
Inclusiveness: Spatial Dimension of Prosperity

Although poverty rates have converged over time across regions, thereby reducing *inter-regional* disparities, there are significant *intra-regional* and *inter-woreda* disparities. Poverty reduction was driven primarily by agricultural growth and supported by public investments in basic service provision and rural safety nets. Analysis shows that each 1 percent of growth in agricultural output reduced poverty by 0.9 percent. The maps in Figure 4 illustrate the distribution and population density, respectively, of the poorest 40 percent in Ethiopia. To illustrate: Oromia and Amhara, the most densely populated regions in Ethiopia, have a greater proportion of *woredas* in which the share of the bottom 40 percent is higher than the national average.

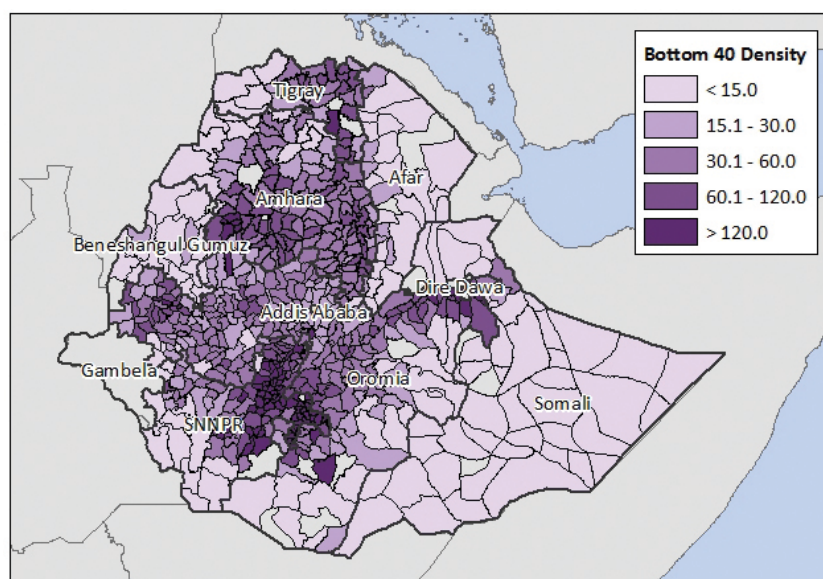
The Ethiopian constitution has designated four historically underserved regions: Gambella, Afar, Somali, and Benishangul-Gumuz. While Somali and Afar have very high rates of multidimensional poverty, such rates in Gambella and Benishangul-Gumuz are lower than the nationwide average. Expansion of basic services to these historically underserved regions has helped to bridge development gaps. Per the spatial approach of this CPF, more focused efforts are needed to ensure that *all* regions, including those that are underserved, receive the full range of quality services, from health to education to water supply. The scope and objectives of the Enhancing Share Prosperity through Equitable Services (ESPES) Project (P151432) are described in Box 3.

Figure 4: Spatial Distribution of Poverty

a: Distribution of the poorest 40 percent



b: Density of the poorest 40 percent



Source: World Bank staff calculations and visualizations based on the 2011 HCES.



Box 3: Enhancing Shared Prosperity through Equitable Services (ESPES) Project

The ESPES Program-for-Results (PforR) supports decentralized basic services at the *woreda* level (the third level of Ethiopia's federal system). The nearly one thousand *woredas* (equivalent to districts) in Ethiopia are responsible for primary and some secondary education and health care, agriculture extension services, as well as rural water supply management and rural road maintenance. Education, health and agriculture extension services account for 95 percent of *woreda*-level spending which primarily covers the cost of staff salaries, such as for teachers. *Woredas* recruit and manage staff according to national guidelines.

To help strengthen the decentralized service delivery system, ESPES also supports improved governance at the *woreda* and regional level, better fiduciary and safeguards management, as well as citizen engagement in service delivery, budgeting and planning. By contributing approximately 8 percent to the *woreda* block grants, ESPES resources leverage these good governance practices over resources twelve times the IDA contribution.

ESPES uses its role in support of improved service delivery to also address gender gaps and sub-regional disparities in human development and access to services. For example, the program includes a Disbursement Linked Indicator (DLI) that requires an increased proportion of female agriculture extension workers, as analytical work by WBG and IFPRI finds that male extension workers are not having a sufficiently positive impact on female farmers. Another DLI requires an increase in girls' enrollment rates in lagging regions, and a third DLI calls for increasing the proportion of health extension workers with level 4 (midwife-equivalent) qualifications. This latter DLI seeks to address the persistently high rate of maternal mortality in Ethiopia.

Moreover, by working at the decentralized service delivery level, ESPES also has the ability to tackle cross-sectoral issues. For instance, it will include a DLI related to improving nutritional outcomes in food-insecure *woredas*. It also monitors the access of schools and health facilities to utilities such as water, toilets and electricity.

Overall inequality remains low in Ethiopia, as measured by the Gini coefficient of 0.3. However, the spatial disparities in many indicators of well-being demonstrate that development has not been fully inclusive. While Ethiopia remained one of the most equal countries in the world during the period of high growth (2005–2014), consumption growth of the bottom 40 percent did not match the consumption growth of the top 60 percent during this period. More significantly, the bottom 10 percent experienced *negative* consumption growth, due in part to high food price inflation.

Urban poverty in Ethiopia's two largest cities is just as high as rural poverty, and is strongly associated with unemployment. In Addis Ababa and Dire Dawa, poverty rates are nearly 30 percent, with unemployment in Addis Ababa around 24 percent. There has also been a drop in real wages, which has further contributed to poverty. Elderly, disabled and female-headed households are more vulnerable to poverty in urban areas (World Bank, 2015). Urban safety net mechanisms to improve incomes of poor urban households and access to livelihood opportunities could help address urban poverty challenges in Addis Ababa and in urban centers across Ethiopia. Simulations show that a modestly-sized urban safety net can halve urban poverty and encourage income growth among recipients by increasing the productivity of the self-employed and encouraging some self-employed to graduate from self-employment to wage employment.

Road access is a key determinant of poverty. Poverty rates increase by 7 percent for every 10 kilometers' distance from a market town. Poverty reduction from agricultural growth displays similar patterns,

as poverty reduction is higher for people close to urban centers (26 percent) than those living in rural areas (4 percent). This further illustrates the role of spatial connectivity in poverty reduction: travel times to urban centers are an important variable in reducing poverty.

Distance from urban centers is an important predictor of poverty and the 2016 rural access index (RAI) for Ethiopia is very low at 21.6. The maps in Figure 5 show the changes in road density between 2006 and 2016 and the RAI, respectively. The national road network of Ethiopia expanded from 26,500 km in 1997 to 100,000 km in 2015 (SCD, 2016), but road density (1 km per 1,000 people) is very low compared to African peers. Changes in road density have not been homogenous across the country, which has implications for labor mobility, market access, and income growth for farmers.

Gender inequality is high in Ethiopia and women remain more vulnerable to risks due to cultural norms and their socioeconomic status (Box 4).⁹ Gender gaps in secondary school enrollment and learning outcomes suggest that traditional girls' roles in undertaking domestic chores are often valued more highly than education. The maternal mortality ratio remains alarmingly high at 420 per 100,000. Gender productivity gaps in agriculture are among the highest in SSA: productivity for female farm managers is 23 percent lower than their male counterparts due, in part, to lower access to land, extension services, credit and inputs such as fertilizer. Access to cooperative leadership and participation is another contributor: for example, only about 20 percent of female farmers hold cooperative membership. Similarly, gaps exist in almost all stages of the agribusiness value chains (post-harvest, processing and storage, transportation, and marketing and sales¹⁰). In urban areas, women have lower rates of employment, often facing discrimination for certain types of jobs deemed not suitable for women. Those women who do work are more likely to be employed in less-skilled, informal, low-paying jobs, often working for family members. Ethiopia has higher rates of gender-based violence than the SSA average, and high rates of female genital mutilation (FGM). According to the 2016 Ethiopia Demographic and Health Survey (DHS), 62 percent of women age 15–49 nationwide have been circumcised, though that figure ranges from 24 percent to 98.5 percent depending on the region, level of education, and wealth quintile. Although FGM is illegal in Ethiopia, criminal prosecutions are extremely rare.

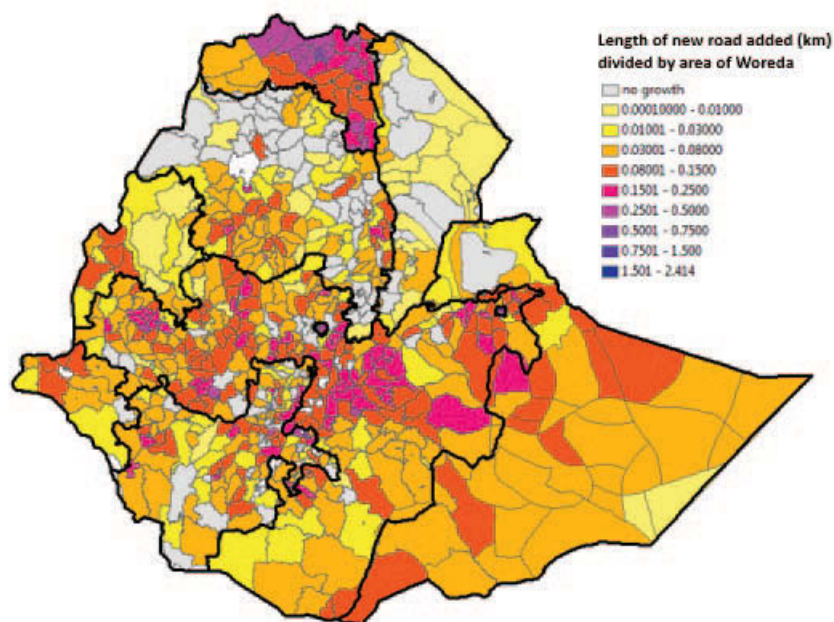
Fertility rates have fallen while life expectancy has continued to rise. The current fertility rate—4.6 children per woman (DHS, 2016)—is down from approximately 7 children per woman from the 1950s to mid-1990s. Life expectancy has increased from 35 years in the 1950s to 65 years, and is projected to reach 75 years by the 2050s. Population growth rates, down from 3.1 percent between 1985–1990, to 2.5 percent in the current period, are projected to reach 1.3 percent by 2045–2050. To accelerate this demographic transition, women need greater access to family planning services, education, and employment opportunities. For example, the DHS indicates that the coverage of modern contraceptives among the highest wealth quintile is twice as high as that of the lowest quintile (45.7 vs. 21.9 percent). To illustrate regional differences, the current use of contraception in Addis Ababa is 50.1 percent, while in the Somali Region it is 1.5 percent. Furthermore, rates of adolescent and maternal undernutrition in Ethiopia are high: an estimated 36 percent of adolescents and 27 percent of women of reproductive age (15–49 years) are undernourished. Food insecurity and undernutrition in adolescents and pregnant women, compounded by gender inequality, create an intergenerational cycle of stillbirth, miscarriage, low birth weight, stunting, impaired cognitive development and, as adults, suboptimal productivity.

⁹ Per World Bank Operations Policy (OP)/ Bank Policy (BP) 4.20, this CPF is informed by a range of gender diagnostic work, including a 2015 Norad gender assessment of Ethiopia, the gender analysis that preceded the SCD, and the significant gender analysis included in the Ethiopia Poverty Assessment.

¹⁰ *Investing in Women along Agribusiness Value Chains*, IFC, October 2016.

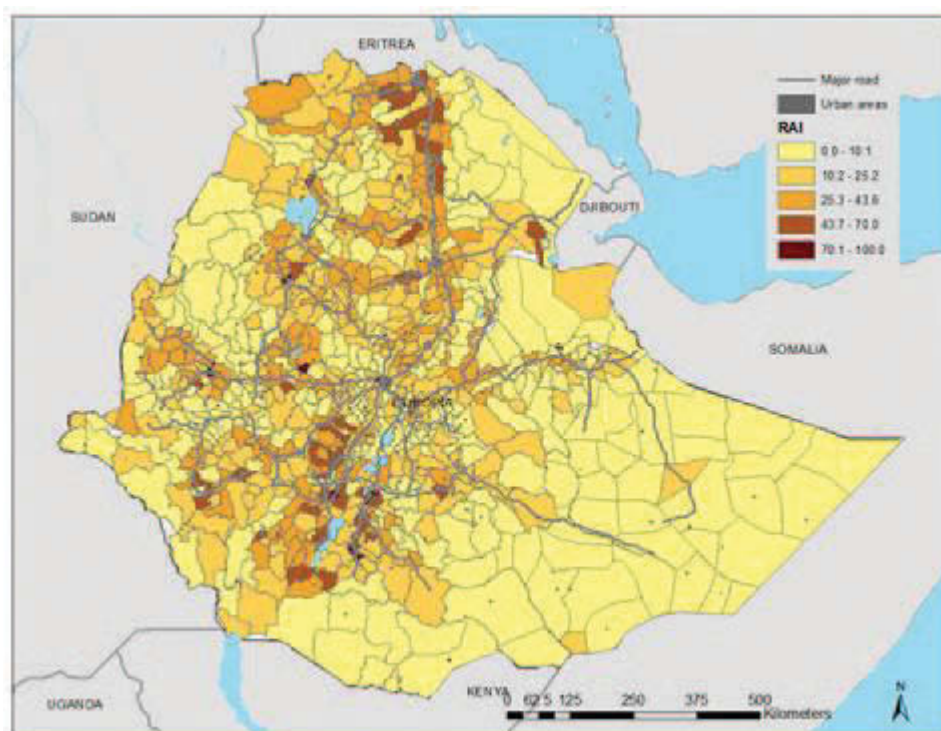
Figure 5: Road Density and Rural Access

a: Changes in road density and length, 2006 to 2016



Source: World Bank visualization based on data from various UN agencies.

b: Rural Access Index (RAI) and major roads, 2016



Source: World Bank visualization based on data RAI (World Bank).



Box 4: Gender in the Ethiopia CPF

Ethiopia's GTP II and the World Bank Group's Systematic Country Diagnostic (SCD) highlight the key gender-related constraints to boosting productivity and women's contribution to growth. GTP II lays out a bold agenda for women's empowerment and participation. For example ambitious targets are set in the areas of women-owned SMEs (4.13 million women will own SMEs by the end of GTP II), access to credit (2.24 million women), participation in agricultural activities (doubling female participation), land use (all female-headed households will have land-use rights), access to training for vulnerable women (36,000 vulnerable women in 30 *woredas*), access to education (gender equality at all levels of education), and female participation in legislative and executive bodies and the judiciary system.

Gender was a prominent feature of the FY13–FY16 CPS for Ethiopia (ET-71884), with over 90 percent of projects rated as fully gender informed. There will be an even deeper integration of gender in this FY18–FY22 CPF for Ethiopia.¹¹ This will be achieved by: (1) the application of a *Gender Filter* to all new operations (an overview of the proposed Gender Filter is presented in Annex 11); (2) greater inclusion of gender-disaggregated outcome indicators in the CPF results matrix (which was identified as a shortcoming in the most recent CPS); and (3) partnering with the Africa Gender Innovation Lab (GIL) to identify and scale up interventions that show the greatest promise for improving outcomes related to gender.

To maximize the impact of WBG work in support of the GoE's agenda, interventions to address gender in this CPF are as follows:

- To maximize **women's contribution as entrepreneurs, farmers, and employees**, interventions will focus on: increasing the earnings and employment of women-owned enterprises, via access to loans and business training (WEDP—see Figure 6); closing the gender gap in agricultural productivity by designing extension services that are better tailored to women farmers' needs and improving their access to irrigation and best practice techniques/technologies (AGP2; ESPES); promoting women's increased participation in the labor market by supporting sectors/jobs that women already dominate (e.g., industrial park jobs via the Competitiveness & Job Creation Project (CJCP) (P143302), as well as by promoting women's participation in traditionally male-dominated sectors/jobs (Ethiopia Trade Logistics Project (ETLP) (599466); National Quality Infrastructure Development Project (NQIDP) (P160279)); and ensuring that women are able to participate in public works employment with reduced hours, 'light' works, and the provision of child care (Productive Safety Nets Project 4 (PSNP4) (P146883); Urban Productive Safety Nets Project (UPSNP) (P151712)).
- To maximize the impact of interventions aimed to building the **human capital** necessary for a more productive economy in the future, interventions will focus on: promoting gender equality in education by creating an environment that is conducive to female students (GEQIP II and ESPES); improving maternal health outcomes by addressing supply-side bottlenecks through investments in human resources and equipment (HMDGSO and ESPES), demand-side gaps through communications campaigns targeted to women (UPSNP and ESPES) and soft conditionality for use of health services (PSNP4); and improving access to safety nets for poor women in both rural (PSNP4) and urban (UPSNP) areas.
- To build **women's agency**, and enable them to more fully participate at all levels of decision making, interventions will focus on: strengthening women's agency in social accountability mechanisms via quotas for women's participation in projects; capacity building for women and women's groups, and encouraging women's participation in *woreda* pre-budget discussions (ESPES); and addressing gender-based violence (GBV) as a key risk within non-GBV specific projects by applying the Gender Filter.¹² Given the prevalence of GBV in Ethiopia, and the negative impact of GBV on project and development outcomes, the CPF will

¹¹ This approach is consistent with the emphasis placed on a more coherent and results-focused approach in the World Bank 2016–2023 Gender Strategy, and the new Gender CCSA methodology for rating gender in operations (the so-called "Gender Tag").

¹² As other development partners have greater expertise and are already active in the area of GBV in Ethiopia, the World Bank does not have plans for any stand-alone operations focusing on GBV.

address GBV as a key risk within non-GBV-specific projects. This will be implemented through the Gender Filter (see Annex 11).

To further refine the approach to gender in Ethiopia, the World Bank's Africa Gender Innovation Lab will be partnering with the country team to establish an *Ethiopia Gender Innovation Lab*. To lay the foundation for this collaboration, the GIL will, in collaboration with the Government, produce a white paper on gender issues in Ethiopia. This white paper will synthesize the existing body of evidence on gender-related constraints to women's economic participation and contributions to growth, identify promising policy levers to address these constraints, and highlight the most pressing knowledge gaps. Following this initial diagnostic process, the GIL, in partnership with governmental and other organizations, will seek to develop and test promising interventions and policies via rigorous impact evaluations.

Figure 6: Women Entrepreneurship Development Project (WEDP)

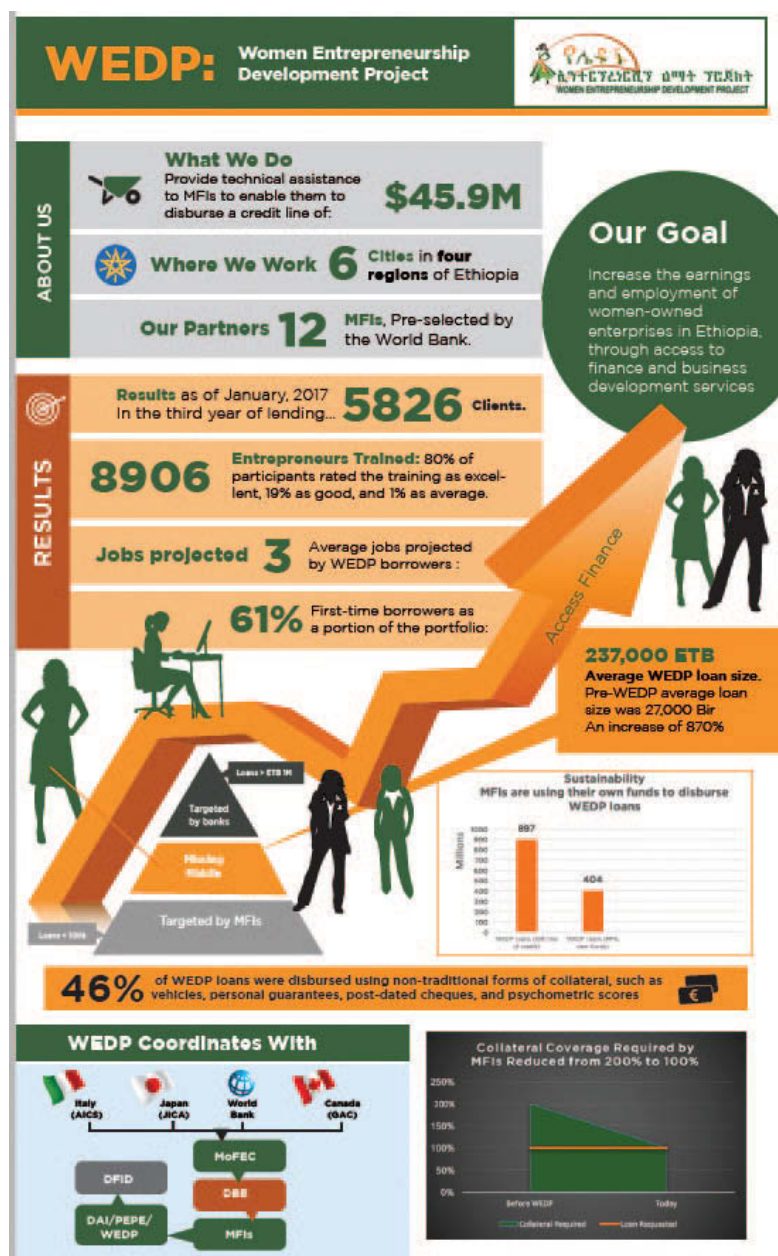
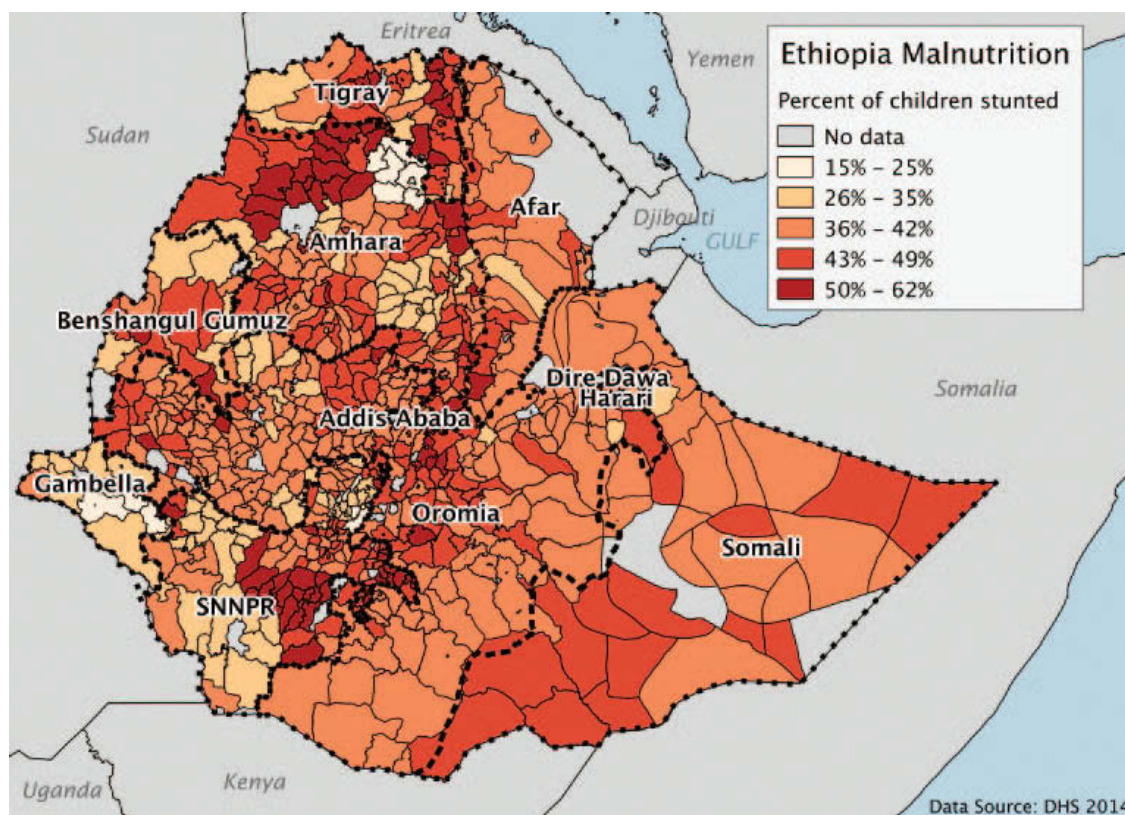


Figure 7: Spatial Dimensions of Malnutrition

Source: World Bank visualization based on DHS data (2014).

Although Ethiopia made significant progress toward achieving the MDGs, with improvements in primary school enrollment (quadrupled), child mortality (halved), and access to clean water (more than doubled), challenges remain. Access to education has increased (between 2011 and 2015, primary enrollment increased by 2.5 million students, to nearly 19 million students by 2016), yet net rates of primary attendance (65 percent) and completion (below 50 percent) are low. There is room for improvement in learning outcomes and quality of education, where there are also regional and gender disparities in basic proficiency. Similarly, despite progress toward the MDG on undernourishment (stunting rates fell from 58 percent to 38 percent between 2000 and 2016), the prevalence of stunting remains alarmingly high, and there are significant spatial disparities both within and between regions, as depicted in the map in Figure 7.

Drivers of Poverty Reduction and Development Challenges

Building Resilience

Despite significant progress in natural resource management in the face of climate shocks, further building resilience is an urgent challenge in Ethiopia. Ethiopia has been a leader in incorporating climate change and resilience into its development strategy. The Climate Resilient Green Economy (CRGE) Strategy presents a vision for a low-carbon, resilient economy which features strongly in the GTP II. The CRGE Strategy covers eight sectors including energy, water, urbanization, and industrialization. As the severity and frequency of droughts continue to increase, building resilience and expanding market

access for farmers is critical to strengthening agricultural and rural livelihoods for the bottom 40 percent. While risks arise from volatility in seasonal rainfall, recent gains in sustainable land management practices have helped to reduce vulnerability to climate shocks. That said, building resilience remains an urgent task at hand. The future of managing these climate shocks will be rooted in national programs and line ministries as they build their capacity to respond to longer term needs as well as acute events.

A similarly urgent aspect of boosting resilience is the need to focus on the early years of child development—progress is needed in improving health, learning, skills, labor productivity and overall quality of life. The first thousand days from conception shape a child's future in terms of physical and mental abilities. Childhood stunting and early learning are critical challenges in Ethiopia, due in part to micronutrient deficiencies, lack of dietary diversity and inadequate child feeding practices, particularly low rates of exclusive breastfeeding and complementary foods. High disease burdens such as acute respiratory infections, malaria, and diarrhea, exacerbated by lack of access to clean water and sanitation, further compound the problem. Mothers are also often underweight and poorly nourished, due to both lack of access to nutritious food and lack of knowledge and demand.

Overcoming Spatial Inequality and Fostering Inclusiveness

In order to strengthen livelihoods for the bottom 40 percent, Ethiopia needs to build on national systems that can support sustained improvements in human development indicators. Providing basic services across the country in nationwide programs can lay the foundation for vibrant centers of economic activity across all regions. Currently, GoE allocates approximately one-third of government expenditures to health and education. National programs will need to identify and address pockets of extreme poverty and poorly performing areas, and emphasize quality service delivery in those areas.

Access to land remains a critical constraint at all levels. In order for Ethiopia to sustain its rapid growth trajectory of the past decade, it must make optimal use of all of its factors of production, particularly through continued reforms in land markets and land certification. This process is among other efforts being supported under the WBG-financed Second Sustainable Land Management Project (SLMP II). As of the Project Mid-term Review in December 2016, more than 260,000 households (of which approximately 28 percent were female-headed households) received second-level (geo-referenced) landholding certificates. In addition, 1,598 landless youth (41 percent of whom are women) were issued land certificates giving them use rights over degraded communal land in exchange for rehabilitating the land to use for income generating activities.

Local land management approaches have created tensions and localized conflict. If current practices and approaches remain unchanged, the full attainment of development results will be threatened. The risk of such tensions has been recognized at the national level but localized problems continue. Land use and management must be addressed in urban settings as well, where weak urban planning and land management are a binding constraint to improved productivity, higher-paying jobs, and overall welfare gains.

Expansion of urban safety nets could help to make the urbanization process more inclusive. The poverty rate in urban Ethiopia is almost as high as the rural poverty rate. Those who are unable to work—the elderly and disabled—live in similar or poorer conditions than their counterparts in rural areas. They are less likely to access a loan or gift from relatives when needed, reflecting weaker social structures, and they receive no public safety net transfers, which are exclusively focused on rural areas. As urban areas grow, the need to strengthen urban safety nets will become an increasing priority to address poverty and vulnerability.

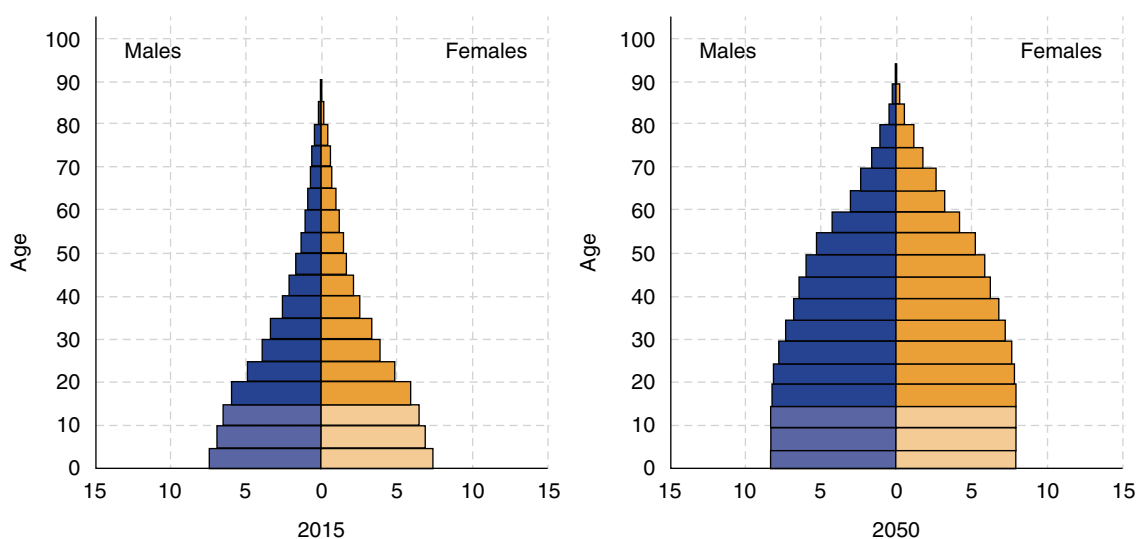
Productivity and Employment

To advance the pace of structural and economic transformation, the role of the private sector in the Ethiopian economy needs to be strengthened by addressing challenges around productivity, competitiveness, and the sustainability of infrastructure financing. Structural reforms will be important so that both economic and structural transformation can be achieved. A more vibrant private sector is key for job creation and sustained growth. Limited credit for private investment is a binding constraint for potentially productive and competitive firms, particularly to domestic firm growth. Other constraints to firm competitiveness include: efficiency of trade logistics; access to inputs; tax administration; regulatory predictability, quality, and burden; competitive exchange rate; land; and burdensome entry requirements.

Job creation is a growing challenge—particularly creating private sector jobs—given the rapid shift in the age structure of Ethiopian population. Ethiopia's demographic transition has been more rapid than elsewhere in the continent as fertility rates fell from seven children per woman in 1995 to 4.6 in 2016. The working-age population remained constant at around 50–51 percent from 1985–2010 and is projected to peak at 67.5 percent in 2055, as illustrated in Figure 8. While this demographic transition can reap huge benefits for enhanced growth, it also poses the daunting challenge of finding employment for new entrants into the labor market. Ethiopia's labor force is projected to grow by two million a year over the coming 10 years, while the number of young workers (age 15–29) will increase by 8.5 million by 2025. Persistently low education levels of rural youth (in 2013, 84 percent of rural youth had not completed primary school), combined with increasing sizable gender gaps (employment ratio for women age 15+ is 72 percent, versus 86 percent for men), and increasing land shortages, make it increasingly challenging to productively employ a rapidly growing and largely unskilled youth population.

Urbanization in Ethiopia is on the rise, but has only been associated with a limited shift in the employment structure. The share of agriculture in total employment decreased by four percentage points between 2005 and 2013, while that of services (including agricultural extension services) rose by a single (one) percentage point in the same period. The urban share of Ethiopia's population (estimated

Figure 8: Population Pyramid: 2015 and 2050



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015), *World Population Prospects: The 2015 Revision*.

at only 17 percent in 2012) is one of the lowest in the world, well below the SSA average of 37 percent. The annual rate of urbanization is projected to average 5.4 percent over the coming decade, with 30 percent of Ethiopians living in urban areas by 2028, and a tripling of the urban population by 2034. Urban population growth has the potential to shift the structure and location of economic activity from rural agriculture to larger and more diversified urban industrial and service sectors. Cities, and especially Addis Ababa, already play an important role in the economy, contributing 38 percent of GDP while employing only 15 percent of the total workforce, reflecting the high productivity (and higher levels of required education and skills) associated with sectors located mostly in urban areas. Greater attention to urban resilience and secondary cities is needed to create attractive employment opportunities for rural migrants, and market access for farmers. This is important to relieve the pressure on overstretched cities such as Dire Dawa and Addis Ababa.

Increasing Competitiveness

Limited access to credit for private investment reflects low levels of financial inclusion and poses an additional constraint to boosting productivity and rural livelihoods. Overall access to financial services remains highly limited across Ethiopia. According to the 2017 Living Standards Measurement Study (LSMS), the proportion of adults with a bank account is 54 percent in urban areas, 38 percent in small towns, and 11 percent in rural areas. Limited access to credit constrains investments in non-agricultural activities, and constrains agricultural investments for some households as well. Low access is explained by: (1) underdeveloped financial (and other) infrastructure; (2) inadequate supply of a range of suitable financial products; (3) inadequate financial consumer protection; and (4) low levels of financial capability and awareness. Similar constraints exist at the firm level, where limited access to credit constrains the growth of firms that would otherwise have the potential to unlock economic benefits. Facilitating domestic savings mobilization and preparing for the eventual establishment of capital markets in Ethiopia, by laying the institutional groundwork and realizing a positive real interest rate, would help Ethiopia build a foundation for private credit to flourish and establish market mechanisms that maximize highest returns.

Entry barriers to starting a business, including access to reliable energy supplies, trade logistics and an overvalued real exchange rate, impede competitiveness and limit growth and employment. Burdensome regulations, regulatory uncertainty and risk, insecure property rights, and access to land are critical constraints. Ethiopia scores poorly on the 'Starting a Business' indicator at 179th out of 190 economies (WBG Doing Business Report, 2017). Complex licensing and permitting procedures, transaction costs of dealing with government agencies, and broader issues of regulatory quality are rated as being burdensome as well.

Energy access is a key challenge for households and firms. Ethiopia is one of the world's cleanest energy producers with 97 percent of its energy generated through hydropower. Ethiopia has also improved energy coverage through the grid, which is high with 60 percent of towns and villages covered. However, Ethiopia has the second highest energy deficit, in terms of household connections, in SSA with an on-grid access rate of 15 percent and an off-grid access rate of 10 percent. Limited access to reliable energy hinders firm performance and growth as well.

Inefficiencies in trade logistics represent a major challenge to enhancing competitiveness, especially in light manufacturing. To illustrate, it has been calculated that for a 20 foot container of garment exports to Germany, Ethiopia's logistics costs are 247 percent higher than those of Vietnam and 72 percent higher than those of Bangladesh. Inefficiencies in the logistics sector result in high overhead costs for manufacturers, constrain the use of imported inputs, and prevent manufacturing firms from operating at full capacity. High journey times, which undermine participation in global (and internal)

value chains, impose high costs on small firms and undermine agricultural supply chains. When judged by its performance in the “Trading across Borders” indicators (Doing Business, 2017), Ethiopia is ranked 167th out of 190 economies. On the Logistics Performance Index, which captures the perception of freight forwarders, Ethiopia was ranked 126th in 2016, a deterioration compared to their ranking of 104th in 2014. The Government acknowledges the challenges it faces in this area and has begun taking steps toward improving the sector.

Ethiopia’s strong real exchange rate hinders exports, structural change, and threatens the external balance. Modeling estimates offer various projections as to the potential impact of a devaluation. One such model estimates that in Ethiopia, a one percent devaluation of the real exchange rate is estimated to boost exports by one-half percent, with larger effects in manufacturing (one percent) than in agriculture (one-third percent). Implementing a lower exchange rate would require an appropriate monetary and fiscal framework and represents trade-offs with respect to the local currency value of public capital imports and external debt (Haile, 2015). Other macroeconomic effects, for example on inflation, need to be managed closely as well.

Sustainability of the Financing Model

Alternative financing options are needed to make the infrastructure financing model sustainable. The past infrastructure expansion was financed via a range of mechanisms that will begin to show their limits in terms of external debt sustainability and private sector crowding out in the credit and forex allocations. While Ethiopia will continue to need more infrastructure, new mechanisms to finance it are needed. There is a range of alternative financing mechanisms and some options are consistent with current government strategy and thinking. These include raising tax revenues, increased private sector involvement (including Public-Private Partnerships (PPP)), greater selectivity and prioritization of investments, and improved public investment management.

To this end the Ethiopia CPF provides a timely opportunity to implement the WBG “Cascade Approach” to expand infrastructure financing options. This process of “cascading” WBG interventions entails: engaging upstream with the authorities on policy dialogue and promoting regulatory reforms that will enhance the investment climate; providing targeted advisory services and ASA in support of developing PPP solutions; and structuring joint interventions in selected sectors where there are prospects for client commitment. This approach will seek to make optimal use of scarce public funds by helping to effect policy reforms that will crowd in private sector capital and create new markets. A prerequisite for the latter is that WBG and government activities during the CPF period help to lower the risk for private investment (“de-risking”). This “cascading” approach can potentially be applied across a number of sectors, including agriculture, housing, health services, sanitation, and energy. As one example, the alignment of the “cascade approach” to planned WBG support to the Ethiopian Energy Sector is illustrated in Box 5.

Governance and Citizen Engagement

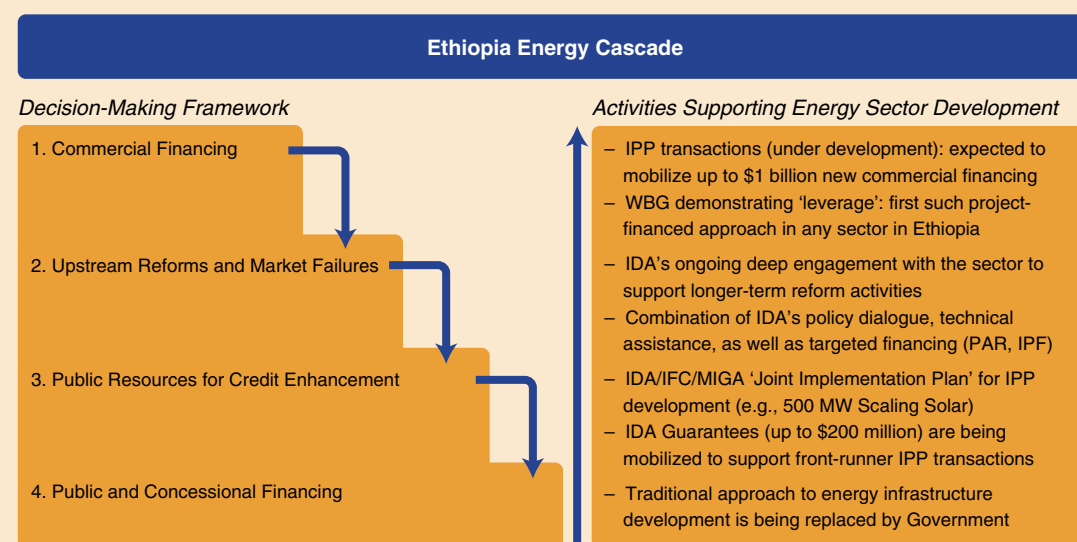
Increasing the institutional capacity and responsiveness of the Government will be key in supporting development goals. Although the current system features citizen engagement mechanisms such as grievance redress and ombuds in some key state-run programs, there is a lack of a culture of debate and dialogue with different stakeholders, the emergence of which will be crucial to inclusive development and growth.

Box 5: Leveraging Private Participation in Energy

Background: Ethiopia achieved success in developing their energy infrastructure over the past decade using only public financed and public executed approaches. The country is endowed with vast renewable energy potential in hydro, solar, wind, and geothermal power. Ethiopia's clean energy generation capacity (mostly hydropower) has already reached 4,256 megawatts (MW) (second highest in SSA). Going forward, as structural reforms are necessary to ensure the long-term technical and financial sustainability of the sector, Ethiopia seeks to invite private sector participation in the power generation segment (as independent power producers (IPPs)) and to bring in private sector capital and sustainable financing structures, augment technical know-how, and to help improve the implementation speed of the energy sector.

World Bank Group Response: The WBG has been providing comprehensive policy advice and technical support to the ongoing reform program through a 'Joint Implementation Plan' (JIP) to coordinate support and provide a 'one-stop-shop' solution combining knowledge, expertise, financing, and guarantees. WBG support includes International Development Association's (IDA) multifaceted advisory assistance for: policy enactment as well as legal and regulatory reform ('PPP Proclamation' and IPP legal framework development), planned capacity development for the IPP teams, and continued technical assistance for utility reform and long-term financial sustainability of the sector. WBG is also supporting IPP transaction pipeline development—IFC has signed an agreement (transaction and financial advisory services) to develop up to 500 MW of solar IPPs ('Scaling Solar Initiative'). The GoE has also requested mobilization of IDA guarantees (up to US\$200 million) to support the front-runner IPP transactions (Scaling Solar and other IPP transactions) by providing credit enhancement and risk mitigation instruments, and **is expected to leverage up to US\$1 billion in new private sector financing flows to the energy sector.**

Alignment with Cascade Approach: The ongoing Ethiopia energy sector reform program being supported by the joint WBG team is fully aligned with the cascade approach by bringing about a complete shift in investment thesis of energy infrastructure development: to transition from completely public financed to private financed projects (see graphic below). Currently, the WBG is supporting mobilization of private sector financing using risk mitigation instruments, since nongovernment guaranteed private sector financing is considered neither cost-effective nor viable. The team is also supporting GoE agencies in conducting out longer term reforms and improving the overall energy sector investment climate through a combination of policy dialogue, technical assistance, as well as targeted financing (PforR to support sector utilities under preparation). Moving forward, the Risk Mitigation Facility of the IDA18 Private Sector Window (PSW) could possibly be leveraged to finance—on a commercial basis with some support from IDA—complex and transformational projects in renewable energy.



WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK



III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

Government's Growth and Transformation Plan II

The CPF is aligned with the GoE's Second Growth and Transformation Plan (GTP II). GTP II covers the period 2015/16–2019/20 with the overall goal of attaining lower middle-income status by 2025. It carries forward the vision of GTP I, which focused on higher agricultural output and public investment-based, infrastructure-driven growth. GTP II also emphasizes the need to maintain high rates of economic growth; ensuring a greater role for the private sector as an engine of growth, particularly in light manufacturing; raising domestic revenues notably through taxation; identifying alternative and sustainable ways to finance infrastructure; and strengthening governance. GTP II elaborates four development objectives: (i) achieve an annual average real GDP growth rate of 11 percent within a stable macroeconomic environment; (ii) boost competitiveness of domestic productive sectors in agricultural and manufacturing industries for greater structural transformation; (iii) promote further public mobilization and organized participation for ownership of development outcomes; and (iv) ensure a stable democratic developmental state. It further elaborates nine 'Pillar Strategies' (Annex 3), many of which build on elements of GTP I.

Reforms which lead to better governance, greater accountability and transparency, and improved financial management capacity will be critical during the CPF period. Successful execution of GTP II will require stronger implementation capacity at all levels, along with improved program management and oversight. The Government will need to address challenges it faced during implementation of GTP I, notably limitations in project planning and management. Rent-seeking, corruption, insufficient feedback mechanisms, and other governance challenges are recognized as additional obstacles to successful implementation of GTP II, as described previously in Box 2.

WBG Country Partnership Framework FY18–FY22

Lessons from the FY13–FY16 Country Partnership Strategy (CPS)

The overall performance of the CPS program (FY13–16) is rated as Moderately Satisfactory (see Completion and Learning Review (CLR) in Annex 2).¹³ This rating is an aggregate measure of progress made toward achieving CPS outcomes. Results under Pillar 1—Fostering Competitiveness and Employment—were Moderately Satisfactory, reflecting effective support to objectives of macroeconomic stability, increased competitiveness and productivity, delivery of infrastructure, and regional integration. Results for Pillar 2—Enhanced Resilience and Reduced Vulnerabilities—were rated as Moderately Satisfactory, with exceptional impact noted in improved delivery of social services, and social protection and risk management. Progress toward the Foundation—Good Governance and State Building—was Moderately Satisfactory, reflecting outcomes in public service performance management; enhanced space for citizen participation; and enhanced public financial management, procurement, transparency,

¹³ This report follows guidelines issued jointly by the Operations Policy and Country Services (OPCS) unit and the Independent Evaluation (IEG) in December 2014 with respect to rating methodology and categories.

and accountability. To further clarify, these ratings reflect the strategic objectives and indicators in the CPS Results Framework—some of which were overly ambitious and subject to changing country circumstances over the course of the CPS period. The ratings do *not* fully capture the impact of the WBG engagement in Ethiopia during the four-year period, or the degree to which the World Bank is viewed as a trusted partner by Government and a valued player within the community of development partners. As noted in the “Lessons Learned” section of the CLR, the team acknowledges the shortcomings of the Results Framework; and that more of a “mid-course correction” could have been made at the time of the CPS Progress Report (CPSPR) to account for changing circumstances, limited progress toward indicators, and the need to incorporate greater risk management and mitigation measures. These lessons are reflected in the CPF Results Framework.

Operations and analytical work need to go hand-in-hand. The CAS Completion Report recommended that the World Bank support improvements in service delivery, notably through use of the PforR instrument. This guidance was applied through delivery of the Urban Local Government Development Project (ULGDP) (P101474), the Enhancing Shared Prosperity and Equitable Services Project (ESPES) (P151432), and the Health MDG Project (P123531). More recently, the World Bank provided valuable just-in-time analytical work to the GoE during the CPS period with great success. The Economic Update series, “The Great Run” report, the SME Finance Report, the SCD, and the Urbanization Review were each well received by the GoE and helped to open the space for policy dialogue—and IDA operations—in areas previously thought to be “off-limits” for engagement.

Linking lending and non-lending operations with CPS outcome indicators was applied to a lesser extent. One of the key lessons of the CPS period is to avoid strategic objectives, outcomes, and indicators that are beyond the scope of either the CPS or the World Bank’s control. This guidance is being applied in the CPF Results Framework and the choice of indicators that are specific, measurable, and time bound.

The World Bank’s comparative advantage derives, in part, from its position as a technical leader among development partners (DPs). WBG is seen as a trusted partner by the GoE, and as a leader in terms of lending and technical capacity. As a result, coordination with the community of DPs was strong and effective during the CPS period, creating synergies that drew on the WBG’s strengths.

The WBG could have used the CPSPR to make more of a ‘mid-course correction’ and adjust indicators in the Results Framework to better take account of changing circumstances and the realism of achieving CPS objectives. Toward this end, a comprehensive Safeguards Review was conducted in March/April 2017, which identified the two most pressing risks—noncompliance and social risk—and recommended mitigation measures. A preliminary draft report of the Ethiopia Safeguard Portfolio Review is expected by Fall 2017. A Country Portfolio Performance Review (CPPR), to be conducted with GoE counterparts, is planned for September 2017 in Addis. There will also be annual program reviews to take stock of progress, and the Performance and Learning Review (PLR) will be prepared midway through the CPF period.

Greater attention to identifying and mitigating risks to the WBG program is needed. The case of the Inspection Panel findings on the Third Protection of Basic Services Project (PBS3) (P128891) highlights the need for systematic assessment of risks to the CPF program and measures to mitigate those risks. During the latter half of the CPS period, social unrest emerged in response to resettlement disputes, land issues, and questions of voice and citizen engagement. More broadly, this has highlighted the question of spatial disparities in resource allocation and economic opportunities, which has significantly informed the focus of the CPF. The spatial lens of the CPF is intended to support more inclusive growth and greater social inclusion.

Overview of WBG Strategy

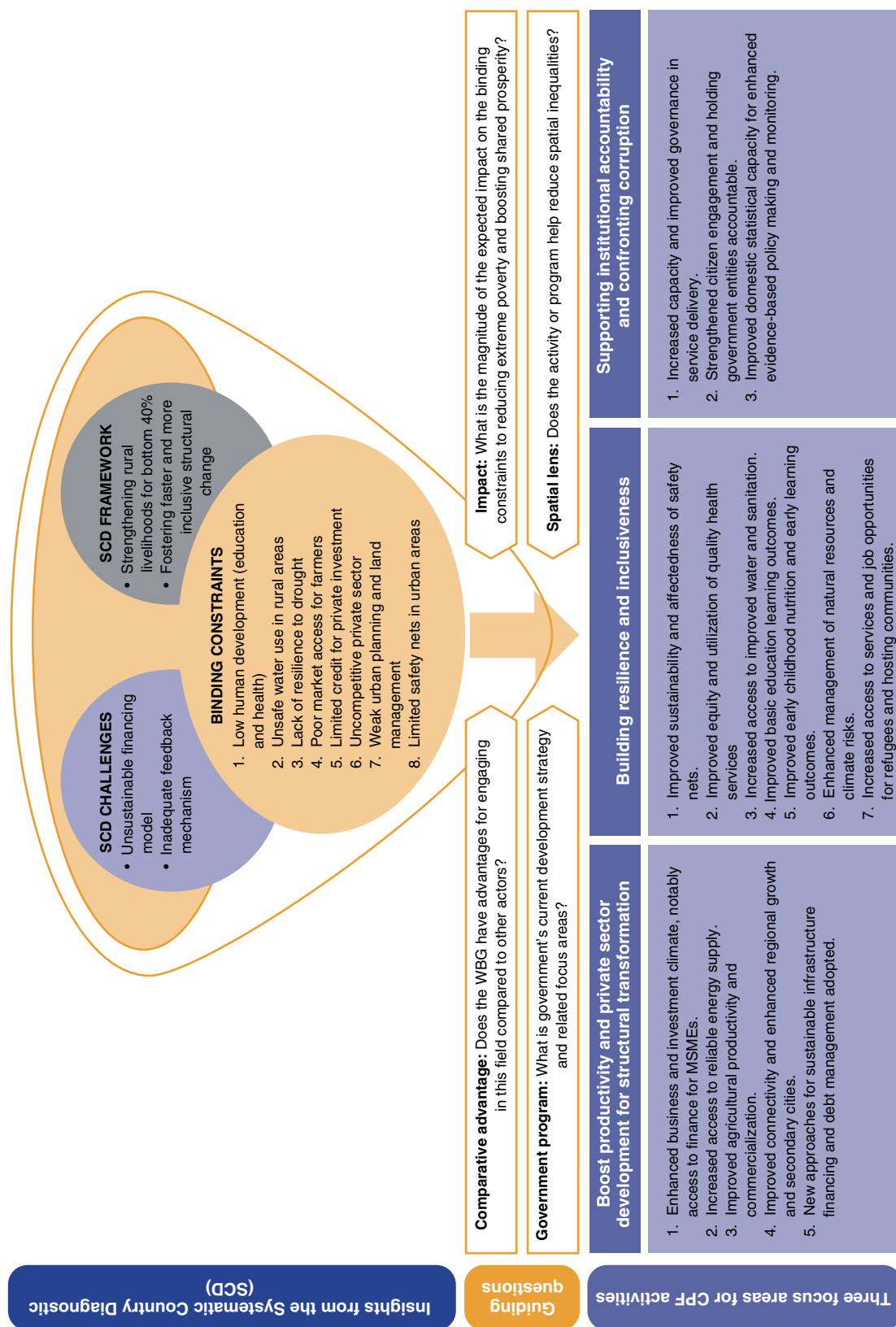
The CPF addresses the challenges of forging a growth path that is more broadly inclusive. Lending and non-lending interventions, structured around three focus areas and 15 objectives (see Figure 9) will continue to leverage Ethiopia's federal system, with its regional decision making, as a foundation to provide greater access to quality services to all *woredas* (district level). The CPF will focus on (i) promoting structural and economic transformation through increased productivity; (ii) increasing social inclusion (including gender equality) and resilience; and (iii) improving institutional accountability and confronting corruption. As part of the focus on private sector-led growth, the CPF will seek to support the emergence of a vibrant private sector. This latter focus area will entail deeper engagement by IFC and MIGA during the CPF period. Within this context, IFC intends to play a critical role in creating markets and crowding in capital to support private sector growth. The WBG could use all the facilities (Risk Mitigation, Local Currency and Blended Finance) available in the IDA18 PSW to potentially support transformational projects in agribusiness, manufacturing, services and infrastructure. The objective is to foster sustainable inclusive growth through job creation and economic transformation.

The CPF will continue to leverage Ethiopia's federal system, with its regional decision making, for maximum development impact. Ethiopia's federal system ensures decentralized decision making, with resource distribution to all the regions through a need-based formula. While this formula might need adjustment, the federal system provides the foundation for governing and service delivery. World Bank operations such as the 'Protection of Basic Services' and 'Enhancing Shared Prosperity through Equitable Services' Programs have built on this foundation to provide key services to all *woredas* throughout the country. In addition, they have introduced social accountability measures to ensure citizen voice and engagement. Moving forward, the CPF aims to strengthen social accountability and citizen engagement components in *all* operations during the CPF period.

How is this CPF different? As described earlier in the CPF, this program is intended to support a more spatially inclusive approach to development that leverages national programs to provide quality services to all areas. It will also support greater investment in secondary cities and transport corridors to create market access for farmers and employment opportunities. The CPF will emphasize activities that boost productivity (as opposed to factor accumulation); increase private sector-led growth and job creation (especially for youth); promote gender inclusion (including economic and social gaps between men and women), land administration and resilience; increase service delivery with a focus on quality; and strengthen governance, citizen engagement, and managing climate risks. To achieve these CPF objectives, there will be *continued close collaboration between the World Bank, IFC and MIGA*, and greater creativity in applying available WBG instruments. This will include efforts with regard to ongoing and/or planned WBG operations, to help effect critical private sector-related policy reforms. The cascade approach, implemented by working together as one World Bank Group, will help overcome Ethiopia's private sector challenges.

A CPF for maximum impact. The focus areas of the CPF are both crosscutting and multi-sectoral, with ambitious objectives and outcome indicators. Ethiopia's indicative IDA18 allocation, on the order of US\$4.0–US\$4.8 billion, provides the resources with which to have a significant impact on the challenges of poverty, inequality, employment, and growth by the end of the CPF period. The increased focus on outcomes, with highly ambitious targets, marks a departure from the past input/output approach. To illustrate: in the energy sector, the aim is to *double* the number of people with access to electricity (on- and off-grid) to *50 percent* by the end of FY21; in education, the focus will be on *better learning outcomes* for girls in grades 4 and 8 (at least achieving gender parity); the aim is to boost the contraceptive prevalence rate of rural women from 32 to 45 percent; in agriculture, the goal is to increase the proportion of cereal/pulses produced by *female-headed households* by 23 percent by 2020; travel time on upgraded roads will decrease by 56 percent, thereby accelerating *market access for farmers*; up to

Figure 9: CPF Framework

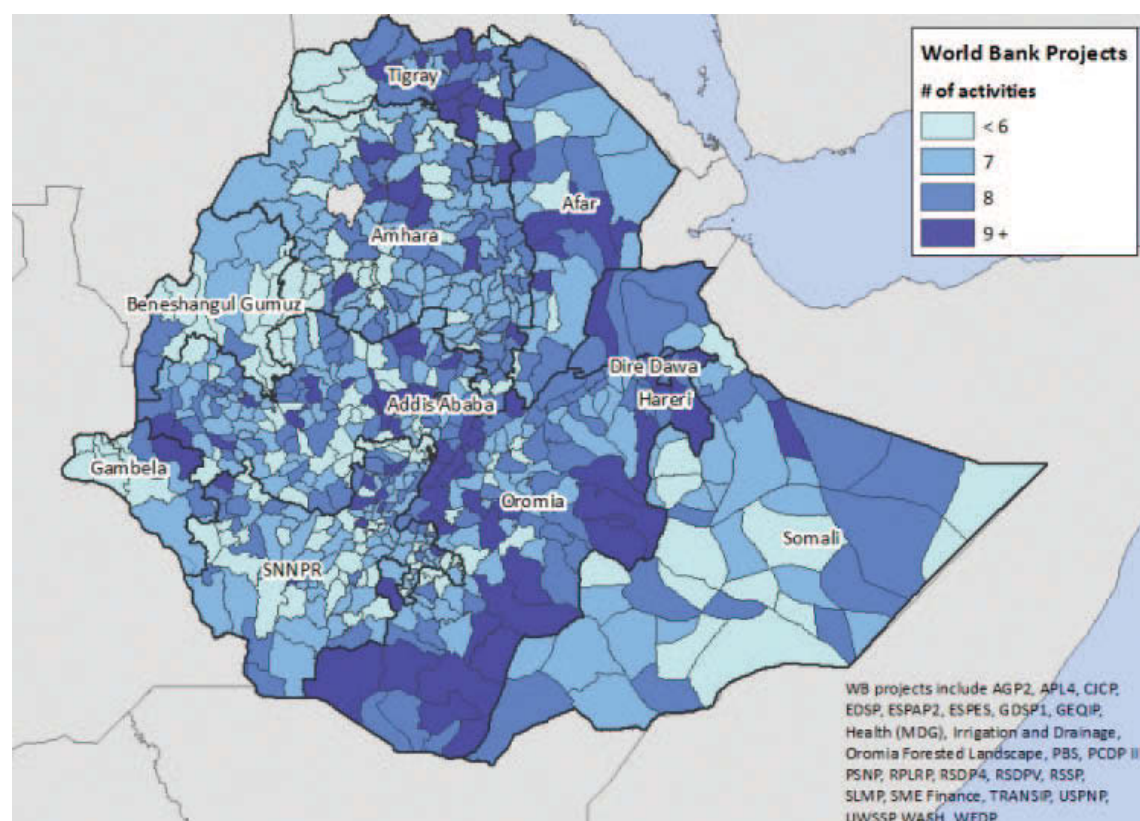


14 million people will be protected from food insecurity; stunting prevalence in children aged 0–23 months will be reduced by 30 percent; the number of people with access to improved water sources and basic sanitation will increase by 20 percent and 43 percent, respectively; and the area of reforested lands and the number of land-use certificates issued will double. IFC intends—though it does not have an indicative envelope—to reach a program of at least US\$60 million in long-term finance commitments per year during the CPF period. This amount could increase significantly if reforms are undertaken that would allow greater private sector participation.

Selectivity in the CPF is driven by the GTP II, the impact of the program on the binding constraints to reduce extreme poverty and boost shared prosperity, the WBG comparative advantage, and the potential to reduce spatial disparities. The CPF will make strategic choices within, not among, the binding constraints as presented in the SCD to maximize the impact of the proposed program. For example, in the education sector, the focus will be on *basic education* outcomes, while higher education will *not* be addressed. Similarly, in the energy sector, the CPF will place greater emphasis on narrowing the *access gap*, and less on additional power generation. Likewise, the CPF infrastructure program will emphasize connectivity and access to markets. The CPF will address private sector development and make use of the new PPP legal framework, which will be in effect for the first time, to crowd in private investment where appropriate.

Ethiopia has a very large World Bank legacy portfolio (US\$7.9 billion), with 35 projects that are being carried over from the CPS. As depicted in Figure 10, the portfolio is geographically dispersed across the country. The CPF builds on the existing portfolio, but focuses on support for national programs to facilitate the emergence of regional growth centers and smart secondary cities, and ensure

Figure 10: World Bank Portfolio by Woreda, 2017



greater inclusiveness and resilience for the poorest 40 percent of the population. The total *number* of operations in the Ethiopia portfolio will stabilize at around 31 projects (not including regional operations), but average project *size* will increase from approximately US\$250 million to between US\$300 and US\$350 million, offering efficiencies in terms of project preparation and supervision.

Preparation of this CPF was informed by an extensive series of consultations. These discussions spanned the full range of stakeholders including the GoE (at both the federal and regional levels), development partners (DPs), civil society organizations, private sector representatives, academics and think tanks. Consultations also included an online platform for anonymous comments on the CPF. Many of the online comments referenced concerns surrounding governance, political freedoms, equitable distribution of prosperity, land rights, education and skills, access to finance, and economic competitiveness. This feedback is consistent with the strategic focus areas of the CPF. Youth voices were invited through a July 2016 essay competition, “Blog4Dev,” entitled ‘How can Ethiopia become a middle income country without leaving anyone behind?’. The consultations process and findings are described in greater detail in Annex 12.

Focus Area 1: Promote Structural and Economic Transformation through Increased Productivity

Ethiopia’s success in achieving structural and economic transformation will depend on sustaining the economic growth rates of the past decade by boosting productivity and competitiveness and finding sustainable solutions for infrastructure financing. The SCD identified several challenges in order for Ethiopia to achieve the Twin Goals: (i) create a more competitive private sector by lowering regulatory barriers and boosting financial inclusion; (ii) increase access to reliable energy; (iii) boost agricultural productivity and commercialization; (iv) increase connectivity and improve urban planning and land management to help catalyze growth, job creation, and service delivery; and (v) develop new financing mechanisms to bridge the infrastructure gap.

Promote Structural and Economic Transformation through Increased Productivity

Objectives	<ul style="list-style-type: none"> 1.1 Enhanced business and investment climate, notably access to finance for MSMEs 1.2 Increased access to reliable energy supply 1.3 Improved agricultural productivity and commercialization 1.4 Improved connectivity and enhanced regional growth and secondary cities 1.5 New approaches for sustainable infrastructure financing and debt management adopted
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Objective 1.1 Enhanced business and investment climate, notably access to finance for MSMEs.

Ethiopia’s private sector competitiveness is very low, ranking 159th out of 190 in the 2017 Doing Business Report. IFC and the World Bank will jointly support Ethiopia in slowly de-risking the business environment to crowd in more private sector participation. Reducing regulatory barriers for business investment and improving access to finance and access to land are priorities in the CPF. The WBG will support industrial zones infrastructure and development and quality assurance services to enterprises. The World Bank and IFC will also provide advisory services addressing business environment issues in order to reduce legal and administrative barriers to local and foreign investment, investor protection and transparency, particularly in key industries such as food and beverages, tourism and garments. IFC will further pursue investments in these sectors. Part of the World Bank’s advisory services will focus on promoting exchange rate policies that support export competitiveness.

The World Bank will support Ethiopia in addressing the binding constraint of access to credit for private investment and promoting financial inclusion. Both of these efforts will help overcome critical constraints to MSME growth. The World Bank intends to provide additional lines of credit and technical assistance to financial intermediaries through the Development Bank of Ethiopia, a state-owned bank, and will focus on leveraging rural and urban safety net programs to expand access to transaction accounts by the unbanked and support the GoE implementation of the National Financial Inclusion Strategy. The World Bank will also support financial intermediaries (i.e., commercial banks, microfinance institutions, and leasing companies) to deploy novel lending techniques targeting SMEs, including *female-owned enterprises*, and assist in building the required financial infrastructure.¹⁴ Because of the current regulatory framework, which significantly limits private participation in the financial sector, past attempts by IFC to provide financing (in local and foreign currency) to local financial institutions have not been successful. Going forward, the World Bank will support the government to address those constraints facing private sector investments into the financial sector. Should the resulting engagement lead to regulatory reform, IFC would be able to catalyze private sector participation (with capital and innovation) using SME finance, leasing, trade lines, local and foreign currency financing, and advisory services (covering environmental and social standards, and risks management) to help unlock the significant potential expected in the financial sector to unleash private sector development in Ethiopia. A special focus would be on MSMEs operating in supply/value chains of global and large local players in sectors such as agribusiness and light manufacturing (inside and outside industrial parks) with high potential for job creation. *In addition, novel asset protection techniques, such as basic insurance products for women, could be introduced in line with the IFC Gender Strategy Implementation Plan to increase assets for women.*

Objective 1.2 Increased access to reliable energy supply. Ethiopia is one of the cleanest energy generation countries in the world (97 percent hydropower). While it has a grid network which already reaches nearly 60 percent of the towns and villages (i.e., coverage for about 80 percent of the population), Ethiopia also has the second highest energy deficit in SSA (with on-grid access of about 15 percent, and off-grid access of about 10 percent). To address the situation, the World Bank is assisting the Government in launching an ambitious National Electrification Program (NEP) (P160395) which aims to achieve universal electrification by 2025. The World Bank is also preparing a PforR operation (Ethiopia Electrification Program—ELEAP) (P160395) to provide financing for implementation of the NEP using a results-based financing mechanism to significantly scale up energy access in the country. The operation, one of the first of its kind in the energy sector, would assist the GoE in *doubling the rate of access, reaching about 50 percent of the population in the program period*. Through the Energy JIP, the World Bank and IFC will work to improve the enabling environment for private sector investments in the entire energy value chain. IFC, MIGA, and IDA will also support the GoE to diversify energy sources and reduce reliance on hydropower by scaling up solar, wind and geothermal generation capacity, notably through PPPs and through private investment. This will lead to the creation of commercial markets for innovative and clean energy solutions such as solar lanterns and kits. In coordination with IFC, the World Bank is introducing guarantees in the area of renewable energy and will also support the GoE's goal of expanding the geothermal energy sector geared towards exporting energy to neighboring countries and increasing power sector revenues. IFC could also potentially use the Risk Mitigation and Local Currency facilities of the IDA18 PSW to support high-impact energy PPP projects that would otherwise be financed with public revenues.

¹⁴ The World Bank is currently providing project support to state-owned banks in Ethiopia to facilitate access to finance for SMEs. That is justified by the dominance of the developmental state in Ethiopia's current economic model. While not ideal, this gradual approach to policy dialogue and reform provides an immediate path to address the access to finance constraints. However, there remains an urgent need for the government to undertake immediate reforms to promote more private sector participation in the financial sector. The World Bank's project support will be accompanied by technical assistance (TA) and other activities over the medium term to incentivize an improved regulatory environment and facilitate greater private participation in production, finance, and investment.

Objective 1.3 Improved agricultural productivity and commercialization. Ethiopia's poverty reduction was driven in great part by agricultural expansion in rural areas, providing improved rural livelihoods to more people. Agriculture will remain a key driver of poverty reduction, improved nutritional outcomes, and inclusive growth in rural areas; and will also help meet rising food demand in growing urban centers. Increasing the land under production can be addressed by reversing natural resource degradation and rehabilitating degraded landscapes, which is supported under several IDA projects (SLMP, PSNP and AGP). However, low productivity due to lack of modern inputs, lack of market access for commercialization, inadequate irrigation and stark gender gaps in productivity are added constraints in the sector. Climate change is also increasing vulnerabilities in the sector. IFC will continue building its portfolio in agriculture and agro-processing to improve access of livestock (dairy, poultry and meat processing) smallholder producers and processors to quality inputs and consider new sectors such as sugar and/or forestry. IFC will also focus on strengthening the commercial sourcing of some cereals (starting with barley and maize) and oilseeds. In addition, IFC will explore opportunities for sustainable farmer financing solutions in the supply chains (pre- and post-harvest), with an eye toward stimulating domestic value addition as well as revenue creation in rural areas. Special focus will be given toward tackling the constraints women face in the value chains. Opportunities to use Local Currency Facility and Blended Facility of IDA18 PSW will be thoroughly explored. Several gender-sensitive operations and Advisory Services and Analytics (ASA) will support improved nation-wide public (extension) services for crop and livestock producers, irrigation and drainage infrastructure, and development of value chains and marketing services. *The aim is to increase productivity, as measured in agricultural output, by more than 20 percent.*

Objective 1.4 Improved connectivity and enhanced regional growth and secondary cities. Improved spatial connectivity is necessary for equitable growth by connecting production centers to markets and connecting secondary cities. WBG will support improvements in transport infrastructure and road connectivity to reduce travel times and enhance connectivity between markets and secondary cities. *The aim is to achieve more than 50 percent savings in travel time on roads upgraded by World Bank-financed projects.* The World Bank will also support the GoE's capacity to construct and operate strategic road corridors; and support policy, regulatory, and administrative reforms to enhance the performance of the Ethiopia-Djibouti corridor. IFC will continue providing advisory services to reduce export and import barriers, reforms which are expected to yield savings to the private sector.

The World Bank will also provide results-based lending and knowledge services to further enhance the capacity of local urban governments and assist in improved urban development. The expected annual urbanization rate is 5.4 percent over the next decade, which presents an opportunity to shift economic activity from rural agriculture to diversified urban industrial and service sectors. However, this requires urban planning and land management (including enhanced urban resilience)—a binding constraint as identified in the SCD—and local governments at the subregional level have limited capacity and inadequate finances to fund urban development. The World Bank will support GTP II priorities of an integrated national and regional urban planning and implementation program, an integrated urban infrastructure and services delivery program, and an urban finance development and management program. The World Bank will also continue to provide knowledge services in urban housing and land management.

Objective 1.5 New approaches for sustainable infrastructure financing and debt management adopted. Ethiopia needs more infrastructure and new mechanisms to finance it. The World Bank will continue to provide technical assistance and lending following the WBG “cascade approach” to expand infrastructure financing options. This approach aims to make optimal use of scarce public funds by *helping to effect policy reforms that will crowd in private sector financing and create new markets.* WBG and government activities in the CPF period, as a pre-requisite to attracting additional private financing, will

work to lower the risk for private investment (“*de-risking*”). With the PPP Framework now established, WBG operations and non-lending activities will provide support in PPP/IPP financing for infrastructure investment to help close the infrastructure gap. A key measure of success will be the increase in the number of PPPs signed and increased investments. In addition, the World Bank will provide intensified debt management support and continue its engagement on domestic revenue mobilization and tax during the CPF period. Looking ahead and subject to upstream policy work in coordination with the World Bank, IFC will provide support on PPP structuring and financing. It will consider using all facilities available under the IDA18 PSW to mobilize financing for high-impact projects that would not be otherwise funded on a commercial basis in energy (generation and distribution), transport and logistics (railways, roads, airports), and industrial parks infrastructure. IFC will also explore opportunities to deepen domestic private sector development, with local content projects, thus creating inclusive business opportunities.

Focus Area 2: Building Resilience and Inclusiveness

Ethiopia’s success in achieving further progress in reaching the twin goals will depend on the capacity to further build resilience and inclusiveness. The Government and communities have made progress in addressing resilience and inclusiveness through a series of measures. Notably, the Government CRGE Strategy stresses climate-friendly initiatives such as reforestation, land rehabilitation through bench terracing and other methods, and building and managing watersheds. Another aspect of building resilience includes the large safety net program that transforms reliance on humanitarian food assistance and promotes investments in human resilience through quality health, water and sanitation services, and education outcomes. Despite these efforts, increasingly frequent droughts are inflicting devastating human suffering. Moving forward the World Bank will provide support to develop disaster risk financing strategies and options to assist the Government in responding to acute need through their national developmental systems and programs. It is also imperative to ensure quality of services and investments in the early years to maximize the learning and earning potential of future generations. Finally, as Ethiopia is hosting more than 800,000 refugees (with the numbers likely to rise), the World Bank plans to submit a request for support from the IDA18 Regional Sub-Window for Refugees.

Building Resilience and Inclusiveness

Objectives	
	2.1 Improved sustainability and effectiveness of safety nets
	2.2 Improved equity and utilization of quality health services
	2.3 Increased access to improved water and sanitation
	2.4 Improved basic education learning outcomes
	2.5 Improved early childhood nutrition and early learning outcomes
	2.6 Increased access to services and job opportunities for refugees and host communities
	2.7 Enhanced management of natural resources and climate risks

Objective 2.1 Improved sustainability and effectiveness of safety nets. A large number of Ethiopians still live in chronic poverty and are vulnerable to climate shocks, in spite of the progress with the government run PSNP and the more recent UPSNP. In addition to Government-financed activities in this area, World Bank operations and analytical and advisory services will support: (i) efforts to build a sustainable and harmonized nationwide social protection system for poor and vulnerable groups by extending current safety nets; (ii) improving effectiveness of the Government’s safety net program in rural areas, including responsiveness to drought; and (iii) implementation of the urban safety net program, given the high rates of youth unemployment and poverty in urban areas. *The World Bank aims to*

increase protection from food insecurity to 14 million people in the CPF period and reduce average months of rural household food insecurity to two months. Through the safety nets program an active dialogue on climate disaster risk financing has started to take shape and a possible operation including a deferred drawdown operation is being discussed.

Objective 2.2 Improved equity and utilization of quality health services. Significant progress has been made in improving access to primary health care services, particularly for the rural poor, and basic service gaps in antenatal care and reproductive health have narrowed. However, inequitable access to quality health services, particularly for the bottom 20 percent, is an obstacle to further improving health outcomes. The World Bank's PforR will continue to support implementation of the Health Sector Transformation Plan (HSTP) (2015–2020) by addressing constraints to improved equity, utilization and quality of services, particularly for maternal and child health care. *The target will be to increase Penta3 vaccine coverage, for the bottom 20 percent in the worst-performing woredas, to 60 percent and to increase the proportion of women in rural areas using modern contraceptive methods from 32 to 45 percent.* The gaps in access to and quality of services are also being addressed by ESPES.

Objective 2.3 Increased access to improved water and sanitation. Access to safe water in both rural and urban areas is critical for improved health and nutrition outcomes, better labor productivity and for benefiting women, who disproportionately bear the burden of fetching water. Rapidly growing urban populations and increased pressure on water resources will impose new demands on service providers. World Bank operations will continue to support GoE's goal of providing 100 percent national potable water supply coverage by 2020. *The target will be to boost the percentage of people with access to improved water sources from 61 percent to 74 percent.* Similarly, access to sanitation is very low even though reductions in open defecation have been noted (down from 92 percent in 1990 to 29 percent in 2015). Sanitation is a key constraint in urbanization and development of smart secondary cities. Addis Ababa is the only Ethiopian city with a sewer system, and it only covers 10 percent of its residents. World Bank operations and analytical/advisory work will scale up efforts to improve access to sanitation services in urban areas. *The CPF target is for the percentage of people with access to improved sanitation to increase from 28 percent to 40 percent.*

Objective 2.4 Improved basic education learning outcomes. Access to education has improved nationwide, albeit from a low base, especially for the bottom 40 percent. However, significant challenges in the education sector remain: high dropout rates (over 80 percent in rural areas during the first four years of schooling), especially among the poorest 20 percent of households; and learning outcomes are weak, especially for girls. World Bank operations, including the planned PforR (Ethiopia Third General Education Quality Improvement Project—GEQIP3) (P163050) (FY18), will focus on addressing constraints in the education sector at the school level, particularly for pre-primary up to 8th grade, the stage at which the major gains in basic education and literacy are to be made. The focus will be on improvements in the quality of and equitable access to schooling. *Key targets will focus on improving girls' learning outcomes in grades 4 and 8, to achieve at least gender parity, as measured by a reduction in the percentage of students scoring "below basic proficiency."*

Objective 2.5 Improved early childhood nutrition and early learning outcomes. Ethiopia performs poorly on early childhood indicators, particularly stunting and lack of early stimulation and learning, which result in cognitive and health deficits and in turn lead to lower productivity and earning capacity. Causes include, among others, lack of micronutrient and food diversity among pregnant women and children, high infectious disease burdens such as diarrhea and malaria, inadequate clean water and sanitation, and climate risks. *The CPF sets an ambitious target of achieving a 36 percent reduction in stunting prevalence for children aged 0–23 months.*

Ethiopia is one of the pilot countries for the World Bank’s ‘Early Years’ agenda. The World Bank will use a multi-sectoral lending and non-lending approach to target the various dimensions of the Early Years agenda and contribute to both supply- and demand-side investments in nutrition and health through household food security support with additional focus on drought-prone *woredas*, health and nutrition services, and diversified and nutrition-rich crops and livestock products. The World Bank will also address early stimulation through initiatives engaging parents, pre-primary education and school readiness programs.

Objective 2.6 Increased access to services and job opportunities for refugees and host communities.

Ethiopia hosts the second largest refugee population in Africa: they are from neighboring South Sudan, Somalia, Eritrea, Sudan and Yemen, many of whom live in camps near the borders of their home countries. In addition, Ethiopia also has a high number of internally displaced people, most of whom live in situations of protracted displacement. The World Bank will work with development partners (UNHCR and bilateral DPs) to support the GoE in its committed policy shift of moving people from encampment to gradual socioeconomic inclusion. Through the IDA18 Regional Sub-Window for Refugees, the World Bank will seek to support the Government in job creation for refugees and host communities, and continue to support *woreda*-level governments in expanding access to basic services for these communities.

Objective 2.7 Enhanced management of natural resources and climate risks. Forest depletion and land degradation exert stress on already low levels of available water and undermine resilience. Recent investments in sustainable land and water management, watershed restoration and small-scale irrigation have improved land quality and the World Bank will support the GoE in sustaining the gains that have been made. Less than 1 percent of land cultivated by smallholders, who produce over 95 percent of total agricultural production, is irrigated. In areas lacking shallow groundwater, development/expansion of low-cost, small-scale irrigation solutions is desperately needed. World Bank operations will continue to support resilience to drought and flooding, improved natural resource and forest management, and introduce technologies and policies that reduce climate and disaster risks and land-based carbon emissions. The World Bank is also addressing land tenure by supporting the issuance of land-use certificates, as insecure land tenure and unplanned land use further dampen investment in land resources, which exacerbate climate risks and aggravate water stress. *During the CPF period, the total area of reforested land, and the number of land-use certificates issued, are each targeted to double.*

Focus Area 3: Supporting Institutional Accountability and Confronting Corruption

Demand for government accountability in Ethiopia is rising, notwithstanding historical traditions of deference to hierarchies and a “top-down” style of governing. While the Government has established several formal feedback mechanisms at local levels and for specific services, additional investment in accountability and transparency mechanisms is needed. To reduce corruption and engage citizens in decision making, citizens’ voices must be reflected, per the democratization objectives articulated in GTP II. The CPF supports accountability and transparency mechanisms at local levels and continues to assist efforts to increase capacity and improve governance in service delivery as well as projects that strengthen government systems for citizen engagement (CE). In order to generate and disseminate information on ‘what works’, the World Bank will support improved data collection at all levels of government by strengthening the capacity of the Central Statistical Agency (CSA), which will enable monitoring of progress against development objectives, dissemination of results, and inform evidence-based policy making.

Supporting Institutional Accountability and Confronting Corruption

Objectives	3.1 Increased capacity and improved governance in service delivery 3.2 Strengthened citizen engagement and holding government entities accountable 3.3 Improved domestic statistical capacity for enhanced evidence-based policy making and monitoring
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Objective 3.1: Increased capacity and improved governance in service delivery. Transparency International's annual Perceptions of Corruption Index ranked Ethiopia 103rd out of 175 countries in 2015. Corruption has been a roadblock to institutional accountability and governance in Ethiopia. The Government has instituted several reforms to reduce corruption among civil servants and improve social accountability and public financial management to improve service delivery. The World Bank is supporting enhanced fraud and corruption prevention at the *woreda* level by introducing Ethics and Anti-Corruption Officers in all sectors, and is working through the public finance management (PFM) project to strengthen the PFM system to enhance governance and service delivery and implement the e-procurement system. During the CPF period, all regions will implement a PFM Benchmarking Rating System.

Objective 3.2: Strengthened citizen engagement and holding government entities accountable. The World Bank has worked in collaboration with the Government and development partners on citizen engagement and social accountability measures at lower levels of government. The GoE recognizes the impact citizen engagement has on improving development outcomes. The WBG will support the GoE in achieving GTP II targets of building 'democratic and developmental good governance' by enhancing capacity of public institutions. Ongoing social accountability programs have made notable progress in creating awareness among service providers and among citizens of service standards and entitlements, developing basic skills for monitoring service provision, and promoting a culture of budget transparency and accountability. The World Bank will assist in sustaining this progress and expanding it to all sectors and all levels of government, and will support strengthening grievance redress mechanisms. This will help to safeguard the well-being of groups affected by government policy, especially in the context of resettlement.

The World Bank will also support increased involvement of women in feedback mechanisms to counter their underrepresentation at all levels of decision making. The World Bank will work with GoE to introduce sustainability arrangements that underscore women's participation for better governance, and support policy dialogue to promote the elaboration of a comprehensive citizen engagement strategy, including greater gender inclusion.

Objective 3.3: Improved domestic statistical capacity for enhanced evidence-based policy making and monitoring. Ethiopia needs greater statistical capacity to monitor progress in all sectors, manage risks and assess impact of policy reforms. Data collection is infrequent: to illustrate, the last poverty data was collected in 2010/11. The World Bank is supporting capacity building of the CSA and other government agencies to produce and disseminate timely and reliable data and improve transparency of government data through technical assistance to Ethiopia's Open Data Initiative. In addition, the World Bank is assisting the GoE in conducting the next population census.

Implementing the Country Partnership Framework

Financial Envelope and IDA18 Allocation

The CPF (FY18–FY22) will span the period of IDA18 (FY18–FY20), and part of IDA19 (FY21–FY23), in which Ethiopia is projected to receive a significantly increased IDA18 envelope.¹⁵ The WBG will apply a combination of lending, advisory and analytical work, and convening power to achieve the CPF objectives. The indicative IDA18 allocation for Ethiopia is on the order of US\$4.0–US\$4.8 billion (among the top three IDA18 recipients along with Bangladesh and Nigeria), not including additional resources which Ethiopia could potentially access through the IDA18 special windows. These include the Regional Window aimed at bolstering regional integration efforts; the Regional Refugee Sub-Window for countries hosting large refugee populations; the PSW to mobilize private capital, de-risk investments, and promote private-sector based growth; the Scale-Up Facility providing non-concessional borrowing for high-impact projects; and, if necessary, the CRW aimed at providing support in the event of severe natural disasters, health emergencies, and economic crises. In addition, the WBG will leverage all World Bank/IFC/MIGA instruments and seek to crowd in other financiers, such as the private sector, philanthropists, and development partners to maximize the effectiveness of development results.

This CPF puts forward an ambitious and innovative mix of instruments and will explore risk-financing mechanisms: the lending program will feature Ethiopia's first guarantee for renewable energy, and the first-time access of the IDA18 Refugee Sub-Window to support refugees and host communities. Lending to Ethiopia is currently in the form of Investment Project Financing (IPF) operations with an increasing share of Program-for-Results (PforR) operations. The first PforR in Ethiopia was the US\$120 million Health MDG Project in FY13. Since then, use of this instrument has grown steadily, accounting for 27 percent of the current portfolio. Four additional PforR operations are planned for delivery in FY18 in energy access, education, ESPES, and the next-generation urban development program. The Government appreciates the PforR model since it uses and builds on country systems for delivery, which in turn strengthens those systems and spurs further reforms. Development Policy Operations (DPOs) are currently not an instrument of choice in Ethiopia. As a strong developmental state in the tradition of the East Asian experience, the authorities have a clear vision for development, along with a strong desire to drive domestic economic policy reforms according to the Government's pace. While support to Ethiopia from development partners—both bilateral and multilateral—is and remains strong, there are differing views on the need for policy reforms, which implies a complex authorizing environment for DPOs in Ethiopia. In contrast, the PforR instrument allows the WBG to engage with the GoE on sectoral policy reforms.

Given the importance of supporting improved conditions for private sector-led growth in Ethiopia, the CPF will apply the principles of the WBG “cascade approach.” This will aim to expand infrastructure financing options by making optimal use of scarce public funds and helping to effect policy reforms that will crowd in private sector capital and create new markets (see Box 5). The CPF will begin with the energy sector and possibly expand to agriculture, housing and other sectors. In this CPF period the World Bank will also make use of the *Contingent Emergency Response Component (CERC)* that can be activated for disaster response, such as in the case of droughts.

Synergies across the WBG will be leveraged in this fully joint CPF: IFC investments, along with advisory services, will address the range of constraints to boosting Ethiopia's competitiveness.

¹⁵ Referenced IDA18 volumes are indicative. Actual PBA allocations will be determined annually during the FY18–20 period and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country's performance rating, per capita GNI, and population; and (iv) the performance and other allocation parameters for other IDA borrowers.

The WBG will seek to advance a private sector-led growth agenda in a country where the public sector dominates much of the economy. Current investments span agriculture and forestry; manufacturing; and accommodation and tourism services. Looking ahead, IFC has a strong pipeline of projects in agriculture (poultry/dairy/animal production and cereals) and manufacturing (cement, glass products); complemented by a diverse program of Advisory Activities including Investment Climate (trade, tax, and business regulation); Lighting Africa; agribusiness; financial infrastructure (secured transactions and collateral registries, credit bureau); and value-chain development. IFC, in partnership with the other WBG institutions and local and international stakeholders, will deepen its focus on addressing market failures, creating opportunities for new markets or strengthening them where needed, including advice on the supportive public policies, regulations, institutions, and incentives. In addition, with the IDA18 PSW facilities, IFC will be able to crowd in private capital to finance projects in high-impact sectors (infrastructure, agribusiness and light manufacturing). IFC's Advisory Services will be scaled up and used as a first mover to support those areas at the country, sector, project and firm levels. These interventions are intended to help boost Ethiopia's competitiveness and support sustainable economic growth by opening new markets, helping to improve the business environment, bringing in new products and services to crowd in the private sector, supporting greater access to finance, and contributing significantly to job creation.

Similarly, MIGA will actively seek opportunities to expand its engagement in Ethiopia during the CPF period, particularly in the agribusiness, manufacturing and energy sectors. The current portfolio consists of two projects in the agribusiness sector with total gross exposure of US\$14.3 million. MIGA remains open for business in Ethiopia across all of its Political Risk Insurance (PRI) product lines, including Transfer Restriction, Expropriation, Breach of Contract, and War and Civil Disturbance. There is potential for increased use of MIGA guarantees to provide reinsurance to foreign investors, including investors in PPPs, and thereby support the GoE efforts to attract foreign direct investment into the country.

MIGA is currently evaluating one to two projects in the Agribusiness Manufacturing and Services (AMS) sector for support with MIGA instruments. These investments are expected to yield local benefits in terms of job creation and export development. MIGA is also exploring several leads in the renewable energy sector which are expected to materialize over the CPF period. MIGA will also seek to support developers successfully awarded a tender under the Scaling Solar Program (601584), to which Ethiopia has recently signed on.

IDA financing for Ethiopia will continue to be supplemented by a strong trust fund portfolio of nearly US\$1.1 billion, aligned with the country program. Eighty-eight percent of all trust funds are recipient executed and twelve percent are WBG executed. Most of these are multi-donor trust funds managed by the World Bank. Many of the recipient-executed trust funds cofinance large government-led programs such as PSNP, PBS/ESPES, GEQIP II, SLMP, AGP, and the Social Accountability Program. For some of the large trust fund-based programs such as the PSNP, trust fund and donor coordination units have been established, housed and staffed within the WBG. There are also stand-alone trust funds, such as the upcoming Oromia Forested Landscape Program (P151294), the Statistical Capacity Development Program (P163226), and the Reducing Emissions from Deforestation and Forest Degradation (REDD) Readiness Program (P124074). The World Bank-executed trust fund portfolio is well aligned with GTP II priorities and fosters new knowledge work in areas such as climate change and disaster risk management, gender, urbanization, energy, finance, private sector development, human development, early years, youth and skills development, labor markets and citizen engagement.

The indicative FY18–FY19 IDA lending program for Ethiopia (see Table 2) will address the three focus areas. To address energy access, the World Bank is assisting the GoE in launching a National

Table 2: Indicative FY18–FY19 IDA Lending Program

Focus Areas	Indicative Lending FY18–FY19	IDA18 Special Windows
Promoting structural and economic transformation through increased productivity	<ul style="list-style-type: none"> • Roads for market access (US\$375m) • Livestock and fisheries sector development (US\$150m) • Urban development (US\$400m) • Electricity access (US\$250m) • Energy guarantee (US\$50m) • Competitiveness and job creation AF (US\$130m) 	<ul style="list-style-type: none"> • Jobs Compact (US\$50m IDA and US\$150m Sub-Regional Refugee Window) • Berbera corridor (possible, Regional Window) • Skills development (possible, Regional Window)
Building resilience and inclusiveness	<ul style="list-style-type: none"> • Enhanced Shared Prosperity through Equitable Services (ESPES—service delivery for health, education, agriculture and WASH, US\$700m) • Ethiopia Rural Safety Net Project (US\$600m) • General Education Quality Improvement Program (US\$375m) • Resilient Landscapes (US\$100m) • Rural Water Supply, Sanitation & Health (WASH) • Pastoralist Support • Urban Safety Nets 2 	<ul style="list-style-type: none"> • Development response to displacement impacts project (Regional Window)
Supporting institutional accountability and confronting corruption	<ul style="list-style-type: none"> • Enhanced Shared Prosperity through Equitable Services—statistics and social accountability components, including financing for next census 	

Electrification Program (NEP) which will be supported through a first of its kind energy sector PforR operation to support implementation of the NEP and aiming to double energy access. The 'Roads for Market Access' will enable market access for farmers, thereby improving livelihoods and also strengthening regional growth. In the longer term they will provide the building blocks to connect regional centers. As migration increases to urban areas, urban development will be a key focus for the Government and a necessary step in the development of smart secondary cities. The World Bank will work with the Government to design urban development programs that will address service delivery, local government strengthening and other important urban issues such as transport, energy and jobs. The 'Resilient Landscapes/Sustainable Land Management Program' (P133133) is one of Ethiopia's flagship programs. In addition to large-scale landscape rehabilitation, it includes land tenure certificates, the absence of which is a binding constraint to further growth and is being addressed for the first time in a systematic way.

The CPF will support Ethiopia's growing regional engagement through the IDA18 Regional Window. Ethiopia is currently engaged in four regional IDA operations: the Regional Pastoral Livelihoods Resilience Project (US\$75 million) (P129408); the Eastern Electricity Highway Project (US\$217 million) (P126579); the Africa Centers of Excellence Project (US\$24 million) (P151847); and the Development Response to Displacement Impacts Project (US\$100 million) (P152822). Ethiopia is planning to collaborate in additional regional initiatives in the areas of skills development, host communities and trade corridors.

Ethiopia is expected to request support from the IDA18 Regional Sub-Window for Refugees. Ethiopia hosts more than 800,000 refugees, the second largest refugee community in Africa. Ethiopia plans to invest in a job-creation project targeting refugees and the Ethiopian host communities. Another

regional project with Uganda (Ethiopia US\$99 million, Uganda US\$71 million) adapts the lessons of the joint World Bank-UNHCR report on “Forced Displacement and Mixed Migration in the Horn of Africa” to support improved service delivery and livelihood opportunities through a Community Driven Development (CDD) approach. This project also includes Djibouti, Uganda and Kenya. The forthcoming ‘refugee eligibility note’ for the sub-window will inform these operations.

Accessing resources from the new IDA18 Scale-Up Facility as well as the Private Sector Window will be explored. A first operation on water and sanitation is being implemented through a combination of regular IDA and IDA17 Scale-Up Facility (SUF) resources. Additional SUF-financed projects are being explored in energy, agriculture and urban development, taking into account consistency with non-concessional borrowing limits agreed to in the context of the Non-Concessional Borrowing Policy (NCBP). In addition, Ethiopia will be eligible to seek support from the PSW for operations in energy, manufacturing services, agribusiness, and industrial parks in order to leverage the deepened engagement by both IFC and MIGA in these sectors.

This CPF addresses all of the IDA18 special themes: climate change; gender and development; fragility, conflict and violence (FCV); jobs and economic transformation; and governance and institution building. The ongoing and planned operations that address natural resource management aim to build resilience to climate shocks. The energy operations ensure clean energy, and are designed to be climate friendly. *A gender filter is being developed to accompany project design and ensure that all operations address gender gaps (see Annex 11).* Jobs and economic transformation are addressed by a majority of the programs in both rural and urban contexts. Fragility, conflict and violence (FCV) is supported through programs addressing the needs of refugees and host communities. Finally, efforts are under way to further strengthen citizen engagement across the portfolio to achieve better governance, institutional development and greater citizen engagement.

Beyond financing, the WBG will continue to deliver a strong program of multi-sectoral Advisory Services and Analytics (ASA). This will build on the influential ASA work that was produced during the preceding CPS and CAS periods and support capacity-building efforts that are an essential part of economic transformation in Ethiopia. The ASA agenda (see Box 6 and Table 3) will help to inform the lending program and identify priority areas for policy dialogue with the authorities.

A key challenge will be to achieve better coordination for greater impact. While improvements have been made in structuring multi-sectoral programs, complex projects under the CPF will require even closer collaboration between WBG Global Practices (GPs) as well as improved policy dialogue and coordination among GoE programs at the central and decentralized levels. One such example of coordination is in the urban sector, where multiple programs and projects are addressing crosscutting challenges that span multiple GPs (urban safety nets, urban transport, urban development, urban water & sanitation, and industrial parks). Similarly, under the Early Years Agenda, competitiveness, resilience, and governance agendas, beyond the more obvious human development programs of health, education, and nutrition, will require creative working arrangements across and within GP teams.

Financial Management and Procurement

Financial management activities during the CPF period will focus on two interlinked objectives: fiduciary oversight of projects; and supporting Ethiopia’s efforts to build their PFM capacity. Fiduciary oversight is aimed at providing reasonable assurance that WBG-financed projects use resources for the intended purposes. The capacity-building objective is to support and sustain PFM reforms from federal to local (*woreda*) levels, enhancing the efficiency of basic service delivery. The reforms aim to strengthen systems and build human resource capacity, accountability and oversight functions.



Box 6: Advisory Services and Analytics (ASA) Products

Both the GoE and development partners have expressed appreciation for the quality of the WBG knowledge products and the leadership role of the World Bank in providing timely analytical support. Notable ASA products over the past four years include: The Ethiopia Economic Update Series (four reports produced during the CPS period), the Poverty Assessment (2014), SME Access to Finance Study (2014), Public Expenditure Review (2015), “Ethiopia’s Great Run: The Growth Acceleration and How to Pace It” (2015), Urbanization Review (2015), and Systematic Country Diagnostic for Ethiopia (2016). It is noteworthy that the SME Access to Finance Report and the Urbanization Review each triggered significant IDA operations in areas previously thought to be “off-limits.” Likewise, the “Great Run” report and the SCD have each opened up discussions on the sustainability of the infrastructure financing model and the need to expand the role of the private sector in the economy to ensure long-term growth.

A key component of the ASA work during the CPF period will be the structured policy dialogue with the Government on macroeconomic and fiscal management particularly in response to rising debt vulnerabilities and the non-concessional borrowing (NCB) limit. Support will be structured around debt management, debt sustainability analysis, management of SOEs and fiscal risks, and public investment management. Analytical work will also address domestic resource mobilization and tax, exchange rate management including the exchange rate regime, and ways of expanding the services and manufacturing sectors. Additional analytical topics will be identified in the course of the CPF period as needs arise and in close collaboration with the GoE.

The Early Years agenda will also be an important component of the ASA program and will focus on building resilience, nutrition, education, health and agriculture. As Ethiopia builds resilience against climate shocks and improves agricultural productivity, it is important to establish a comprehensive and multi-sectoral approach to improving maternal and child health, early stimulation/education and support to cognitive function, and improved nutrition including agricultural productivity and nutrient-enhanced crops. Despite recent gains toward several of the MDGs, Ethiopia continues to battle high rates of malnutrition and stunting (38 percent of children under 5 are stunted (DHS, 2016). Given the long-term implications of early childhood deficiencies (cognitive, nutritional, and others), the Early Years agenda will seek to formulate a forward-looking action plan to address these issues.

Youth employment and improved labor market outcomes for vulnerable groups will constitute another important area for multi-sectoral knowledge work. Job creation, skills and employment, particularly for a growing youth cohort, pose a pressing challenge for Ethiopia. Employment is also necessary to integrate the rising numbers of refugees being hosted in Ethiopia. This work will inform operations and enhance policy dialogue.

Important ASA work is also planned in the energy sector, financial services sector, competitiveness and business climate, water and sanitation, gender, resilience and poverty monitoring. In the energy sector, a strong lending portfolio will be complemented by knowledge work on strategy and utility reforms. In the finance sector, ASA work will entail formulating a financial inclusion strategy, as well as inclusive insurance mechanisms. Gender will be an important crosscutting analytical focus. In entrepreneurship and SME development, impact evaluations will study women’s entrepreneurship specifically. Other impact evaluations will explore women’s role as agricultural leaders. Poverty monitoring is a strong analytical focus in Ethiopia, both for the World Bank and for the GoE to evaluate the effectiveness of national programs. The most recent LSMS was launched in February 2017, and the World Bank is assisting the GoE with the next census that will enable more detailed poverty monitoring. In close collaboration with the Government the World Bank is also conducting a poverty and WASH diagnostic to complement the lending in water and sanitation.

Table 3: Knowledge and Convening Services FY18–FY19

Focus Area 1: Promote Structural and Economic Transformation through Increased Productivity	Focus Area 2: Building Resilience and Inclusiveness	Focus Area 3: Supporting Institutional Accountability and Confronting Corruption
Macroeconomic Dialogue (BB) <ul style="list-style-type: none"> • Debt and public investment management (BB) • SOE management (BB) • Monetary policy management (BB) • Economic update on services and manufacturing linkages (BB) • Tax policy studies (BB) Energy Sector Development <ul style="list-style-type: none"> • Energy sector review and strategy (EW) • Clean cooking energy (TF) • Off-grid renewable energy (TF) • Wind sector (TF) Financial Sector Development (TF and BB) <ul style="list-style-type: none"> • National financial inclusion strategy (TF) • Consumer protection and financial infrastructure (TF) • Promoting inclusive insurance (TF) Urban (TF and BB) <ul style="list-style-type: none"> • Experience sharing on urban planning (TF) • Urban policy (TF and BB) • Resilience for the Ethiopian road network (TF) • Urban land and affordable housing (TF) Trade and competitiveness (TF and BB) <ul style="list-style-type: none"> • Firm productivity and competitiveness in global markets (BB) • Firm level entry, expansion and productivity across targeted sectors (BB and TF) • Improving the business environment through investment climate reforms (TF) Other <ul style="list-style-type: none"> • Digital development strategy for Ethiopia (TF) • Safety of dams (BB) • Support for instituting a PPP framework (TF) 	Gender <ul style="list-style-type: none"> • Gender and wage employment (TF) • Women's Entrepreneurship Development (TF, IE) • Women agricultural leaders (TF, IE) • Support to Ethiopia gender lab (BB) Poverty Monitoring <ul style="list-style-type: none"> • Improving services for the bottom 40 percent (TF and BB) • Support to GoE to improve urban sanitation (TF) • WASH and poverty diagnostic (TF) • Statistical capacity including next census (TF and BB) Resilience and safety nets <ul style="list-style-type: none"> • Strengthening implementation of social protection systems (TF) • Improvement in health care (TF) • Sustainable and equitable WASH services (TF) • Urban productive safety nets (TF, IE) • Support for DRM framework (TF) • Performance of cereal markets (BB) Jobs <ul style="list-style-type: none"> • Multi-sectoral work on jobs (BB and TF) • Analytical work in preparation to jobs compact (TF) Other <ul style="list-style-type: none"> • Review Ethiopia rural roads program (BB) • Early Years agenda (BB) • Pastoralism (BB) 	<ul style="list-style-type: none"> • Managing public resources (TF and BB) • Mainstreaming citizen engagement in World Bank operations (TF) • Civil registration and vital statistics (TF) • Impact assessment of service delivery (BB and TF)

The World Bank supports this Government PFM reform agenda through ongoing projects including the Ethiopia PFM Project, the Protection of Basic Services Project, the Urban Local Government Development Program, Enhancing Shared Prosperity through Equitable Services Program, Ethiopia Electric Network Expansion Project, and the Urban Water Supply and Sanitation Project. Technical assistance and diagnostic analytical work will also be conducted through Programmatic Knowledge Services (PKS) on issues such as managing public resources for improved service delivery, and public expenditure and financial accountability (PEFA), to improve understanding of the state of PFM and introduce new approaches. With respect to high-level PFM issues, the World Bank will continue its policy dialogue with the Government, in coordination with DPs, to shape the PFM reform agenda using existing forums including the PFM Sector Working Group.

Government has recognized that a key tool for improved service delivery is a strong PFM system.

Likewise, GoE realized that services can only be delivered if funds are available to spending units in a timely manner, with proper accountability, transparency, and reporting. Since 2004, the WBG and other DPs have supported the GoE in decentralizing basic service delivery in the form of federal block grants to subnational levels. Government reforms across the full spectrum of the PFM cycle have been supported by an IT accounting system that has been operational since 2007. As a result of these initiatives, Ethiopia's PEFA ratings have improved steadily. That said, PFM capacity varies across regions of the country, with mixed performance at the *woreda* level. Under the ongoing PFM Project (approved in February 2016), the World Bank is supporting improved efficiency, transparency and accountability at both the federal and regional levels. Beyond this operation, World Bank Governance teams are providing support across the entire portfolio to help improve PFM, procurement, and anti-corruption at the local levels.

During the CPF period the World Bank will support the Government procurement system through the provision of procurement oversight and support in World Bank-financed projects and programs. The World Bank will continue to engage the Government in policy dialogue to strengthen the national procurement system, consistent with the procurement-related objectives in GTP II. In this respect, the World Bank will continue to work at all levels for better service delivery, through improved procurement processes, as an active member of the PFM Sector Procurement Working Group. Through the ESPEs program, the World Bank will continue to roll out Procurement Performance Indicators at the regional and local levels. In accordance with GTP II's good governance theme, the World Bank will also support the government's plan to modernize the country's procurement capabilities through the implementation of an e-procurement system. During the CPF period the World Bank will support government staff in implementing the World Bank's New Procurement Framework and thereby obtain value for money with integrity in delivering sustainable development. Additional capacity strengthening will be provided by the World Bank through procurement training, certification, and accreditation programs and short-term procurement trainings in collaboration with a local training institution. In collaboration with the Government and other DPs, the World Bank will also undertake a Country Procurement Assessment Report (CPAR) during the CPF period to further inform procurement reform initiatives.

Partnerships and Donor Coordination

Partnerships are a key element of engagement in Ethiopia, and one of the WBG strengths has been in leveraging financing and non-lending support from other development partners for large programs. For example, the Expressway Development Support Project (EDSP) is cofinanced with China EXIM Bank and South Korea EXIM Bank. EDSP brings together traditional and nontraditional development partners to work on a single project, with standardized design, safeguards, and joint supervision. This type of arrangement also applies to programs such as PSNP, AGP II, and SLMP.

The WBG also engages with nongovernmental partners and this engagement has been built around three focal areas. Relations with Addis Ababa University (AAU) have been deepened to promote knowledge-sharing activities, including collaboration on a thematic development dialogue series in Ethiopia and establishment of a Development Knowledge and Information Corner at AAU, providing access for over 50,000 students to WBG knowledge. The World Bank has forged a similar relationship with the Consortium of Christian Relief and Development Associations, an umbrella organization of more than 330 civil society organizations (CSOs) in Ethiopia. In addition to providing access to WBG knowledge, the partnership ensures the WBG stays connected to CSOs. The PBS Social Accountability Program is an additional forum for engagement. WBG has also established a partnership with the Addis Ababa and Ethiopia Chambers of Commerce and Sectoral Associations (AACCSA), building on the ongoing IFC-led public-private dialogue. In the context of supporting Ethiopia's accession to the Extractive Industries Transparency Initiative (EITI), the World Bank has worked with member CSOs of the Ethiopia EITI Multi Stakeholder Group to enhance the capacity of these CSOs to participate in the reporting and disclosure requirements of the EITI process.

Monitoring and Evaluation

The Results Framework (Annex 1) will serve as the principal tool for evaluating progress toward achieving the CPF objectives. Midway through the CPF period, a PLR will be prepared. An annual review of the portfolio will be conducted to monitor progress toward CPF objectives and address any CPF program issues, or changes in country circumstances that may arise, in a timely fashion. The WBG will continue to work with the GoE to review the portfolio through engagements such as the Country Performance Portfolio Review, which is planned for September 2017, and use that forum to address implementation issues. The PLR will assess the progress and continued relevance of the CPF, make any necessary mid-course corrections to the program and corresponding revisions to the Results Framework, and inform the Board of CPF progress and revisions.

The CPF outcomes will also be measured using surveys such as the Demographic and Health Surveys (DHS), the World Bank Living Standard Measurement Study (LSMS), Household Consumption and Expenditure Survey (HCES), and the Welfare Monitoring Survey (WMS). The HCES and WMS were conducted in FY16. The HCES, which is used to produce monetary poverty statistics, specializes in measuring consumption and expenditure. The WMS focuses on health, education, access to services and vulnerability to shocks. Data collection for these two surveys was expected to be completed in June 2016, and results are expected by end-FY17. The GoE is considering increasing the frequency of the HCES, to every three years, in order to monitor well-being in a timelier manner; the World Bank is considering ways to support this. A new wave of LSMS data was released in February 2017. In addition, in 2016 a full Demographic and Health Survey (DHS) was conducted and preliminary results, which are now available, will inform analysis of key indicators.

The World Bank will support enhanced statistical capacity in Ethiopia. The Ethiopian CSA's National Strategy for the Development of Statistics (NSDS II) for the period 2015–2020, and the forthcoming census, will be supported through ESPEs. The NSDS II focuses on data quality, coordination of the national statistical system, efficiency of data collection, methodological improvements, statistical modernization and human and infrastructure capacity. The World Bank has supported the preparation of NSDS II through the US\$10 million Statistics for Results Catalytic Fund, which is currently under implementation. Census in Ethiopia are conducted at a ten-year interval and the most recent one was completed in 2007. The census, scheduled to be conducted in 2018, is expected to resolve the wide disparity between the population estimates of CSA and those of the United Nations.



MANAGING RISKS



IV. MANAGING RISKS

The overall risk to achieving the development objectives for Ethiopia, as outlined in the CPF, is assessed as substantial. The risks are directly related to: (1) political economy and governance challenges, (2) uncertainty in the macroeconomic environment, (3) sector strategies and policies, (4) weak institutional and implementation capacity, (5) environmental and social risks, and (6) stakeholder risks. These risks will continue to be monitored closely during the CPF period in close collaboration with the Government and development partners.

Political economy and governance risks: The CPF has been prepared during a period of civil unrest, resulting in a continuing State of Emergency to ensure stability; rising demands for good governance and accountability; and growing security concerns from the instability of neighboring states. While WBG engagement is designed to deliver significant, positive change for poor households in Ethiopia, some could question the continuing support in this context, as seen from previous protests, including at the World Bank headquarters.

The effectiveness of the CPF program will depend, in part, on external factors beyond the control of the WBG: The sustainability of interventions during the CPF period will depend on the willingness and ability of the GoE to continue to strengthen voice and accountability mechanisms. Citizen engagement in local project-financed activity is now mandated in all WBG projects and programs, combined with mechanisms for monitoring, grievance redress and reporting, to help mitigate risks. The CPF places significant emphasis on supporting the GoE in implementing GTP II through enhanced citizen engagement platforms. Political risks can also be mitigated by: (1) carefully planning missions to take security concerns into account; (2) implementing sound and thorough monitoring of all environmental and social safeguards; (3) ensuring an ongoing program of communications and outreach; and (4) careful project design. Building local ownership and support up front, through citizen engagement mechanisms and regular project-level participation modalities, will help to improve prospects for successful implementation of the CPF program. Beyond citizen engagement, efforts to support private sector-led

Table 4: Systematic Operations Risk-Rating Tool (SORT) for Ethiopia

	Risk Categories	Rating
1	Political and governance	High
2	Macroeconomic	Substantial
3	Sector strategies and policies	Substantial
4	Technical design of project or program	Moderate
5	Institutional capacity for implementation and sustainability	Substantial
6	Fiduciary	Substantial
7	Environment and social	High
8	Stakeholders	High
9	Other (climate and disaster risks)	Substantial
	Overall	Substantial

growth will depend on GoE willingness to involve private sector players in strategic sectors such as infrastructure, telecoms, and financial markets.

Macroeconomic risks: Ethiopia's current development policy choices are subject to a number of trade-offs, which, if unaddressed will pose macroeconomic risks. The following issues are important elements to monitor over the CPF period: *First*, allocations of rationed credit and foreign exchange primarily benefit public investment, but crowd out the domestic private sector. *Second*, an overvalued real exchange rate cheapens public capital imports, but undermines external competitiveness. *Third*, substantial domestic and external public borrowing for public infrastructure investment is leading to rising debt levels and a growing risk of external debt distress. As a commodity exporter, Ethiopia is subject to global price volatility and vulnerable to external economic shocks. All of these issues pose risks to the macro sustainability of economic growth in Ethiopia, particularly as the Government seeks to achieve lower middle-income status by 2025. These risks will be partly mitigated through policy dialogue on economic transformation, and the targeted interventions described in this CPF to advance structural transformation.

Social inclusion risks: Benishangul Gumuz, Gambella, and Somali are most vulnerable to unequal access to the basic goods and services that support improved human development outcomes. Despite the GoE's efforts, these regions do not enjoy equitable access to education, health, water, sanitation and other services, or to labor markets or social protection mechanisms, even as they face increasing exogenous shocks from climate risks such as drought. Similarly, there has been limited progress in gender equality in education, very low percentages of births attended by skilled health staff, and female unemployment rates much higher than those for males. WBG-funded operations will focus increased attention on social inclusion and gender equality. Social inclusion aspects (including for youth) will be mainstreamed across all projects and programs. A *Gender Filter* is being proposed for the CPF (see Annex 11), to be applied to all operations in Ethiopia during the CPF period, which will support project teams in designing gender friendly operations and generating sex disaggregated project results for ex-post facto assessment and learning.

Weak institutional implementation capacity: There is considerable risk in the management and implementation of WBG-financed projects due to the inexperience and weak capacity of some line ministries and agencies, as well as limited ability to deliver technical support to beneficiary communities, particularly in the regions, *woredas* and *kebeles*. There is also a high rate of turnover of project staff within all implementing agencies, due to low salary levels, making it more difficult to build long-term capacity. The high level of staff attrition, combined with the remoteness of many project sites, poses a substantial risk to the CPF program and may delay or preclude delivery of program results. The CPF proposes to mitigate these risks by supporting improved technical capacity of public institutions (including financial institutions), and providing technical assistance at various levels of government (federal, regional, *woreda* and *kebele*) as well as partnering with other development partners to strengthen government capacity, especially on environmental and social safeguards. We will focus increased, portfolio-wide attention on enforcement of health and safety standards in IDA-financed activities, particularly in infrastructure projects.

Fiduciary risk: This is rated substantial because of weak procurement and financial management oversight bodies at the regional and *woreda* levels and a shortage of qualified staff. Key mitigating measures include continual training and close implementation support. Staffing is being increased in the Addis office to meet this challenge.

Environmental and social risks: Following a series of high-level dialogues with the GoE starting in 2009, progress was made in 2013, such that the World Bank's Indigenous Peoples Policy (OP 4.10) is

now routinely applied in Ethiopia. OP 4.10 is applied not merely as a compliance issue, but as part of an opportunity for underserved groups and as a tool to enhance social inclusion in WBG-supported projects. As a result, social assessments prepared for WBG projects describe free, prior and informed consultations leading to broad community support. They also include a Social Development Plan, which provides the summary of potential risks and challenges as well as recommendations and measures to mitigate adverse impacts, promote culturally appropriate benefit sharing, address grievances, and monitor and evaluate project impacts. With regard to implementation of the Management Action Plan for the Ethiopia Protecting Basic Services Project (PBS3) (P128891), as of February 2017 actions have been completed regarding production of a safeguard management manual for communities (*woreda* level); support for smallholder agriculture in the Gambella region; support for PFM in the *woredas*; and benchmarking of *woreda* PFM performance.¹⁶ Toward mitigating these risks, which are rated a high, a comprehensive Safeguards Portfolio Review was conducted in March/April 2017, which identified safeguard noncompliance and social risk as the two most pressing risks to the WBG portfolio in Ethiopia. Mitigation measures are to be presented in the preliminary draft report, which is expected to be presented in July 2017.

Stakeholder risk: This is rated high because of the civil disturbances that engulfed many parts of the country last year. Many project implementation units lack sufficient consultation and awareness-raising capacity to engage in constructive dialogue with local communities. To mitigate this risk, it is recommended that CPF program design and implementation include a built-in continuous consultation process, aimed at garnering broad community support, strong communication measures to mobilize and inform local communities, strengthened participatory development models, and enhanced transparency in project-supported activities and safeguards management.

Ethiopia has an adequate legal and institutional framework to perform safeguards-related due diligence. The main challenge is weakness in enforcement and coordination between federal, regional and *woreda* levels of government in the planning and management of the safeguards process applicable to WBG-funded projects and programs. To mitigate any safeguard risks, capacity of the implementing agencies will be strengthened through training, knowledge exchanges, formal structured training collaboration with local universities, and other measures to improve compliance, monitoring, and reporting.

Ethiopia land policies: The GoE has adopted two controversial land policies, namely: (i) **Commune Development Program**, currently under implementation in the emerging regions, with the stated goal of aggregating scattered communities for the purpose of providing them with basic services; and (ii) **Land-to-Investors policy**, an agricultural land policy to encourage private investment (both foreign and domestic) in large-scale commercial farms. These two land policies have been perceived in some quarters as favoring private international investors, a risk which arises as a result of the weak existing property rights, perceived equity issues, the nature of physical displacement, and disruptions of livelihoods on the affected communities. The WBG is not promoting these land policies, and recognizes the need to ensure a strategic approach to risk management associated with resettlement in areas concurrent to WBG-funded projects. To address these risks, project preparation, design, implementation and supervision include a number of measures. This includes screening criteria to ensure that WBG-funded projects are not knowingly active in these areas, particularly in non-viable commune centers; implementation of a proactive communication strategy to clarify what the WBG operation does and does not finance; and promotion of participatory approaches which support extensive local consultations and strengthen the client's safeguards system to promote inclusiveness and sustainability. This is bolstered

¹⁶ Ethiopia—Third Phase of Promoting Basic Services Project (PBS3, P128891): second progress report on the implementation of management's action plan in response to the Inspection Panel Investigation Report, World Bank, 2017.

by support to the GoE in its efforts to improve governance and accountability, in part through the WBG-financed Social Accountability Program. The GoE has also provided assurances that WBG-funded projects will not be implemented in areas where these two land policies are being implemented.

Climate and disaster risks: The CPF program is vulnerable to recurrent droughts/floods and other climate-related risks. Ethiopia remains vulnerable to various climate shocks, particularly the strong possibility that food price- and/or weather-related shocks will affect the bottom 40 percent. The WBG is providing financial and other support to the GoE to help mitigate climate and disaster risks. This work involves investments to improve the resilience of rural landscapes, including protecting and expanding forest cover, boosting crop productivity, and enhancing livestock production systems. It also includes support for early warning and contingency budgets, disaster risk response, and climate-resilient investment planning, along with strategic advisory services to the Ministry of Finance and Economic Cooperation's (MoFEC) Climate Resilient Green Economy (CRGE) initiative.



ANNEXES

- Annex 1: Ethiopia CPF—FY18–FY22—Results Matrix
- Annex 2: Completion and Learning Review (CLR)
- Annex 3: GTP II Objectives and Indicators
- Annex 4: Selected Indicators of World Bank Portfolio Performance and Management
- Annex 5: IDA Operations Portfolio (as of May 22, 2017)
- Annex 6: IFC Statement of Held Investments
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- Annex 10: Donor Mapping
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Annex 1: Ethiopia CPF—FY18–FY22—Results Matrix

Focus Area 1: Promote Structural and Economic Transformation through Increased Productivity

Ethiopia's success in achieving structural transformation, as articulated in GTP II, will depend on sustaining the economic growth rates of the past decade and boosting productivity and competitiveness across a range of sectors. The SCD identified several challenges, beyond the eight binding constraints, in order for Ethiopia to achieve the Twin Goals: (i) create a more competitive private sector by lowering regulatory barriers and boosting financial inclusion; (ii) increase access to reliable energy; (iii) remove the main constraints to agricultural growth which include low agricultural productivity and commercialization; (iv) increase connectivity and improve urban planning and land management to help catalyze growth, job creation, and service delivery; and (v) develop new financing mechanisms for infrastructure. The CPF presents a multi-sectoral approach to addressing these constraints while supporting the priorities of GTP II. Much attention will also be given to close the job and asset gap between men and women.

CPF Objective 1.1: Enhanced business and investment climate, notably access to finance for MSMEs

Intervention Logic

In order for Ethiopia to create a more competitive private sector, a number of constraints must be removed, notably (as measured by its ranking among 190 economies in the 2017 Doing Business Report) starting a business (179th), getting credit (170th), trading across borders (167th), and protecting minority investors (175th). Under GTP II, the GoE seeks to reduce regulatory barriers for businesses and investments, support the quality of products and services of firms to make them more competitive, supply land for business development through industrial parks, and pursue an exchange rate policy that promotes exports. The WBG, through the Competitiveness and Job Creation Project, is helping to address the constraints to industrial zone development, investor promotion and industrial zone infrastructure. The forthcoming National Quality Infrastructure Development Project will support improvements in Ethiopia's national infrastructure through delivery of quality assurance services to enterprises. The World Bank and IFC are providing advisory services to address business environment issues through the Ethiopia Investment Climate Advisory Program. These joint efforts will help reduce legal and administrative barriers to foreign investment, strengthen the legal and regulatory framework for foreign investor protection and transparency, and help attract additional FDI in key sectors (food and beverages, tourism, and leather/garments). IFC will also pursue investments to support private sector growth while also achieving demonstration effects, and MIGA will actively seek to expand use of guarantees to provide reassurance to foreign investors and thereby support GoE efforts to attract foreign direct investment into the country. The World Bank provided recent analysis on the importance of the exchange rate for structural transformation. Based on government demand the World Bank team will support additional technical analysis during the CPF period.

Limited access to credit for private investment is a binding constraint to the growth and competitiveness of firms, particularly Micro, Small and Medium Enterprises (MSMEs) -disproportionately for women-owned firms- and is a priority of GTP II. The WBG has launched a series of interventions supporting the GoE's objective of enhancing access to finance, especially for MSMEs. The Harnessing Innovation for Financial Inclusion (HiFi) Project is leveraging rural and urban safety net programs in Ethiopia to expand access to transaction accounts by the unbanked. The FIRST-funded Promoting Inclusive Insurance Project is supporting access to insurance services of quality, value and safety for low income groups and contribute to broader financial inclusion. The Financial Inclusion Support Framework (FISF) is helping Ethiopia to implement the National Financial Inclusion Strategy. The SME Finance Project is helping to support financial intermediaries to deploy novel lending techniques to reach SMEs; build the necessary financial infrastructure (i.e., collateral registry, insolvency and creditor/debtor regime); and address SMEs' bankability constraints by providing technical assistance, especially on business development. This intervention complements the ongoing Women Entrepreneurship Development Project that is serving female-owned micro and small enterprises. Advisory services will continue to strengthen the secured transactions and collateral registry regime and to enhance the Ethiopian credit information system in compliance with international best practice.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 1: Parliamentary proclamations approved or government policies adopted to improve the business and investment climate (number) Baseline: 6 (2016) Target: 11 (2021)	Industrial parks regulatory function established and fully operationalized Baseline: No (2016) Target: Yes (2020)	Ongoing: WB Operations Ethiopia (ET) Competitiveness and Job Creation Project (P143302) National Quality Infrastructure Development Project (P160279) Ethiopia SME Finance Project—SMEFP (P148447) Women Entrepreneurship Development Project—WEDP (P122764)
Indicator 2: Value of financing to MSMEs facilitated through WBG projects and advisory services (US\$ million) ¹⁷ Baseline: 42 (2016) ¹⁸ Target: 2,600 (2021) ¹⁹	Enterprises that used National Quality Infrastructure institutions' quality assurance services (number) Baseline: 1,650 (2016) Target: 2,850 (2021)	WB ASA Ethiopia Trade and Competitiveness and Women Entrepreneurship Financial Deepening and Development Program (P156978) Macroeconomic, Fiscal, and Debt Dialogue (P162271)
Indicator 2.1: Value of financing to MSMEs facilitated through WBG projects and advisory services (US\$ million) to female owned SMEs ²⁰ Baseline: 42 (2016) Target: 605 (2021)	Financial institutions participating in credit reporting systems (number) Baseline: 18 (2016) Target: 25 (2021)	IFC Advisory and Joint with WB Ethiopia Investment Climate Program Phase II Secured Transactions and Collateral Registries Ethiopia (601522) Sub-Saharan Africa Credit Bureau African Countries Consolidated (600666) East Africa Corporate Governance Program (600673) East and South Africa SME (600844)
	Collateral Registry established Baseline: No (2016) Target: Yes (2019)	
	Safety net recipients with transaction accounts (number) Baseline: 144, 032 (2016) Target: 400,000 (2021)	

(continued)

¹⁷ This indicator aggregates the financing to MSMEs facilitated by WB financed projects and the collateral registry that will be established with support from IFC AS.

¹⁸ Baseline corresponds to financing through WEDP only as SMEFP just started disbursing in 2017 and the Collateral Registry was not established yet.

¹⁹ Target corresponds to value of financing to MSMEs facilitated through WEDP (US\$50 million), SMEFP (US\$150 million) and IFC AS (US\$2,400 million three years after the creation of the registry).

²⁰ Baselines and targets are based on value of financing to MSMEs owned by women which for WEDP is 100 percent, for SMEFP is 50 percent and for the SMEs that will use the collateral registry supported by IFC AS is 20 percent.

		Planned: IFC Advisory and Joint with WB Ethiopia Textile Competitiveness (601500) Development of economic models to estimate the impact of private sector investments (601779) Efficient Securities Markets Institutional Development Ethiopia (601628) Africa Leasing Facility II Ethiopia (600334) SME Banking Business Edge IFC Investments DMC Expansion (37346) MIGA Guarantees Possible guarantees for manufacturing and services
CPF Objective 1.2: Increased access to reliable energy supply		
Intervention Logic Enhanced access to reliable electricity accelerates economic growth, improves quality of life and income opportunities for households, and enhances competitiveness of the private sector, as noted in the SCD. As part of its GTP II, the GoE is focusing on (i) leveraging the electricity sector for economic growth by focusing on improved access, and (ii) continued electricity infrastructure development by tapping into renewable energy resources. The WBG is financing multiple operations to increase access to electricity services and improve reliability of the electricity network in Ethiopia. The Electricity Network Reinforcement and Expansion Project (ENREP) and its AF, and the forthcoming Ethiopia Electrification Program—Program for Results (ELEAP) (P160395), are financing electricity infrastructure development to expand and improve energy service delivery. ENREP and its AF also support (through a Development Bank of Ethiopia (DBE) credit facility to Micro Finance Institutions (MFIs) and Private Sector Enterprises (PSEs)) the delivery of off-grid renewable energy solutions for households not connected to the grid. The WBG Lighting Africa Initiative has been providing advisory services to clients/companies in the off-grid lighting sector to develop a private sector market for high-quality solar lanterns and kits that offer cleaner and safer off-grid lighting. The GoE intends to diversify its reliance on hydropower by scaling up its solar, wind, and geothermal power generation capacity through public-private partnerships (PPP) for power generation including private investments (independent power producers, IPPs). The WBG will provide IDA guarantees for renewable energy IPPs, including solar projects under the 500-MW IFC Scaling Solar Initiative. IFC will also explore supporting IPPs and MIGA will explore the use of guarantees for IPPs. Through an ESMAP grant, the WB also provides just-in-time analysis, data, and site-specific wind resource measurements for areas considered promising for IPP development. The IDA Geothermal Sector Development Project is supporting geothermal resource development in Ethiopia.		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 1: Population with access to electricity (percentage) Baseline: 25 (2016) Target: 50 (2021) Indicator 2: Electricity reliability: System Average Interruption Frequency Index in areas financed by WB project ²¹ Baseline: 178 (2016) Target: 89 (2019)	Amount of energy generation installed capacity from non-hydropower based renewable resources (MW) Baseline: 150 MW (2016) Target: 700 MW (2021)	Ongoing: WB Operations Elect. Network Reinforcement & Expansion, ENREP (P119893) ENREP Additional Financing (P155563) Ethiopia Geothermal Development Project (P133613) WB ASA Electrification Strategy Review and Technical Assistance for the IPP Reform Program (ESMAP) IFC Advisory Lighting Africa Ethiopia (600201) Planned: WB Operations Ethiopia Electrification Program (P160395) Renewable Energy Guarantees Project Guarantees (P162607) IFC Advisory Energy PPP—Ethiopia Scaling Solar (601584) IFC Investments Possible investments in IPPs MIGA Guarantees Possible guarantees for IPPs

²¹ Index is computed as average interruption per year within 100 km transmission line distance.

CPF Objective 1.3: Improved agricultural productivity and commercialization**Intervention Logic**

Agriculture is an important driver to boost inclusive growth, reduce poverty and narrow spatial disparities, particularly between rural and urban areas, while meeting growing urban food demand and improving nutritional outcomes in rural and urban settings. Despite recent growth in agricultural output, the sector is still characterized by low productivity as a result of low use of modern inputs, including improved seed breeds, limited access to input and output markets and finance, and low availability of irrigation water and related climatic shocks. Agro-processing and access to markets require improved connectivity and increased private investment in agro-processing and trade logistics.

Addressing gender productivity disparities is essential for inclusive rural development. Providing women farmers with better access to agricultural services and infrastructure, and developing technologies that are gender sensitive will likely have direct payoffs for nutritional outcomes in agricultural production. Under GTP II, the GoE has articulated a policy on agricultural development-led industrialization, aimed at increasing agricultural productivity, with efforts to expand this policy to agribusiness development and incentives for private investment. The WBG program of investments in productivity improvements is supporting improved public services for crop and livestock producers, irrigation and drainage infrastructure, and development of value chains and marketing services. Productivity gains among smallholder livestock producers will result in a reduction of GHG emissions per unit of product, thus contributing to achieving the communicated Nationally Determined Contribution (NDC). IFC will continue building its portfolio in agriculture to improve access of livestock smallholder producers and processors to quality inputs which includes support to reforms on licenses and permit requirements for key livestock inputs. MIGA will continue to explore expansion of its current portfolio in the agribusiness sector to support GoE efforts to attract foreign direct investment into the sector in Ethiopia.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 1: Increase in the yield index ²² for cereals/pulses ²³ (percentage) Baseline: 0 (2016) Target: 21.8 (2021)	Farmers/Agricultural producers reached with assets and services ²⁴ (WBG) (number) Baseline: 188,000 (2016) Target: 1,905,000 (2021)	Ongoing: WB Operations Second Agricultural Growth Project (P148591) Ethiopia Promoting Basic Services Program Phase III Project (P128891) Productive Safety Net Program (PSNP) 4 (P146883) PforR Ethiopia Enhancing Shared Prosperity Though Equitable Services (P151432) Sustainable Land Management Project (P133410) Sustainable Land Management Project-II (P133133) ET Irrigation and Drainage Project (P092353) WB ASA Ethiopia IE Women Agricultural Leaders (P148635) Review of Ethiopian Rural Roads Program (P161839) An Overview on the Functioning of Cereal Markets in Ethiopia (P162453) IFC Advisory and Joint with WB Ethiopia Livestock MIRA (601053) MIGA Guarantees Africa Juice TSC (two guarantees) and Alvima Import and Export PLC (one guarantee) Africa Juice (two guarantees—Project ID 7879)
Indicator 1.1: Increase in the yield index for cereals/pulses in female-headed households (percentage) Baseline: 0 (2016) Target: 22.9 (2021)	Female farmers reached with assets and services (WBG) (number) ²⁵ Baseline: 39,000 (2016) Target: 683,000 (2021)	Planned: WB Operations Livestock and Fisheries Sector Development Project (P159382) IFC Investments DAL Dairy (38045) Luna Expn (37311) Elfora Poultry (37497) AfricaJUICE (659726) Afriflora (800026) IFC Advisory Ethiopia Nespresso Coffee (601633) Africa Improved Foods Ethiopia (601771) MIGA Guarantees Possible guarantees for agribusiness
Indicator 2: Increase in the yield index for selected animal products (percentage) Baseline: 0 (2016) Target: 21.8 (2021)	Area provided with irrigation and drainage (hectares) Baseline: 3,000 (2016) Target: 63,000 (2021)	
Indicator 2.1: Increase in the yield index for selected animal products in female-headed households (percentage) Baseline: 0 (2016) Target: 22.9 (2021)	Reforms in the area of licenses and permit requirements for livestock inputs (veterinary drugs/vaccines and feed) ²⁶ (number) Baseline: 0 (2015) Target: 7 (2020)	

(continued)

²² Yield index is calculated on the cereals subset of 13 crops under the AGP2 as a weighted sum of the yields of the cereals crops. The weight attached to each crop is the proportion of land area sown to the crop out of total land allocated to the crops in the yield index.

²³ Indicators 1–3 are measured for farming households directly benefitting from AGP2.

²⁴ The indicator includes all farmers directly benefitting from assets and services provided under the WBG-financed operations.

²⁵ This indicator includes all female farmers directly benefitting from assets and services provided under the WBG-financed operations.

²⁶ Specifically, the reforms are aimed at reducing time and cost (by 43 percent) that will allow livestock farmers access inputs such as veterinary drugs/vaccines and feed, and enable cost savings in the livestock sector of Ethiopia of about US\$2.5 million.

CPF Objective 1.4: Improved connectivity and enhanced regional growth centers and secondary cities**Intervention Logic**

More spatially equitable growth requires (i) improved connectivity between production centers and markets, both domestic and export; and (ii) enhanced regional growth centers and secondary cities where industrial production and service provision take place. GTP II is addressing connectivity constraints to competitiveness by supporting improved transport infrastructure and services and trade logistics. The WBG, through projects that support the Government's Road Sector Development Program, is helping to strengthen transport connectivity and reduce travel times for businesses between productive areas and markets and processing facilities. The Expressway Development Support Project is strengthening government's capacity to construct and operate strategic road logistics corridors. The forthcoming Trade Logistics Project will support infrastructure improvements; capacity building; and policy, regulatory, and administrative reforms to enhance the performance of the Ethiopia-Djibouti corridor. IFC will continue providing advisory services to reduce export and import barriers, reforms which are expected to yield savings to the private sector.

Given the expected urbanization rate of about 5.4 percent a year in the coming decade, urban population growth represents a huge opportunity to shift the structure and location of economic activity from rural agriculture to the larger and more diversified urban industrial and service sectors. Well-managed urbanization to enhance regional growth centers and secondary cities could help to catalyze growth, job creation, and prosperity for a growing number of Ethiopians. The SCD cites weak urban planning and land management as a binding constraint to achieving the Twin Goals. Local governments below the regional level have limited capacity and autonomy, and municipal finances are inadequate to fund urban development. The WBG will support the GTP II priorities of building capacity for improved urban development, an integrated national and regional urban planning and implementation program, an integrated urban infrastructure and services delivery program, and an urban finance development and management program.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Savings of journey time on roads upgraded by WB-financed projects (percentage)²⁷ Baseline: 0 (2016) Target: 56 (2021)</p> <p>Indicator 2: Score in the Annual Performance Assessment (APA) for achievement in urban infrastructure and service targets by Urban Local Governments (ULGs), averaged across all cities²⁸ Baseline: 65 (2016) Target: 80 (2020)</p>	<p>Increased throughput of the Modjo Logistics Hub (tons per year) Baseline: 617,156 (2016) Target: 1,000,000 (2021)</p> <p>Score in the APA for institutional performance of participating ULGs, averaged across all cities²⁹ Baseline: 65 (2016) Target: 80 (2020)</p>	<p>Ongoing: WB Operations ET Local Govt Dev Project II (P133592) Transport Systems Improvement Project (P151819) ET Road Sector Development Program APL4 (P106872) ET Transport Sector Project in Support of RSDP4 (P117731) Road Sector Support Project (P131118) Expressway Development Support Project (P148850) Trade Logistics Project (P156590) Ethiopia Promoting Basic Services Program Phase III Project (P128891) Enhancing Shared Prosperity through Equitable Services (P151432) Pastoral Community Development Project III (P130276)</p> <p>WB ASA Urban Policy Programmatic TA</p> <p>IFC Advisory Ethiopia Trade Logistic Project (599466)</p> <p>Planned: WB Operations Urban Institutional and Infrastructure Development Program (UIIDP) Support to Road Sector Development Program (P160863)</p>

²⁷ Savings of journey time is calculated as a weighted average (based on road length) of the percentage difference between the original travel time and post-upgrade travel time on roads which are important regional trade corridors and links being upgraded through WB-financed projects. It currently takes a total of 27 hours to travel these roads which serve a population of 3.3 million: This will reduce to 11 hours on completion of the projects, a saving of 2 hours per 100 km travelled. The total number of beneficiaries including the Transport Systems Improvement Project, which improves urban roads, is 7.2 million.

²⁸ The performance of ULGs ranges between 0–100. The percentage reflects the score based on performance data for achievement of urban infrastructure and service targets.

²⁹ In the areas of planning and budgeting, assets management, public financial management, procurement, own source revenue, accountability and transparency, environment and social safeguards, land management, and urban planning. The performance of ULGs ranges between 0–100. The percentage reflects the score.

CPF Objective 1.5: New approaches for sustainable infrastructure financing and debt management adopted**Intervention Logic**

Ethiopia needs new approaches to finance infrastructure through measures such as boosting tax revenues, increased private sector involvement (including PPPs), greater selectivity and prioritization of investments, and improved public investment management. In the power sector, in addition to generating sufficient power for domestic consumption, per GTP II objectives, the GoE is developing generation capacity for export as a means to increase power sector revenues. It is estimated that electricity exports to Sudan, Djibouti, and Kenya could boost Ethiopia's annual export revenue potential to as much as US\$500 million by the end of the decade. To support this objective, the WBG is financing the Eastern Electricity Highway Project under the First Phase of the Eastern Africa Power Integration Program. The WBG is also supporting a series of ASA to provide client-driven analysis and policy advice. In the energy sector, the WB is supporting the development of IPPs through technical assistance as well as preparation of a renewable energy guarantee for Independent Power Producers (see 1.2. above). This policy dialogue is anchored by the annual discussions and preparation of the Ethiopia Economic Update Series, and complemented by policy advice on issues such as annual DSAs, which are produced jointly with the IMF, to monitor non-concessional borrowing; and a tax study as part of the follow up to the PER Phase 2. As highlighted in GTP II, Ethiopia has decided to introduce PPP financing for investments in infrastructure. The African Development Bank (AfDB), the UK Department for International Development (DFID), and WBG are working together to support GoE in preparing a PPP Framework, establishing a PPP Unit, developing detailed implementation procedures, and identifying/developing future projects. This will help to develop Ethiopia's framework for PPPs and build the requisite capacity to boost private investment in infrastructure and other sectors. The WBG will work with GoE to leverage private financial resources to help close the infrastructure gap, and IFC will explore PPPs in infrastructure.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Debt management capacity increased Baseline: Government does not conduct and publish annual DSAs in compliance with international practice (2016) Target: Government conducts and publishes annual DSAs in full compliance with international practice (2021)</p> <p>Indicator 2: PPP project agreements/PPPs, consistent with PPP framework, signed (number) Baseline: 0 (2016) Target: 5 (2021)</p>	<p>PPP framework in place Baseline: None (2016) Target: PPP legislation, PPP unit and implementation manuals in place; pipeline of projects identified (2021)</p> <p>SOE fiscal risk assessment conducted and disseminated³⁰ Baseline: No (2016) Target: Yes (2020)</p> <p>Amount of electricity exported from Ethiopia to Kenya (GWh/Year) Baseline: 0 (2016) Target: 2,978 (2020)</p>	<p>Ongoing: WB Operations WB ASA Macroeconomic, Fiscal, and Debt Dialogue — Programmatic Knowledge Service ESMAP Energy Sector Review and Strategy (P146616) ESMAP Renewable Energy Resource Mapping</p> <p>Planned: WB Operations Renewable Energy Guarantees Project IPF (P162604) and Guarantee (P162607)</p> <p>IFC Advisory Infrastructure PPP</p> <p>IFC Investments Possible investments in IPPs</p> <p>MIGA Guarantees Possible guarantees for IPPs</p>

Focus Area 2: Building Resilience and Inclusiveness

Ethiopia has historically been vulnerable to climate shocks, especially droughts, and poor land management practices in the past aggravated land degradation. In recent years, Ethiopia has made progress in addressing these issues through measures led by Government and communities. GTP II has stressed climate-friendly initiatives such as reforestation, land rehabilitation through bench terracing and other methods, and managing watersheds. With the support of WBG and other development partners, Ethiopia has implemented a large safety net program to transform reliance on humanitarian food assistance and promote investments in human resilience through quality health, water and sanitation services, and education outcomes. These safety net programs will improve the well-being of poor households and support structural change. Despite these efforts, droughts are still causing humanitarian appeals. Moving forward the WBG will provide support to develop disaster risk financing strategies and options to ensure future droughts have a less severe effect on the population. Government programs will emphasize the millions of children who are not reaching their full potential because of inadequate nutrition, a lack of early stimulation and learning, and exposure to stress. Finally, as Ethiopia is the second-largest host of refugees in Africa (after Uganda), accommodating over 800,000 refugees displaced by conflicts, political events, and civil wars in neighboring countries, support will be provided to improve access to basic social services, expanded economic opportunities, and enhanced environmental management for refugees and host communities.

CPF Objective 2.1: Improved sustainability and effectiveness of safety nets**Intervention Logic**

Two types of vulnerabilities define opportunities for improving safety nets in Ethiopia. First, despite a significant decline in poverty rates over the past decade, a large number of Ethiopians live in chronic poverty, and a significant percentage of the rural poor are dependent on rain-fed agriculture and thus vulnerable to climate shocks. The Government has put in place a safety net in the most food-insecure areas, which can be scaled up in response to shocks such as drought, and recently launched a safety net program for urban areas. While evidence shows that the Government's safety net programs reduce poverty and protect people from shocks, these two safety net programs do not reach all in need and require sustained public financing. Second, the scope of formal social protection is limited, and informal safety nets are weak in urban areas. Urban poor and vulnerable are prone to (i) higher rates of poverty among urban elderly and disabled; (ii) high levels of urban food insecurity; (iii) long and costly job-search processes in urban labor markets; and (iv) high rates of urban unemployment, especially for women and youth. Women in urban areas are less likely to engage in the labor market, and more likely to work in less skilled, informal and lower paying jobs. Female labor force participation rates in urban Ethiopia are 13 percentage points lower than for males, and female youth unemployment is particularly high (25 percent versus 15 percent for young men).

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³⁰ The first assessment in 2020 is planned to be updated in the following years.

The GoE is building a harmonized, nationwide social protection system for poor and vulnerable groups to increase social protection coverage. The existing system is extended to address vulnerability in the drought-prone highlands and pastoral lowlands, and unemployment and destitution in urban areas. Within the framework of GTP II, the GoE has developed the Urban Food Security and Job Creation Strategy to reduce poverty and vulnerability among 4.7 million urban dwellers living below the poverty line.

WBG operations support (i) establishing urban safety nets; (ii) improving the effectiveness of the Government's safety net in rural areas, including responsiveness to drought induced food insecurity; and (iii) supporting women-owned SMEs in targeted cities. Project interventions in rural areas help to address rural poverty directly through transfers and livelihood support, and indirectly through the public works that aim to transform the natural environment and invest in rural infrastructure. In urban areas, the WBG-financed operation helps establish urban safety net mechanisms to improve incomes of poor urban households and access to livelihood opportunities.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Government funding to safety net programs (annual in USD) Baseline: US\$88 million (FY16/17) Target: US\$400 million (FY21/22)</p> <p>Indicator 2: Average number of months of rural household food insecurity (number of months) Baseline: 3.2 (2016) Target: 2.0 (2021)</p> <p>Indicator 3: Proportion of Urban Safety Net Beneficiaries reporting an increase in household consumption as a result of the project (percentage) Baseline: 0 (2017) Target: 80 (2021)</p> <p>Indicator 3.1: Proportion of Urban Safety Net Beneficiaries reporting an increase in household consumption as a result of the project, female-headed households (percentage) Baseline: 0 (2017) Target: 80 (2021)</p>	<p>Beneficiaries of safety net programs (number) Baseline: 7,200,000 (2015) Target: 14,100,000³¹ (if a drought occurs) <i>Female beneficiaries of safety nets (number)</i> Baseline: 3,600,000.00 (2015) Target: 4,387,456.00 (2020)</p> <p>Proportion of beneficiaries receiving regular payments within the agreed timeframe (percentage) Baseline: 60 (2015) Target: 90 (2021)</p> <p>Time taken from issuing a drought warning to identifying and agreeing on the number of people in need (number of days) Baseline: 180 (2016) Target: 45 (2021)</p>	<p>Ongoing: WB Operations ET Productive Safety Nets Project 4 (PSNP 4) (P146883) Urban Productive Safety Net Project (UPSNP) (P151712) WB ASA Support for DRM Framework, Ethiopia (P146370) Strengthening Implementation of the SP Strategy (P156434) Sovereign Disaster Risk Financing (P160864)</p> <p>Planned: WB Operations Ethiopia Rural Safety Net Project (P161430) WB ASA Programmatic TA on jobs Social protection systems programmatic review Disaster risk financing for Ethiopia</p>

CPF Objective 2.2: Improved equity and utilization of quality health services

Intervention Logic

Significant progress has been made in improving access to primary health care services, particularly by the rural poor: child mortality and nutrition outcomes have improved; the poorest have benefited; and basic services gaps such as antenatal care and reproductive health have narrowed across income groups. Despite notable sector achievements, substantial inequities in access to quality health services remain, both by geography and socioeconomic groups. Lack of availability of services, especially for the bottom 20 percent, remains a constraint to health care utilization in some areas, leading to poor health outcomes. There are also persistent disparities in use and quality of health services. Low-quality care will become an increasingly important constraint to improving health outcomes as access increases.

Government's HSTP (2015–2020) focuses on quality and equity, with a commitment to reduce preventable maternal and child deaths by addressing reproductive health issues more comprehensively and focusing on adolescents and other areas of the health system. The HSTP includes goals to improve equity, coverage, and utilization of essential health services; improve quality of health care; and enhance health sector implementation capacity at all levels of the system.

WBG operations address critical constraints by improving equity, utilization and quality of health services, particularly maternal and child health care, in support of the HSTP.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Improved geographic equity in health service delivery outcomes, based on Penta3 Vaccine³² indicator for the bottom 20% of the lowest-performing <i>woredas</i>³³ (percentage) Baseline: 55 (2016) Target: 58 (2021)</p> <p>Indicator 2: Proportion of women in rural areas using a modern method of contraception (percentage) Baseline: 32 (2016) (DHS 2016) Target: 45 (2020)</p>	<p><i>Deliveries attended by skilled birth providers (percentage)</i> Baseline: 27.7 (2016) (DHS 2016) Target: 36 (2021)</p> <p>Per capita annual budgeted federal government block grant transfers to regions, excluding Addis Ababa (Ethiopian Birr) Baseline: 1,240 (FY2018) Target: 1,696 (FY2021)</p>	<p>Ongoing: WB Operations Ethiopia Promoting Basic Services Program Phase III Project (P128891) Enhancing Shared Prosperity through Equitable Services (P151432) Ethiopia Health MDG Support Operation (P123531) Pastoral Community Development Project III (P130276) Ethiopia Water Supply, Sanitation and Hygiene Project (P133591)</p>

³¹ Beneficiaries of safety net programs include those who receive regular support for chronic poverty or food insecurity and those who receive support through the safety net in response to transitory food insecurity arising from droughts. The highest figure during the CPF period will be considered when assessing progress toward this indicator as a drought could occur in any year within the CPF period.

³² Penta3 is the application of the Pentavalent vaccine (Diphtheria, Tetanus, Pertussis, Hepatitis B, and *Haemophilus influenzae* type b vaccines combined in one syringe) to a child at 14 weeks. Targets include towns and data are for Ethiopian Fiscal Year (EFY) 2008 for the baseline and EFY2011 for the target which corresponds to the end year of the Program.

³³ A *woreda* is the commonly used Ethiopian name for a district; Ethiopia comprises approximately 1,000 *woredas*.

		WB ASA ET Improvement in Health Care (P157131) Improving Services for the Bottom 40% (P146931) The Impact of CLTSH in Ethiopia (P150119) Planned: WB ASA TBD
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CPF Objective 2.3: Increased access to improved water and sanitation

Intervention Logic

The GPT II includes plans to (i) improve labor productivity in the nonagricultural sector which is reliant on improved access to water at the household and enterprise level; and (ii) manage the urbanization process so as to avoid the potential stresses on existing water and sanitation services that could result in negative impact on the environment and public health. Despite a major decrease in the proportion of people openly defecating (from 92 percent in 1990 to 29 percent in 2015), 43 percent of those with access to toilets in 2015 used either an unimproved or shared facility. Addis Ababa is the only Ethiopian city that has some sewer system, covering only 10 percent of the residents. Unsafe water in rural areas poses risks to good health and nutrition, and improved access to water services will especially benefit women who typically bear the burden of fetching water. GoE programs are focused on providing access to a safe and sustainable water supply and improved sanitation. WBG operations will support improvements in water and sanitation and contribute to the Government's goal of attaining 100 percent national potable water supply coverage and improving sanitation access during GTP II.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: People provided with access to basic (previously improved³⁴) water sources (percent) Baseline: 61 (2016) Target: 74 (2021)</p> <p>Indicator 2: People with access to basic (previously improved) sanitation³⁵ (percent) Baseline: 28 (2016) Target: 40 (2021)</p>		<p>Ongoing: WB Operations ET Urban WSS SIL (P101473) ET Urban WSS Additional Financing (P129174) ET Water Supply, Sanitation and Hygiene (P133591) Ethiopia—Second Urban WSS Project (P156433) Productive Safety Net Program (PSNP) 4 (P146883)</p> <p>WB ASA Sustainable and Equitable WASH Services in Ethiopia (P157690)</p> <p>Planned: WB Operations Rural WASH Project</p>

CPF Objective 2.4: Improved basic education learning outcomes

Intervention Logic

Significant progress has been made in improving access to education for the bottom 40 percent of the population. The rapidly expanded education system faces challenges in keeping children in school, especially for the bottom 20 percent for whom limitations on household investments lead to low education outcomes. Dropout rates at grade 1 continue to be high, and there are persistent disparities in access to quality education services both across and within regions. While student learning outcomes have marginally improved at grades 4 and 8 in most subjects, the progress remains very slow (with gender disparities as well).

The government's strategy—Education Sector Development Program V (2015/16–2019/20)—defines priorities for education including capacity development for improved management; improve quality, access, equity and efficiency of general education; and increase access, quality and relevance of TVET and higher education. WBG operations address critical constraints by improving quality and equity of pre-primary up to 8th grade.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Students scoring at "below basic proficiency" in English and mathematics (NLA subject scores) (percentage) Baseline: Grade 4: English: 51.0 (<i>girls: 54.2</i>); Math: 35.63 (<i>girls: 39.4</i>) (2015) Grade 8: English: 23.4 (<i>girls: 25.8</i>); Math: 35 (<i>girls: 37.7</i>) (2015) Target: Grade 4: English: 41 (<i>girls: 41</i>) (2021); Math: 26 (<i>girls: 26</i>) (2021) Grade 8: English: 13 (<i>girls: 13</i>); Math: 25 (<i>girls: 25</i>) (2021)</p>	<p>Completion rate at Grade 8 (percentage) Baseline: 54.3 (<i>girls: 55.3</i>) (2016) Target: 58 (<i>girls: 58</i>) (2021)</p> <p>Grade 1–8 dropout rates (percentage) Baseline: 10.7 (<i>girls: 10.8</i>) (2014/15) Target: 6 (<i>girls: 6</i>) (2021)</p> <p>Qualified G1–4 teachers (percentage) Baseline: 72.3 (2015/16) Target: 100 (2021)</p>	<p>Ongoing: WB Operations Ethiopia Promoting Basic Services Program Phase III Project (P128891) Enhancing Shared Prosperity through Equitable Services (P151432) ET GEQIP II (P129828) African Centers of Excellence East/South (P151847)</p> <p>WB ASA Improving Services for the Bottom 40% (P146931) ET Higher Education Science and Technology (P161655)</p>

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³⁴ Drinking water from an improved source provided collection time is not more than 30 minutes for a round-trip, including queuing. Improved sources include: piped household connections (house or yard connections), public standpipes, boreholes, protected dug wells, protected springs and rainwater collection.

³⁵ Private improved facility which separates excreta from human contact.

Indicator 2: Improved geographic equity in education service delivery, based on Grade 8 completion rate for girls in the bottom 20% of the lowest-performing <i>woredas</i> (percentage) ³⁶ Baseline: 12.5 (2016) Target: 25.5 (2020)		Planned: WB Operations GEQIP2 GPE2 grant (P161060) GEQIP3 (P163050) GEQIP Additional Financing (P161060) WB ASA Ethiopia Education Sector Report
CPF Objective 2.5: Improved early childhood nutrition and early learning outcomes		
Intervention Logic Despite strong economic growth and substantial progress on human development indicators over the past decade, poverty remains high in Ethiopia and the country ranks poorly on the UNDP Human Development Index. One reason for these persistent gaps is that millions of young children are not reaching their full potential due to inadequate nutrition, a lack of early stimulation and learning, and exposure to stress. These factors adversely affect physical, cognitive and socioemotional capacity to learn, earn, and compete later in life. Among these gaps, childhood stunting (with 38 percent of under 5 children stunted), and poor early learning, persist in Ethiopia. The bottlenecks include high micronutrient deficiencies in children and pregnant/lactating women; malnutrition among women; high disease burdens, especially infections, diarrhea and malaria; insufficient access to health services, water and sanitation; climate risks such as drought; and a lack of early child education. Ethiopia is committed to the Early Years agenda to end child undernutrition by 2030 as stated in its Seqota Declaration and GPT II. GoE is implementing the second donor-supported National Nutrition Program (NNP2). Ethiopia faces challenges in financing, implementing, and coordinating the multi-sectoral programs, both within Government and with donors. The WBG portfolio, through the Health MDG PforR and AF, the ESPES AF, the Second Agriculture Growth Project, and the forthcoming Livestock and Fisheries Development Project, contributes to improving supply- and demand-side investments in nutrition and health by providing household food security support, nutrition/health services, and investing in diversified and nutrition-rich crops and livestock products. In water and sanitation, the focus is on providing clean water and reducing open defecation that increases the disease risks and lowers child nutrition outcomes. In education, WBG operations contribute to parental engagement for early stimulation and school readiness programs, which remains a priority focus for the Education portfolio and will be used in future interventions. The ESPES Program (through the forthcoming AF) will also help advance the Early Years agenda in PSNP <i>woredas</i> by supporting nutrition, early child development (ECD) and pre-primary education.		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 1: Stunting prevalence in children aged 0–23 months (percentage) ³⁷ Baseline: 28 (2016) Target: 18 (2020)	Exclusive breastfeeding 0–6 months (percentage) ³⁹ Baseline: 58 (2016) Target: 68 (2021)	Ongoing: WB Operations Health MDG PforR (P123531) Enhancing Shared Prosperity through Equitable Services (ESPES) PforR (P161373) Pastoral Community Development Project III (P130276) Urban Productive Safety Net Project (UPSNP) (P151712) Productive Safety Net Program (PSNP) 4 (P146883) Promoting Basic Services Program Phase III Project (P128891) Water Supply, Sanitation and Hygiene (WASH) (P133591) Ag Growth Project AGP2 (P148591)
Indicator 2: Children reached with early learning and stimulation through WBG projects TBD in 2018 ³⁸	<i>Iron deficiencies (anemia) in women age 15–45 (percentage)</i> ⁴⁰ Baseline: 23 (2016) Target: 19 (2021) Dropout rate at Grade 1 Baseline: 17.9 (2014/15) Target: 13 (2021) Open defecation (percentage of population) Baseline: 29 (2016) Target: 12 (2021) Yield index for vegetables/fruits (number) ⁴¹ Baseline: 67.42 (2016) Target: 86.7 (2021) Number of nutrition technologies promoted to public extension services Baseline: 0 (2015) Target: 80 (2021)	WB ASA Sustainable and Equitable WASH services in Ethiopia (P157690) Planned: WB Operations General Education Quality Improvement Program Phase 2—GPE (P161060) Ethiopia General Education Quality Improvement Project 3 (P163050) ESPES Additional Financing (P151432) Rural Productive Safety Nets PforR (P161430) Urban Water and Sanitation Project (P156433) Livestock and Fisheries Sector Development (P159382)

³⁶ Targets include towns and data are for Ethiopian Fiscal Year (EFY) 2008 for the baseline and EFY2011 for the target which corresponds to the end year of the Program.

³⁷ Baseline and target will be based on DHS data.

³⁸ Baseline and target will be based on DHS data.

³⁹ This Early Years Initiative is an innovative approach to addressing stunting, cognitive deficits and maximizing human potential. The project will be prepared in 2018, and the associated baseline and target values will be developed at that time.

⁴⁰ Baseline and target will be based on DHS data.

⁴¹ Baseline and target will be based on DHS data.

⁴² For targeted farming households under Agricultural Growth Project 2. See footnote 2 on the yield index definition.

CPF Objective 2.6: Increased access to services and job opportunities for refugees and host communities**Intervention Logic**

Ethiopia hosts the second largest refugee population in Africa accommodating over 800,000 refugees displaced by conflicts, political events, and civil wars in neighboring countries including South Sudan, Somalia, Eritrea, Sudan and Yemen, the majority of whom live in camps near the borders of their home countries. Internal conflicts in Ethiopia have displaced over 450,000 people (most of them living in situations of protracted displacement) and an estimated 85,834 Ethiopians have sought refuge in other countries.

The Government has committed to move from encampment of refugees to gradual socioeconomic inclusion. The WBG will work with development partners (UNHCR and bi-laterals) to support this GoE policy shift within a medium-term perspective, starting with support for a Jobs Compact operation to create economic opportunities for refugees and host communities. The World Bank will continue to support local *woreda* governments to increase basic social services, expanded economic opportunities, and enhanced environmental management for both refugees and host communities.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Beneficiaries with access to social and economic services and infrastructure (million) Baseline: 0 (2017) Target: 1.2 (2021)</p> <p>Indicator 2: Work permits issued for refugees (number) Baseline: 0 (2017) Target: 30,000 (2021)</p>	<p>Government strategy to improve access to services and job opportunities for refugees adopted and its implementation on going Baseline: No (2017) Target: Yes (2021)</p>	<p>Ongoing: WB Operations Regional Operation on Development Response to Displacement Impacts Project (DRDIP) in the Horn of Africa (P152822)</p> <p>WB ASA Support to an approach to developing jobs in Ethiopia including a certain percentage for refugees (P162987)</p> <p>Planned: WB Operations Jobs Compact Program</p> <p>WB ASA TBD</p>

CPF Objective 2.7: Enhanced management of natural resources and climate risks**Intervention Logic**

High rates of forest depletion and land degradation in Ethiopia aggravate water stress, limit economic performance, and undermine resilience at the national and household levels. In Ethiopia less than 1 percent of land cultivated by smallholders, who produce over 95 percent of total agricultural production, is irrigated. In areas lacking shallow groundwater, development/expansion of low-cost, small-scale irrigation solutions is desperately needed. Forest depletion is driven by fuelwood demand, unsustainable extraction, and agricultural expansion. Insecure land tenure and unplanned land use are factors in reduced investment in land resources, which can exacerbate climate and disaster risks and further aggravate water stress.

The GoE is focused on building a “climate-resilient green economy” to ensure environmental sustainability amid rapid economic growth; to protect and develop natural resources including land, soil, water, and trees (forests, woodlands, farms); and reduce climate risks, generate jobs and growth, and reduce emissions.

While recent investments in sustainable land and water management, watershed restoration, land tenure, and roads have helped to reverse these trends, further investments are needed. WBG operations will continue to support increased resilience to drought and flooding, improve natural resource and forest management, and introduce technologies and policies that reduce climate and disaster risks and land-based carbon emissions.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Total area with sustainable land management practices (hectares)⁴² Baseline: 444,643 (2016) Target: 1,500,000 (2021)</p> <p>Indicator 2: Total area reforested/afforested (hectares) Baseline: 504,480 (2016) Target: 910,000 (2021)</p>	<p>GHG emissions avoided and sequestered under WBG operations (metric tons) Baseline: 15,000 (2014) Target: 9,020,167 (2021)</p> <p>Households who have received second-level land holding certificates⁴³ (number) Baseline: 260,028 (2016) Target: 500,000 (2021)</p> <p>Forest area brought under management plans (hectares) Baseline: 0 Target: 100,000 (2021)</p>	<p>Ongoing: WB Operations Second Sustainable Land Management Project (P133133) Second Sustainable Land Management Project (GEF)(P133410) Second Agricultural Growth Project (P148591) ET Irrigation and Drainage Project (P092353) AFCC2/RI-Regional Pastoral Livelihoods Resilience Project (P129408) ET Productive Safety Nets Project 4 (PSNP 4) (P146883) Clean Cooking Energy Program (P153425) REDD+ Readiness (P124074)</p>

(continued)

⁴² Directly influenced by WBG operations.

⁴³ Second-level certification provides additional spatial (i.e., location and boundary) data in the form of a parcel map.

		<p>WB ASA Resilience of the Ethiopian Road Network (P159936) Country Environmental Analysis (CEA) (P150733) Safety of Dams (P160390) Climate Resilient Green Economy Facility Programmatic ASA (P146290) Multi-Sector Investment Planning for Climate Resilience Project (P158987)</p> <p>IFC Advisory Lighting Africa Ethiopia (600201) Ethiopia Nespresso Coffee (601633)</p> <p>Planned: WB Operations Oromia Forested Landscape Program (P151294, P156475)</p> <p>IFC Advisory Commercial Forestry Study</p>
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Focus Area 3: Supporting Institutional Accountability and Confronting Corruption

Overall demand for government accountability in Ethiopia is rising, notwithstanding historical traditions of deference to hierarchies and the “top-down” style of governing. While the Government has established several formal feedback mechanisms at local levels and for specific services, much more investment in accountability and transparency mechanisms is needed. To reduce corruption and engage citizens in decision making, citizens’ voices must be promoted and engaged, consistent with the democratization objectives articulated in GTP II. The CPF program will invest in accountability and transparency mechanisms at local levels, continue to support initiatives to increase capacity and improve governance in service delivery as well as projects that strengthen government systems for CE. It is also essential to generate and disseminate information on ‘what works.’ The WBG will support improved data collection at all levels of government by strengthening the capacity of the Central Statistical Agency, which will enable monitoring of progress against development objectives, dissemination of results, and inform evidence-based policy making.

CPF Objective 3.1: Increased capacity and improved governance in service delivery

Intervention Logic

Ethiopia has instituted reforms to reduce corruption among civil servants, which is particularly important as service delivery is decentralized. According to Transparency International’s annual Perceptions of Corruption Index, Ethiopia was ranked 103rd out of 175 countries in 2015 (an improvement over 2007, when Ethiopia was ranked 138th out of 175 countries). Greater scope is needed for citizens to hold government entities accountable. Efforts have also been made to engage citizens in decision making at lower levels of government, such as the district level. Citizens’ voices must be amplified and engaged, in line with GTP II commitment to strengthen the democratization process. Improved data collection at all levels of government, by enhancing the capacity of the Central Statistical Agency, will enable monitoring of progress against development milestones, dissemination of results, empowering citizen groups in the social accountability process, and informing evidence-based policy making.

Government systems, such as procurement, internal audit, accounting and reporting systems, environmental, social and financial oversight require further strengthening. GTP II includes plans to implement capacity-building programs in support of development and good governance goals. The WBG is supporting enhanced fraud and corruption prevention structures at the *woreda* level by placing Ethics and Anti-Corruption Officers in all basic sector offices, as well as working to strengthen the PFM system at all levels to enhance governance and service delivery. GTP II includes plans to modernize the country procurement system by implementing an e-procurement system under its good governance theme. The World Bank is supporting implementation of the e-procurement system through the PFM project.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Contracts awarded using competitive open procurement methods in targeted agencies (percentage) Baseline: 50 (2016) Target: 75 (2021)</p> <p>Indicator 2: PFM Benchmarking Rating System established in all regions⁴⁴ Baseline: 0 (2016) Target: 11 (2020)</p>	<p>E-Government Procurement System developed and installed at Federal Public Procurement and Property Administration Agency and in targeted agencies at the federal level, in number of agencies Baseline: 0 (2016) Target: 6 (2021)</p> <p>Rolling out of the new Chart of Accounts at the federal level to facilitate expenditure execution and reporting by Program Based Budgeting (PBB) (number of federal entities) Baseline: 0 (2017) Target: 125 federal entities (2021)</p>	<p>Ongoing: WB Operations Ethiopia Enhancing Shared Prosperity (P151432) Ethiopia PFM Project (P150922) ET Promoting Basic Services Phase III (P128891)</p> <p>WB ASA Managing Public Resources for Improved Service Delivery (P157030) Gap Identification in Construction (P159531)</p> <p>Planned: WB Operations ESPES Additional Financing (P151432)</p> <p>WB ASA Improving Service Delivery in Selected Public Enterprises (subtask 5 of P157030)</p>

⁴⁴ There are a total of 11 regions in Ethiopia.

CPF Objective 3.2: Strengthened citizen engagement and holding government entities accountable**Intervention Logic**

The GoE recognizes that CE can improve development outcomes. GTP II features a strategic pillar devoted to building “democratic and developmental good governance” and enhancing the capacity of public institutions so as to promote “actively engaging the citizens.” Increasing the involvement of women in feedback mechanisms is noteworthy given the underrepresentation of women in all levels of decision making in Ethiopia. Notwithstanding progress in creating awareness among service providers and citizens’ representatives of their entitlements and service standards, developing basic skills for monitoring service provision, and promoting a culture of budget transparency and accountability, the scope of the ongoing social accountability program needs to be expanded and deepened. Fiscal transparency and accountability should also be enhanced to enable citizen participation in budget allocation and monitoring of its implementation, and grievance redress mechanisms need to be strengthened as well. More sustainable monitoring and managing of social and environmental risks requires increased capacity at all levels of government to monitor and safeguard the well-being of groups affected by government policy, especially in the context of resettlement.

The World Bank will support interventions to deepen implementation of social accountability in participating *woredas* by extending the program to new *kebeles* (villages) and new districts, promoting broader coverage beyond basic service delivery sectors, and enhancing harmonization and synergy between various facets of CE, namely social accountability, financial transparency and grievance redress mechanisms. In promoting existing programs and innovations in CE, the World Bank will work with GoE to introduce sustainability arrangements that underscore the importance of ensuring public participation for better governance. The World Bank will also support policy dialogue to promote the elaboration of a comprehensive CE strategy.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: <i>Woredas</i> in which pre-budget discussions were conducted, with improved % of female participants (percentage) Baseline: 36% of <i>woredas</i> and 46% female participants (2016) Target: 60% of <i>woredas</i> and 50% of female participants (2021)</p> <p>Indicator 2: <i>Woredas</i> in which Social Accountability Implementing Partners (SAIPs) facilitate the use of social accountability tools (number of <i>woredas</i>) Baseline: 223 (2016) Target: 500 (2021)</p>	<p><i>Woredas</i> screening projects for their environmental and social effects Baseline: 0 (2016) Target: 500 (2021)</p> <p>Regions and City Administrations with functioning Grievance Redress Mechanism (GRM) offices at the regional level and in at least 90% of <i>woredas</i> with clear working and reporting procedures (number of Regions and City Administrations) Baseline: 6 (2015) Target: 11 (2021)</p> <p><i>Woredas</i> in which Action Plans for Service Delivery Improvements have been adopted and are under implementation following completion of a Social Accountability cycle at <i>Woreda</i> level (number) Baseline: 0 (2016) Target: 450 (2021)</p>	<p>Ongoing: WB Operations ET Promoting Basic Services Phase III (P128891) ET PBS Social Accountability Program II (P129534) ET Enhancing Shared Prosperity through Equitable Services (P151432)</p> <p>WB ASA Mainstreaming CE in World Bank Operations (P157213)</p> <p>Planned: WB Operations Ethiopia Social Accountability Program III (ESAP III)</p> <p>WB ASA Policy and technical dialogue to support a CE strategy</p>

CPF Objective 3.3: Improved domestic statistical capacity for enhanced evidence-based policy making and monitoring**Intervention Logic**

As Ethiopia continues to implement structural reforms, it will need greater capacity to monitor and manage downside risks, and assess the impact of policy reforms and adapt strategies as needed. Data challenges, such as the lack of poverty data since 2010/11, must also be addressed, in order to track and analyze progress on poverty reduction. GTP II calls for improved high-quality data collection systems at the CSA and the use of such data in planning and policy analysis as part of the Second National Statistical Development Strategy. This Strategy includes plans for improved generation of high-quality data and statistics, strengthening the national M&E system, and institutional capacity building. Through the Ethiopia Statistics for Results Project, the WBG is supporting capacity building of the CSA and other government agencies to produce, disseminate, and increase access to timely and reliable data. It is also supporting transparency of government data through technical assistance to Ethiopia's Open Data Initiative. The Additional Financing for the ESPES project that is currently being prepared will include a component on statistical capacity building.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1: Timeliness of statistics produced Baseline: 67% execution rate of the annual statistical release calendar (2016) Target: 90% execution rate of the annual statistical release calendar (2021)</p> <p>Indicator 2: Ethiopia's score on the Statistical Capacity Indicator⁴⁵ Baseline: 70 (2016) Target: 80 (2021)</p>	<p>Frequency of poverty data Baseline: Poverty data collected every 5–6 years (2016) Target: Poverty data collected every 3 years (2021)</p> <p>Access to National Open Data Baseline: The Government has launched its National Open Data Portal (2016) Target: Anonymized census and survey microdata available through the National Open Data Portal (2021)</p>	<p>Ongoing: WB Operations Ethiopia Statistics for Results Project (P147356) LSMS-ISA Ethiopia Rural Socioeconomic Survey (P125475) Additional Financing LSMS-ISA Ethiopia Socio (P155828) Ethiopia: Supporting Open Data Initiative (P156400)</p> <p>WB ASA Ethiopia Poverty, Gender and Statistics (P143792) Managing People, Structures and Systems (P159333) Improving Service Delivery (P159947)</p> <p>Planned: WB Operations Statistics component under the Enhancing Shared Prosperity (ESPES) Additional Financing (P151432) AF for Ethiopia Statistics for Results Project (P163226)</p> <p>WB ASA Programmatic Poverty, Jobs and Employment AA</p>

⁴⁵ The Statistical Capacity Indicator is an index (on a scale of 0–100) published annually by the WBG for developing countries to track progress toward statistical capacity. It comprises 25 indicators which are categorized into three dimensions: statistical methodology, source data, and periodicity and timeliness. A composite score for each dimension is calculated based on specific criteria using information from the World Bank, IMF, UN, UNESCO and WHO.

Annex 2: Completion and Learning Review (CLR) FY2013–2016

CPS August 29, 2012, Report No. 71884-ET

CPSPR October 17, 2014, Report No. 90893-ET

Introduction

This Completion and Learning Review (CLR) is a self-evaluation by the Ethiopia country team of results under the World Bank Group⁴⁶ (WBG) Ethiopia Country Partnership Strategy (CPS) during the period FY13–16 (Report No. 71884-ET), as updated by the Ethiopia CPS Progress Report (CPSPR, Report No. 90893-ET). The CPS was aligned with Ethiopia's **Growth and Transformation Plan (GTP)**, the articulation of Government's vision for structural transformation. The CPS was centered on two pillars: 1) Fostering Competitiveness and Employment; and 2) Enhanced Resilience and Reduced Vulnerabilities; with a crosscutting Foundation of Good Governance and State Building.

The CLR rates the Development Outcomes of the CPS (the extent to which the CPS achieved stated objectives) and WBG performance (design and implementation of the CPS program). The CLR uses the Results Framework, as updated in the CPSPR, to evaluate CPS achievements. The Results Framework included a total of 18 outcomes, which were measured by 26 outcome indicators. This is not an assessment of Ethiopia's progress toward its development goals, but rather of program achievements directly linked to WBG-supported activities and to WBG engagement in Ethiopia during the CPS period.

Overall performance of the CPS program (FY13–16) is rated as Moderately Satisfactory.⁴⁷ More than 80 percent of CPS Strategic Objectives were either Achieved or Mostly Achieved: this is an aggregate measure of progress toward achieving CPS outcomes. Results under Pillar 1—Fostering Competitiveness and Employment—were Moderately Satisfactory, reflecting effective support to objectives of macroeconomic stability, increased competitiveness and productivity, delivery of infrastructure, and enhanced regional integration. Significant impact was noted for Pillar 2—Enhanced Resilience and Reduced Vulnerabilities—where results in improved delivery of social services and social protection and risk management were also rated as Moderately Satisfactory. Progress toward the Foundation—Good Governance and State Building—was rated as Moderately Satisfactory, reflecting outcomes in public service performance management; enhanced space for citizen participation; and improved public financial management, procurement, transparency and accountability.

The CLR was informed by discussions with stakeholders and a review of Bank documents. In addition to meetings with the Addis-based country team, Government of Ethiopia (GoE) counterparts, Development Partners (DPs), private sector representatives, and civil society, this CLR is based on Bank documents such as Project Appraisal Documents (PADs), Implementation Status Reports (ISRs), Implementation Completion Reports (ICRs), IEG ICR evaluations (ICRRs), and the Systematic Country Diagnostic (SCD).

WBG performance in designing and implementing the strategy was rated as good. This reflects both *design* of the CPS, as aligned with the GTP, as well as *implementation* of the CPS, as evidenced by strong delivery of IDA; significantly scaled-up IFC investments; and lending complemented by a large trust fund program. The WBG also showed proactivity in fine-tuning its support at the time of the CPSPR.

⁴⁶ In this report, the World Bank Group constitutes the World Bank (Bank), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

⁴⁷ This report follows guidelines issued jointly by the Operations Policy and Country Services unit and the IEG in December 2014 with respect to rating methodology and categories.

Mid-course adjustments included preparation of analytical work related to macroeconomic management, the shift from investment lending to the PforR instrument, a robust response to drought-related food insecurity, and incorporating elements of the Inspection Panel investigation report for PBS3 to support enhanced citizen engagement and social accountability. That said, the Results Framework featured a number of overly ambitious goals and indicators that were not sufficiently specific, measurable or time-bound, which resulted in partial progress towards the achievement of 2 of 18 CPS outcomes. This CLR points to lessons learned and ways in which the WBG can have greater impact going forward: the importance of analytical work in areas of reform for which the Government does not wish to borrow from the Bank; the objectives and indicators of the Results Framework; an emphasis on the *quality* of services delivered (rather than focusing solely on *access* to services); and the need for greater emphasis on identifying and mitigating risks.

IDA delivered a robust lending program of US\$5.96 billion during the CPS period, including a US\$75 million contribution to regional projects, US\$165 million in Trust-Funded activities, and a timely response to severe drought at the very end of the CPS period. Ethiopia was the second largest borrower of IDA funds in FY2016 (after Bangladesh) with a record commitment of US\$1.78 billion, and cumulative IDA commitments of US\$7.1 billion as of June 30, 2016, not including US\$1.1 billion in trust fund commitments.

IFC scaled up its engagement over the CPS cycle, through investments and advisory services, contributing substantially to progress toward WBG targets. In July 2012, IFC had active investments in the agriculture (coffee), finance (leasing), and mining and manufacturing (cement) sectors amounting to US\$70.3 million committed and US\$60.7 million outstanding. New investments during the CPS period spanned agribusiness, food and beverages, trade and tourism. As part of its short-term trade finance investments, IFC committed US\$325 million to the Ethiopia program between FY14 and FY16. In November 2013, IFC commenced a short-term trade finance program called GTST Ethiopia, with other lenders, through which IFC funded a facility of up to US\$350 million in favor of Vitol Bahrain E.C., to supply petroleum products to Ethiopia. IFC's new long- and short-term commitments during the CPS period reached US\$411.7 million, of which US\$402.3 million was through its own account and US\$9.4 million was mobilization. At end-FY16, IFC's net active investment portfolio had grown to US\$153.1 million committed and US\$126.0 million outstanding. Investments during the CPS period accounted for 85 percent of cumulative investments in the country. This scale-up demonstrates effective support to CPS objectives, and a fully coordinated "One WBG" approach to supporting private sector development in Ethiopia.

This approach will continue under the CPF, as IFC plans to continue deepening its engagement in Ethiopia through advisory and investment services. IFC has a strong pipeline of investment projects in agriculture (poultry/dairy/animal production, grains and flowers) and manufacturing (cement, glass products); and will seek advisory and investment opportunities in energy and transport through PPPs, SME-related advisory, and other instruments.

Country Context

Ethiopia achieved a remarkable trajectory of economic growth between 2004 and 2014, as real GDP growth averaged 10.9 percent per year. Taking account of the 2.4 percent population growth rate, real per capita GDP growth averaged 8.0 percent per year. Growth was accompanied by a substantial decline in poverty, from 55 percent in 2000 to 33 percent in 2011, according to the international poverty line of US\$1.90 per day. Life expectancy increased from 51.9 years in 2000, to 62 years for males and 66 years for females in 2014.⁴⁸

⁴⁸ Ethiopia's Great Run: The Growth Acceleration and How to Pace It, World Bank Group, 2015.

GTP focused on a stable macroeconomic framework, provision of quality infrastructure and social services, and good governance and democratization. It was the first in a series of six five-year strategic plans intended to transform Ethiopia into a lower middle-income country by 2025.

CPS Program Performance

Overall progress toward CPS program objectives is rated as Moderately Satisfactory. Ratings for individual outcome indicators are listed in Table 1, and in the Results Matrix (see Annex 1). These ratings reflect the strategic objectives and indicators in the CPS Results Framework, some of which were overly

Table 1: Rating of Strategic Objectives and Indicators

Strategic Objectives and Indicators	Rating
Pillar 1: Fostering Competitiveness and Employment	MS
Strategic Objective 1: Stable Macroeconomic Environment	A
Outcome 1.1—Structural and macroeconomic policies are conducive to sustain internal and external balances	A
Outcome 1.2—Increased domestic resource mobilization	A
Strategic Objective 2: Increased Competitiveness and Productivity	A
Outcome 2.1—Increased agriculture productivity and marketing in selected areas	A
Outcome 2.2—Increased competitiveness in manufacturing and services	MA
Outcome 2.3—Increased MSE access to financial services	A
CPS Strategic Objective 3: Increased and Improved Delivery of Infrastructure	MA
Outcome 3.1—Increased access to electricity	A
Outcome 3.2—Improved roads, transport infrastructure	MA
Outcome 3.3—Increased access to improved water and sanitation services in urban and rural areas	MA
CPS Strategic Objective 4: Enhance Regional Integration	PA
Outcome 4.1—Improved Eastern Africa Power Pool Mechanism	PA
Outcome 4.2—Enhanced involvement in regional agriculture technology generation and dissemination	PA
Pillar 2: Enhanced Resilience and Reduced Vulnerabilities	MS
CPS Strategic Objective 5: Improved Delivery of Social Services	MA
Outcome 5.1—Increased access to quality health services	MA
Outcome 5.2—Increased access to quality education	MA
CPS Strategic Objective 6: Comprehensive Social Protection and Risk Management	A
Outcome 6.1—Enhanced resilience of vulnerable households to food insecurity	A
Outcome 6.2—Increased adoption of disaster risk management systems	MA
Outcome 6.3—Sustainable natural resource management and resilience to climate change	A
Foundation: Good Governance and State Building	MS
Outcome 7.1—Improved public service performance management and responsiveness	MA
Outcome 7.2—Enhanced space for citizen participation in the development process	MA
Outcome 7.3—Enhanced public financial management, procurement, transparency and accountability	A

Note: A—Achieved; MA—Mostly Achieved; MS—Moderately Satisfactory; PA—Partially Achieved.

ambitious and subject to changing country circumstances during the CPS period. These ratings do *not* fully capture the impact of the WBG engagement in Ethiopia during this four-year period, or the degree to which the Bank is viewed as a trusted partner by Government and a valued player by DPs. The team acknowledges the shortcomings of the Results Framework; and that they could have undertaken more of a “mid-course correction” at the time of the CPSPR—and revised the Results Matrix accordingly—to account for changing circumstances, limited progress toward indicators, and the need for greater risk management and mitigation measures. These lessons will be reflected in the CPF Results Framework.

The majority of objectives under Pillar 1 of the CPS—Fostering Competitiveness and Employment—were either achieved or mostly achieved; consequently, the rating for Pillar 1 is Moderately Satisfactory. Under Pillar 2—Enhanced Resilience and Reduced Vulnerabilities—the majority of objectives were either achieved or mostly achieved, yielding a rating of Moderately Satisfactory. For the Foundation—Good Governance and State Building—the three objectives were either achieved or mostly achieved, resulting in a rating of moderately satisfactory.

Pillar 1: Fostering Competitiveness and Employment

WBG support to Strategic Objective 1—Stable Macroeconomic Environment—was delivered through two interventions, the macroeconomic and fiscal dialogue (programmatic), and the Second Urban Local Government Development Program (ULGDP2—P133592). Analytical work supported the economic policy dialogue with GoE, including four economic updates—covering exports and competitiveness, trade logistics, constraints in the manufacturing sector, national savings, and projections on how to achieve middle-income status—along with a Public Expenditure Review (2015), and an analysis of the sustainability of the growth model (“Ethiopia’s Great Run,” 2015). These knowledge products have been highly appreciated by the GoE as well as DPs. IDA commitments to operations and analytical work in this area totaled US\$380 million.

Progress toward macroeconomic stability was robust in spite of Ethiopia experiencing the worst drought in five decades. Outcome indicator 1.1 set a target of single-digit inflation, and the annual CPI inflation rate declined from 22.77 percent in 2012 to 7.39 percent in 2014. Drought effects caused a reversal of inflation trends in 2015: the CPI climbed to 10.4 percent in June 2015, and to 11.8 percent in October 2015. While inflation eased to 10.2 percent in January 2016, food prices remained a major driver of inflation; by end-June 2016, inflation had eased to 7.5 percent. Also under Outcome 1, establishment of the Macroeconomic Discussion Forum facilitated discussion of macroeconomic issues between the GoE and DPs (World Bank, IMF, AfDB and bilateral partners of the Bank). However, there was no progress toward creating a database to monitor off-budget investments and contingent liabilities in public enterprises during the CPS period, largely due to insufficient client demand.

An intensive dialogue on debt and debt-related issues was an instrumental part of the macroeconomic and fiscal engagement. The Bank, together with the IMF, published a Debt Sustainability Analysis each year of the CPS period. In 2013, IDA established an annual non-concessional borrowing (NCB) limit, which further highlighted the debt dialogue. The Bank engaged with the Government to respond to the significant increase in NCB, particularly those loans undertaken in FY13 and FY14. Government’s NCB totaled US\$5.8 billion and US\$2.9 billion in FY13 and FY14, respectively. NCB fell to US\$1.1 billion in FY15 and US\$0.775 billion in FY16, reflecting a significant constraining trend; the NCB limit agreed for FY17 was US\$400 million, in line with the trend of declining NCB. According to GoE, this is the result of a strict focus on containing NCB at the highest levels of Government, where the Ministry of Finance and Economic Cooperation is working to enforce NCB restraint. Ethiopia has also made efforts to strengthen its debt management capacity, an area in which the Bank’s Technical Assistance has played a key role.

The outcome indicator for increased domestic resource mobilization achieved nearly twice the target set by the CPSPR. Under ULGDP2, the number of urban local governments (ULGs) that achieved an increase in their own-source municipal revenues (over the previous year) reached 34 out of 44 participating entities, nearly double the target of 18 ULGs. The November 2015 ULGDP2 mission found that two cities—Jijiga and Dire Dawa—had funded between 55 and 60 percent of their capital investment plans with their own revenue. That said, ULGDP2 recorded mixed progress toward conducting exhaustive potential revenue analyses and translating strategies into action.

IDA commitments to projects contributing to CPS Strategic Objective 2—Increased Competitiveness and Productivity—totaled US\$474 million. WBG support was delivered through five interventions: Agricultural Growth Program (AGP—P113032), Private Sector Development Capacity Building Project (PSDCBP—P050272), Competitiveness and Job Creation Project (CJCP—P143302), Women Entrepreneurship Development Project (WEDP—P122764), and IFC’s investment in the Derba Midroc Cement Company.

There was significant progress toward increased agricultural productivity and marketing, as both the yield per hectare (ha) and value of marketed products were nearly double the CPS targets. Yield per ha increased from 16.4 tons in 2012 to 28.4 tons in 2015,⁴⁹ linked to increased investment in agricultural extension and crop management practices, notably the national campaign for row planting of teff and wheat (supported, in part, by AGP). The value of marketed agricultural products at the household level also rose sharply above the CPS target. The end-of-project evaluation completed for the marketing component of AGP (conducted by USAID) finds the benefit of AGP equal to approximately 3,150 Ethiopian Birr (ETB) per beneficiary since 2011—more than twice the CPS target for households. This objective was further supported by dissemination of new and existing agricultural technologies under the East Africa Agricultural Productivity Project (P112688) (see page 75).

Performance against Outcome 2.2—Increased competitiveness in manufacturing and services—was mixed. While there was good progress toward the first indicator (creation of more than 12,000 jobs toward the target of 15,000 jobs), there was no progress toward the second indicator (export share of total goods and services generated by firms located in supported Industrial Zone (IZ)). This latter target, introduced in the CPSPR, is linked to the Competitiveness and Job Creation Project (CJCP), which only became effective on August 4, 2014. This allowed less than two years in which to meet the target, which was insufficient time to generate improvements in the export component of sales by supported firms. Weak progress also reflects developments at the national level, where export levels fell to a ten year low. Goods exports lagged during the CPS period due to both volume and price effects, an appreciating real (effective) exchange rate (REER), and declining exports to China, Ethiopia’s major export destination since 2004. The REER has appreciated, cumulatively, by 84 percent since the nominal devaluation in October 2010, which has further weakened export performance. During the CPS period, WBG prepared analysis on the role of the exchange rate in achieving structural transformation, and the mechanics of adjusting the current rate. WBG will support additional technical analysis under the CPF, subject to Government demand.

There was strong progress toward Outcome 2.3—Increased micro and small enterprise (MSE) access to financial services as credit lines to MSEs went from nil to US\$43 million against a target of US\$28 million. While this increased access to *credit* is commendable, it has not resolved the challenge of inadequate access to *financial services* for MSEs. Excessively high collateral requirements continue to

⁴⁹ Due to the extension of a closing date for AGP the end of project sample survey has not been completed. As a proxy, CSA official data applied to the index constructed by IFPRI for AGP, and limited to those regions under AGP, was used.

discourage MSEs from applying for loans, and overall access to financial services remains highly limited across Ethiopia with only 1.97 commercial bank branches and 0.33 ATM per 100,000 adults (compared to, for example, Kenya where there are 5.17 commercial branches and 9.46 ATMs per 100,000 adults). Further progress requires additional support from the WBG, which will continue to be provided through the Small and Medium Enterprise Finance Project, P148447 (approved by the Board on May 17, 2016).

Notable progress was recorded in the case of WEDP, which surpassed most of its targets and objectives. More than 4,000 women entrepreneurs gained access to loans, and more than 7,000 women participated in business training. The profits of participating female enterprises grew by 24 percent in the first year of WEDP, and loan repayment rates stand at 99.4 percent, although 62 percent of WEDP borrowers had never previously taken out a loan.

IDA support to CPS Strategic Objective 3—Increased and Improved Delivery of Infrastructure in Ethiopia—was provided through seventeen interventions (listed in Table 2) for a total of nearly US\$4.8 billion in IDA commitments. Progress toward this objective during the CPS period was rated as Mostly Achieved.

The number of additional people with access to off-grid electricity services increased during the CPS period from 132,615 to 3,379,085—more than 13 times the CPS target of 250,000. This was achieved, in large part, due to the Electricity Network Reinforcement and Expansion Project (ENREP—P119893), which provided off-grid electricity services to 3,157,776 people through solar-powered lanterns. Increased access to electricity was measured as “people provided with access to electricity in selected areas” and supported by three Specific Investment Loan (SIL) operations totaling US\$776.1 million. A US\$8 million Global Partnership for Output-Based Aid (GPOBA) grant also helped to finance

Table 2: Projects Supporting Outcomes under CPS Strategic Objective 3

Project Number, Name of Intervention	Commitment Amount (US\$ million)
P076735 Ethiopia Water Supply and Sanitation (EWSS)	291.7
P091077 Road Sector Development Project III (RSDP3)	225
P096323 Tana & Beles Integrated Water Resources Development Project (TBIWRDP)	50.1
P097271 Electricity Access (Rural) Expansion (EAREP)	133.4
P101473 Urban Water Supply and Sanitation Project (UWSSP)	250
P101474 Urban Local Government Development Project (ULGDP)	300
P101556 Electricity Access Expansion Project II (EAREP2)	130
P106872 Road Sector Development Project IV (RSDP4)	245
P108932 Pastoral Community Development Project (PCDP)	80
P113220 Productive Safety Nets APL III (PSN APL3)	850
P117731 Transport Sector Support Project (TSSP)	415
P119893 Electricity Network Reinforcement & Expansion (ENREP)	200
P128891 Protection of Basic Services Project III (PBS3)	600
P130276 Pastoral Community Development Project III (PCDP3)	110
P131118 Road Sector Support Project (RSSP)	320
P133591 Water Supply, Sanitation and Hygiene Project (WASH)	205
P148850 Expressway Development Support Project (EDSP)	370
Total	4,775.2

connection costs. At the time of the CPSPR, the outcome indicator target was adjusted downward to reflect results attributable to IDA-funded projects, as follows: from an additional 12 million people connected to *on-grid* services and an additional 43.5 million people connected to *off-grid* services, to 1.7 million additional people with access to grid electricity and 250,000 additional people with access to off-grid electricity. Since the CPSPR, progress toward expanded access to *on-grid* electricity services slowed down, with a total of 1,586,985 additional people gaining access to on-grid electricity services.

There was mixed progress toward expanding grid-connected electricity service. Both the first and second Electricity Access (Rural) Expansion Projects (EAREP-P105651 and EAREP2-P101556) closed during the CPS period, each of which experienced implementation delays resulting in ICR ratings of MU. GoE's decision to impose a moratorium on new connections, due to supply-demand imbalances resulting from the delayed commissioning of Tebeze hydroelectric plant, set back implementation. Further delays were caused by GoE's decision to sole-source procurement of meters to a local public enterprise. GoE subsequently relaxed this requirement but given the serious delays, insufficient time remained to implement the project and the Bank cancelled a significant portion of project funds. The team proactively proposed reallocation of the cancelled amount to the Ethiopia Geothermal Sector Development Project. Delays aside, it should be noted that the two projects connected more *towns and villages* to electricity services than initially planned. However, as a result of these GoE decisions, over which the Bank had no control, these projects were unable to ensure the "last mile" connections to bring electricity services to *households*.

Strong performance in road construction, where the outcome indicator was Mostly Achieved, was largely attributable to the Third Productive Safety Nets Project (PSNP3—P113220). The target was set at 1,008 km of roads, or 10 percent of the GTP target for road construction. IDA supported different levels of roads within the overall road network, including local and feeder roads (financed under PSNP3 and AGP), and secondary and regional roads to which four Bank projects contributed. The Expressway Development Support Project (EDSP) was approved in FY15, and is IDA's first engagement in expressway construction. During the CPS period, a total of 1,370 km of roads were constructed or rehabilitated with IDA support.

Progress toward increased access to improved water and sanitation services in urban and rural areas far exceeded the target, as PSNP3 facilitated access to improved water resources for 16.1 million people (against a target of 4.2 million). The Water Supply and Sanitation Project (WSSP—P076735) provided training to more than 160 master trainers who support districts, more than 1,680 district-level facilitators, 7,800 district officials, and 5,800 community leaders who, in turn, helped communities to construct or improve basic latrines for improved sanitation services in Ethiopia. The Joint Monitoring Program (JMP) of WHO and UNICEF reports that by 2015, a total of 27.7 million people have access to improved sanitation in Ethiopia. The Bank's contribution to this outcome is estimated at 3,324,800 households across Ethiopia, including in so-called "emerging regions." Notwithstanding these results, this target raised definitional issues, as setting a target of "improved sanitation" is not sufficiently specific. This lesson is reflected in defining CPF targets.

Two safeguard issues arose under Strategic Objective 3. Representatives of the Anuak people in Gambella Region submitted a Request for Inspection to the Inspection Panel (IP) in connection with the Ethiopia Promoting Basic Services Program III Project (PBS3) in September 2012. In its February 2013 Report and Recommendation to the Board, the IP found that: ". . . Management did not carry out the required full risk analysis, nor were its mitigation measures adequate to manage the concurrent roll-out of the [GoE's CDP] villagization program in four PBS III regions. The Panel finds that Management's approach did not meet the standards of a systematic or holistic assessment of risks, as called for in the Operational Risk Assessment Framework (ORAF) Guidance, which is aimed . . . at identifying adequate risk management

measures for affected communities. The Panel finds these omissions in non-compliance with OMS 2.20 on Project Appraisal.” The Bank’s Management Action Plan (MAP) was put in place to address the main areas of concern in the Panel’s Report and to improve risk assessment and supervision during implementation through strengthened environmental and social safeguards, access to grievance redress, increasing opportunities for citizen engagement, and promotion quality results and data.

In the second instance, a transport project highlighted how Bank safeguards are being incorporated by the GoE and by DPs. The US\$370 million Expressway Development Support Project (EDSP—P148850), approved in May 2015, is supporting the expansion of Ethiopia’s transportation system through Bank-funded construction of 57 km of the new Modjo-Hawassa Highway. Under EDSP, the GoE and the AfDB, Korea EXIM Bank, and China EXIM Bank will each finance a section of between 37 km and 57 km of the 203 km highway. Bank Environmental and Social Impact Assessments (ESIAs) and Resettlement Action Plans (RAP) were prepared for EDSP and adopted by the Ethiopian Roads Authority. While the Bank only financed one of the four sections of highway, all ESIAs and RAPs have been reviewed by the Bank to determine whether they are consistent with or functionally equivalent to Bank safeguard policies; all were deemed acceptable.

There was moderate progress toward the CPS Strategic Objective of Enhanced Regional Integration, as both electricity exports and dissemination of agricultural technologies achieved just over half of the specified targets. Indicators were derived from two Bank-supported regional projects: Regional Eastern Africa Power Pool Program (EAPP—P126579), and the East Africa Agricultural Productivity Project (EAAPP—P112688), with IDA commitments totaling US\$273 million.

East Africa Power Pool (EAPP) experienced prolonged procurement delays. The total quantity of electricity exported (to Djibouti and Sudan) was 781.88 GWh against a target of 1,401 GWh. The project became effective in December 2013, and contracts for transmission lines and converter stations were not signed until end-October 2015. Consequently, the resulting increase in export capacity will not be achieved until end-2018, which is beyond the CPS period. Given the complexity of this project, the Bank required prequalification of firms which entailed approvals from the utilities and governance bodies in the two countries, in addition to the Bank’s procurement network. Regional projects are subject to lengthy procurement processes, which may be a factor in considering regional projects in the CPF.

Under the East Africa Agricultural Productivity Project (EAAPP), existing and new agricultural technologies were disseminated from Ethiopia to other participating countries. Baseline and target values were revised *upwards* at the time of the CPSPR to reflect implementation progress. At that time, 57 technologies (45 existing and 12 new technologies) had been disseminated from Ethiopia to Kenya, Tanzania and Uganda. Milestones under the project include establishment of a Regional Center of Excellence in Wheat in Ethiopia, which contributed to implementing ten regional projects and the release of 14 wheat varieties.

Pillar 2: Enhanced Resilience and Reduced Vulnerabilities

WBG support to Strategic Objective 5—Improved Delivery of Social Services—was provided through IDA commitments totaling US\$300 million: the Health MDG Support Operation (HMDGSO—P123531), which was supplemented by a US\$20 million grant from the Health Results Innovation Trust Fund (HRITF); and the General Education Quality Improvement Project I and II (GEQIP1—P106855 and GEQIP2—P129828). Under the PSNP3 Project, 436 health posts were constructed during the CPS period; and 1,280 primary school classrooms were constructed, expanded, or rehabilitated.

Progress toward increased access to quality health services was rated as mostly achieved. In the case of contraceptive prevalence, access during the CPS period reached 42 percent, surpassing the CPS target of 35 percent. The increase in the percentage of births attended by skilled health personnel (16 percent) fell just short of the target of 18 percent. Progress towards increasing the rate of Penta3 vaccination coverage (target: 75.7 percent) was inconclusive, as DHS data was not yet available. As a proxy for Penta3 vaccination coverage could not be identified, this indicator is Not Verified, resulting in a rating of Not Achieved.

Increased access to quality education was measured by the percentage of students attaining basic competency. The CPS Progress Report (CPSPR) noted limited progress, is outcome, adding “. . . despite progress on access, the quality of service provision in education remains a major challenge.” Between the CPSPR and the end of the CPS some improvements were recorded. According to the National Learning Assessment, there was a substantial increase in the number of students achieving basic proficiency or higher, in all subjects, between 2011 and 2015. In Grade 4, the total number of students achieving basic proficiency or higher in *all* subjects increased by 57 percent. For Grade 4, while progress was substantial in Mathematics between 2012/2013 and 2014/2015, where the rate of basic competence or above rose from 52 percent to 63 percent; basic competence or above in English declined from 58 percent to 47 percent during the same period. For Grade 8, basic competence or above increased in both English and Mathematics, from 54 percent to 62 percent and from 68 percent to 74 percent, respectively. The quality challenge in learning outcomes was reflected in the CPSPR Revised Results Matrix, with the addition of the milestone *“Percent of qualified primary teachers has increased from 47.2 percent in FY12 to 64.7 percent in FY14.”* This experience highlights important lessons: (1) the need to focus on *quality* of learning outcomes rather than solely on *access* to schooling; (2) the importance of gender disaggregating learning outcomes (to highlight the lower achievement levels for girls at the Grade 4 level); (3) a related need to focus on variations in achievement across *regions*, as emerging regions will require additional resources and support; and (4) outcome indicators must be defined so as to be specific and measurable within the timeframe of the CPS.

Bank support to social protection and risk management helped to reduce food insecurity and increase resilience, notably under the PSNP3. Progress was supported by seven activities totaling US\$480 million in IDA commitments, not including commitments for PCDP2 and AGP, which have already been counted above.

As a result of Bank support under PSNP3, food insecurity of project beneficiaries was reduced from 3.2 to 1.8 months, far outperforming the indicator target in the CPSPR. Enhanced resilience to food insecurity was measured against the average net number of months of household food insecurity. As no baseline was available at the time of the CPSPR, the target was set at 3.2 months. By the end of the CPS period, that figure was reduced to 1.8 months. The ICR for PSNP3 offers a number of lessons: the project proved the effectiveness of cash transfers in supporting vulnerable households; substantial food security impact was observed for households that received their entitlements under the program (15 kg of cereals per person per month for six months or cash equivalent); and synergies were achieved by linking public works to livelihood investments.

Proactivity in responding to drought-related food insecurity and enhancing resilience is demonstrated by the preparation of US\$100 million in additional financing for PSNP4 (P146883) from IDA’s Crisis Response Window (CRW), approved by the Board on June 30, 2016. This supplemental funding scaled up PSNP to reach drought-affected households that were not currently receiving support and strengthened the response to core beneficiaries suffering from the effects of the drought.

Results achieved under PSNP3 demonstrated that social accountability tools can help to improve service delivery. The Kebele Appeals Committees played an important role in supporting grievance and redress mechanisms and identifying areas for program improvement. This latter observation may be applicable to broader risk management in the Bank’s portfolio and to creating greater space for citizen engagement in the CPF.

Progress toward two of the three indicators for increased adoption of disaster risk-management systems (*woredas* with functional connectivity, disaster risk profiles, and contingency plans) far exceeded the targets. Early warning on disaster risk systems was provided in 122 additional *woredas*, and 267 *woredas* developed contingency plans against a target of 100 additional *woredas*. While 125 *woredas* were connected to *Woreda* Net under the Public Sector Capacity Building Project (PSCAP—P074020), connections took place prior to the CPS period and no additional *woredas* were connected to *Woreda* Net during the CPS period. The CPSPR noted “progress in building up functional connectivity in *woredas* was stuck in procurement issues,” yet another example of an indicator that was subject to government action—or inaction—over which the Bank had no control. This lesson is well noted in the choice of indicators and targets for the CPF Results Matrix.

Progress toward sustainable natural resource management and resilience to climate change was measured in terms of area (in ha) under sustainable land and water management practices in selected watersheds. This outcome was mapped to three Bank-funded operations—the first and second Sustainable Land Management Projects (SLMP—P107139, SLMP2—P133133); and the Tana and Beles Integrated Water Resources Development Project (IWRDP—P096323), with a target of 1 million ha under protection. The three projects collectively brought 463,581 ha under sustainable land and water management practices. In addition to these three projects, PSNP3 developed sustainable land and water management practices over an area encompassing 722,191 ha, and an additional 217,599 hectares were supported under AGP. As such, a total of 1.2 million ha were brought under sustainable land and water management practices. This has created additional productive resources for communities across the country, including for crop production, apiculture and animal husbandry, and contributed to implementation of Ethiopia’s Climate Resilient Green Economy (CRGE—P146290) strategy.

Foundation: Good Governance and State Building

Important targets, including implementation of the Balanced Score Card (BSC) and good PFM practices, were mostly achieved under the CPS Foundation, resulting in an overall rating of Moderately Satisfactory. Outcome indicators were drawn from PSCAP, the Protection of Basic Services Social Accountability Program (PBSSAP—P129534), and PFM training and TA, funded with total IDA commitments of US\$100 million.

Under PSCAP, BSC implementation began in 145 federal offices and more than 270 regional offices. For the first time in the history of the civil service in Ethiopia, institutions have integrated BSC measures in their strategic plans. The ICR for PSCAP notes that the project had *substantial institutional development impact*.

PBSSAP delivered over and above its target for citizen participation. The target was linked to PBSSAP’s assumed successor project, which did not materialize due to insufficient donor funding (as it is entirely donor funded). PBSSAP still delivered over and above its own target, with enhanced standards for municipal service delivery and an increased number of citizen groups taking part in planning and budgeting processes. As a result of these gains, the indicator for enhanced space for citizen participation achieved a rating of Mostly Achieved.

There was notable progress toward enhanced PFM, procurement, transparency and accountability. During the CPS period, fourteen federal ministries developed Citizens' Charters, which they began to publish. Amhara region has developed charters for all regional bureaus, while three other regions have developed charters for their Civil Service Bureaus as a model, based on the charter developed by the Federal Ministry of Civil Service. The number of regional institutions conducting annual financial audits has increased from 30 percent to 80 percent, against a target of 50 percent. As a result of strong Bank support to PFM throughout the CPS period, the associated outcome indicator is rated as Achieved.

WBG Performance

WBG performance during the CPS cycle was rated as Good. Implementation was successful and the WBG team received accolades from both the GoE and DPs for their technical capacity and execution. Moreover, the WBG convened DPs on multi-donor programs, substantially lowered GoE transactions costs, and developed knowledge input that is valued by both the GoE and DPs.

CPS and CPSPR Design

The distribution of interventions across the CPS Pillars, Strategic Objectives, and Foundation of the CPS resulted in a certain degree of overlap. These nine areas of overlap⁵⁰ can be viewed as an *asset* to the CPS rather than a *shortcoming*, reflecting creativity in preparing joint operations and employing innovative approaches to cross-sectoral objectives. For this very reason, and to avoid single-sector “silos,” the three Focus Areas of the CPF will be crosscutting and span multiple GPs.

The Bank's program supported gradual reforms using traditional project financing (IPF) in addition to the PforR instrument. The December 2013 ICR for the PBS project offered the following observation regarding investment lending vs development policy lending:

“... the choice of a SIL was critical to supporting capacity building at the sub-national government level, particularly on PFM and transparency/accountability aspects. It also allowed strengthening the M&E systems and the use of associated Bank fiduciary safeguards, which facilitated co-financing from donors, most of whom strongly supported the use of a SIL for PBS II. [...] The PBS in many ways effectively takes on key features of the Bank's new Program for Results (PforR) that links disbursements to defined results.”

Analytical work successfully leveraged the policy dialogue with Government and, where appropriate, led to operations. Examples of analytical work which helped to animate policy dialogue include: Ethiopia Economic Update Series (four issues during the CPS period), the Poverty Assessment (2014), SME Access to Finance Study (2014), Public Expenditure Review (2015), Ethiopia's Great Run Report (2015), Urbanization Review (2015), and Systematic Country Diagnostic (2016). The SME Access to Finance and the Urbanization Reviews triggered significant IDA operations in areas previously thought to be “off-limits.” With regard to the Twin Goals, the PSNP series has had a significant impact on food security, livelihoods and skills development, and land management, while committing GoE to gradually allocating greater budgetary resources to the most vulnerable. Similarly, PBS2 supported improvements

⁵⁰ There was overlap in relation to fostering competitiveness (Pillar 1) and increased competitiveness and productivity (Strategic Objective 2); stable macroeconomic environment (Strategic Objective 1) and good governance and state building (Foundation); increased and improved delivery of infrastructure (Strategic Objective 3), foundation, and improved delivery of social services (Strategic Objective 5); enhanced resilience and reduced vulnerabilities (Pillar 2), foundation, and comprehensive social protection and risk management (Strategic Objective 6).

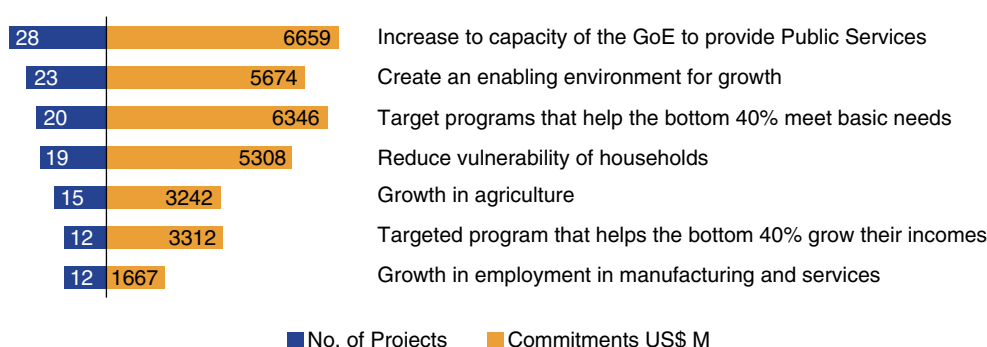
in cash management, budget and accounting reforms, and federal and regional procurement systems, strengthening local governments and the decentralization process.

The portfolio performed strongly against the Bank's gender targets. During the CPS period, 94 percent of approved projects were rated as fully gender informed (against a target of 66 percent), and 100 percent of active projects (for which data are available) which included gender related or sex disaggregated indicators in their results frameworks also reported on these indicators in their ISRs (against a target of 75 percent). An even more comprehensive approach to gender targets, and gender equality, is planned for the CPF.

The CPS acknowledged the high levels of investment associated with achieving GTP objectives, which in turn require private sector participation to sustain Ethiopia's high growth trajectory. A challenging policy environment during the CPS period limited the Bank's ability to support the transition from public to private sector-led growth, as reflected in both the portfolio and the Results Framework. The CPS refers to the 2011 Joint Staff Advisory Note (JSAN) of the GTP, which raised concerns regarding the realism of GTP targets based on a scenario of 11.2 percent growth. Nonetheless, the CPS Results Framework included targets obtained directly from the GTP.⁵¹ The CPSPR made revisions to the Results Framework while retaining selected targets obtained directly from the GTP.

Alignment with the WBG Corporate Strategy

Both CPS Pillars, and the underlying Strategic Objectives, address the Twin Goals by focusing on competitiveness and employment, which boost shared prosperity, and increased resilience to shocks and vulnerability, which reduces poverty. Although the Twin Goals had not yet been adopted at the beginning of the CPS period, the CPS focused on areas critical to achieving those development objectives. The CPSPR included a chart illustrating the portfolio according to contributions to the Twin Goals. This figure has been revised to reflect the contributions of the CPS program, through June 30, 2016, to the Twin Goals.



Bank financing and ASA were well aligned. The Bank's analytical work on macroeconomic issues informed a number of policy changes, as discussed above. Similarly, the Bank-led study on SME financing resulted in the SME Financing Project. Bank-IFC collaboration was significant over the CPS period, as demonstrated by the work of the Trade and Competitiveness Global Practice, which collaborated on

⁵¹ Examples of CPS Results Framework targets obtained directly from the GTP include Outcome Indicator 1 and Indicator 9. Certain targets, such as Outcomes under Strategic Objective 5, were adjusted at the time of the CPSPR to better reflect the Bank's limited ability to influence outcomes.

the CJCP. The CJCP will provide firms with industrial land and buildings (water, electricity, transportation infrastructure), and with a one-stop shop, thereby reducing transaction costs. The IFC Investment Policy Project supports the GoE in revising the investment incentives framework and investment proclamation. *A fully integrated WBG CPF will reflect an even closer degree of collaboration between the Bank, IFC, and MIGA.*

The Bank managed trade-offs between development impact and risk in Ethiopia over the course of the CPS period; the CPF will need to devote greater attention to identifying and mitigating risks. For example, crowding out of the private sector was evident during the CPS period. This risk was highlighted by both IEG and the 2011 JSAN of the GTP. The CPSPR acknowledged that private sector results have been mixed: *“Severe business environment constraints hamper private sector development, domestic and foreign alike. The WBG Doing Business Report for 2014 ranks Ethiopia 125 out of 189 economies, with the ranking dropping to 166 for ‘Starting a Business.’”* This issue could have received greater attention in both the CPS and CPSPR, to the extent that there were risk-mitigating measures which the Bank could influence.

Two additional risks materialized during the CPS period: food insecurity and unrest associated with land management and ethnicity. With regard to food insecurity, both the CPS and CPSPR addressed enhanced resilience and climate change mitigating factors. Bank-funded programs such as PSNP and SLMP were highly effective in mitigating the impact of the recent drought. The social unrest which emerged during the CPS period in relation to resettlement disputes (as described in the Inspection Panel report), and other land issues, calls for better understanding of risks to development outcomes and mitigation measures.

Results Framework, Intervention Logic, Realism of Objectives, Relevance of Indicators

The CLR identifies shortcomings in the design of the Results Framework, intervention logic, realism of objectives, and relevance of indicators. The CPS program design was relevant to Ethiopia’s development challenges and was well aligned with the GTP. While the Results Framework outcomes were mapped directly to Bank interventions, some of the indicators were lacking in realism or the ability to be monitored and measured.

A smaller number of outcomes and strategic objectives could have produced a more focused Results Framework.⁵² While this CLR takes issue with the number of outcomes and strategic objectives, the CPS Results Framework reflected lessons from the 2008 CAS Completion Report, which argued that a more comprehensive Results Framework (i.e., with a *larger* number of outcomes and indicators) was necessary to link Bank-supported activities to development outcomes. The CPF Results Framework will seek to strike a balance between these two lessons with realistic, time-bound, and measurable indicators.

Although gender featured prominently in the CPS (reflecting GTP), there is little focus on gender in the Results Framework. There were no sex disaggregated indicators in the Results Framework, and the only gender informed indicators were the proportion of births attended by skilled health personnel, and the contraceptive prevalence rate. The CPF Results Framework features greater focus on

⁵² It should be noted that Results Frameworks for other large IDA clients have the same number of outcomes as the Ethiopia CPS Results Framework: the India CPS (2013) comprises 19 outcomes and the Nigeria CPS (2014) comprises 17 outcomes. In contrast, the Vietnam CPS (2011) comprises 8 outcomes while the Pakistan CPS (2014) comprises 14 outcomes.

gender linked and sex disaggregated results indicators, per the Bank's Corporate Scorecard and IDA commitments.

CPS and CPSPR Implementation

Sixteen out of eighteen CPS outcomes are rated Achieved or Mostly Achieved, while two CPS outcomes are rated Partially Achieved. Five of the six Strategic Objectives are rated Mostly Achieved or above, while both Pillars and the Foundation are rated Moderately Satisfactory. As such, implementation of the CPS program, as measured by the Bank's Results Framework, contributed to a majority of CPS Objectives. Despite challenges in the policy environment and external shocks during the CPS period, the CPS contributed to achieving a significant number of CPF objectives. Accomplishments in CPS implementation contribute to a WBG performance rating of Good. Coordination with Government counterparts and DPs was highlighted during CLR consultations, as was the Bank's technical leadership, project quality, and responsiveness. The Bank leveraged its comparative advantage to attract funding from traditional and nontraditional partners in a number of sectors, including Water, Roads, Health, Governance, Energy, CDD, Social Protection, and the Environment.

Effective coordination between the Bank and IFC in private sector development and job creation contributed to positive CPS outcomes. Collaboration was particularly strong in supporting GoE's industrialization agenda and access to finance for SME. IFC and the Bank have also worked effectively in supporting the business environment and the CJCP. With regard to small trust funds such as the Initiative to Support Ethiopian Private Sector Development (administered by IFC), DPs voiced concern regarding coordination and costs. MIGA has collaborated well with both IFC and the Bank during the CPS period. MIGA's exposure in Ethiopia is limited (US\$9.7 million) in the form of a guarantee to Industrial Development Corporation of South Africa (IDCSA) covering its non-shareholder loan to Africa Juice Tibila Share Company, which received a US\$3 million investment from IFC in May 2014. IFC's portfolio in Ethiopia (committed and outstanding) more than doubled from US\$131.1 million in 2012 to US\$279.0 million in 2016.

Portfolio management improved during the CPS period. The September 2012 CPPR indicated total net commitments of US\$4.26 billion as of end-December 2011, the second largest portfolio in the Africa Region at the time. Commitments at-risk stood at 10 percent by end-FY11, with a realism rating of 40 percent, proactivity rating of 100 percent, and a disbursement ratio of 34 percent (compared with an average of 26 percent across FY10–FY12). Portfolio data for June 2016: IDA commitments rose to US\$7.1 billion (largest in the Africa region), commitments at-risk were US\$578.5 million or 8.1 percent of the portfolio, and proactivity was 75 percent. Ratings for the Ethiopia portfolio are higher than the Africa Region average, which is noteworthy given the size of the portfolio. The disbursement ratio at end-June 2016, 27 percent, was also above the Africa region average. Most of the supervision during the CPS period has been led by field-based task team leaders.

Lessons Learned

Analytical and Operational Activities Need to Go Hand in Hand

The Country Assistance Strategy Completion Report (CASCR) conclusion regarding the value of providing just-in-time analytical work was applied with great success. The CASCR also recommended that the Bank engage in improving the quality of basic services by increasing the use of PforRs; this guidance was applied through delivery of PBS3, ULGDP, ESPES, and the Health MDG Project. Data quality was also raised by the CASCR, and was addressed with the Statistics for Results Project.

Production and dissemination of knowledge was very effective during the CPS period. The most recent examples of highly relevant knowledge work include the Great Run, the SME Finance Report, and the Ethiopia Urbanization Review, all of which have informed GoE’s decision making. In relation to SME Finance, the Bank is the only DP allowed into this domain as a financier. GoE representatives interviewed for this CLR found Bank knowledge products to be constructive and of high quality, notably the Urban Safety Nets report and Urban Poverty study, and the Logistics report (including transport, trade, and customs).

The CASCR lesson of linking lending and non-lending instruments with indicators and CAS outcomes in a logical Results Framework was applied to a limited extent. The CASCR puts particular emphasis on avoiding “*pitfalls in using high-level indicators that are beyond the scope of the CAS*.” As already noted in this CLR, the number and choice of strategic objectives, outcomes, and indicators will be considered carefully in the forthcoming CPF.

Forward-Looking Innovative Work Is Needed to Engage with Government in the Long Term

As Ethiopia aspires to become a lower middle-income country by 2025, new approaches are needed to achieve structural transformation of the economy. This is reflected in the recently approved SME Finance Project, discussions about land reform in connection with the Ethiopia Urbanization Review, the Great Run report, and the SCD. During the CPS period, the Bank has worked to support the GoE through lending, analytical work, and policy dialogue. The key lessons—what worked well and what could be done better—are summarized in Table 3.

World Bank responsiveness to the GoE during the CPS period was considered outstanding. Examples include the analytical work that was tailored to GoE requests and use of the PforR instrument. With regard to a “mid-course correction,” changes to the strategy and the Results Framework at the time of the CPSPR could have been greater. Going forward, the CPF will feature *annual* portfolio reviews, to ensure close monitoring of progress against results indicators, in addition to preparing the PLR at the midpoint in the CPF period.

Table 3: Bank Performance During CPS Cycle FY13–16

What Did the Bank Do Well?
Deepened the working relationship with GoE
Delivered a high-quality ASA program which was valued by both GoE and DPs
Led and coordinated DP support, including creating multi-donor financing vehicles (notably EDSP)
Significant impact of largest projects
Exceptional results in relation to social protection (notably PSNP3)
Strong mapping of Bank interventions to outcomes
Where Could the Bank Improve?
Risk identification and mitigation
Development logic in Strategy and Results Framework
Candor in ISR ratings
Focus on quality of services delivered, not just on access
Greater emphasis on gender equity and gender targets across the portfolio

Risk Management and Ongoing Evaluation Are Needed to Bring the Best in Operations

Under Strategic Objective 3—increased and improved delivery of infrastructure—two lessons emerged regarding risk assessment and definition of indicators. Beyond preparation of the Bank-prescribed risk assessment framework, the findings of the Inspection Panel report on PBS3 highlight the importance of a more proactive and systematic approach to risk management—to anticipate environmental and social safeguards issues, as well as financial management risks—in the CPF. Greater precision in defining outcome indicators is needed to allow for monitoring and evaluation (M&E). For example, while the Water and Sanitation Program’s 2015 note provides a framework for classification of latrines and other types of sanitation, the definition of “improved sanitation” in CPS Indicator 11 is not clear. Greater specificity will be applied to such indicators in the CPF Results Framework.

Similarly, Outcome 7.2—enhanced space for citizen participation—offers a lesson in terms of setting achievable targets when results are linked to non-IDA-funded projects as well as measuring progress against a “moving target.” The outcome indicator was linked to a presumed successor to the PBS Social Accountability Project, which is entirely donor-funded, and funding did not materialize. When it became clear that PBSSAP was not likely to have a successor project, the CPS indicator could have been adjusted at the time of the CPSPR. Going forward, the potential inability to secure follow-on funding can and should be added to the universe of portfolio risks. When counting the number of *woredas* with accountability tools and joint action plans for improving the quality of services, the *percentage* of the total number of *woredas* with such mechanisms would be more relevant than the *number* of *woredas*, given that the number of *woredas* in Ethiopia increased during the CPS period.

Beyond risks, questions can be raised regarding the candor and quality of self-evaluation in the portfolio. A review of the 17 projects which closed during the CPS period reveals disconnects between ISR and ICR, and between ICR and ICRR (IEG). Seven of the closed projects (about 40 percent) received a moderately unsatisfactory (MU) or unsatisfactory (U) outcomes rating by IEG, while ICR ratings are U or MU for five projects (or about 30 percent). In contrast to ICR/ICCR ratings, the 28 projects listed in the February 2016 portfolio dashboard include only three projects with an MU rating for IP or DO (about 11 percent), with no projects rated U or highly unsatisfactory (HU) in the report. Overall, portfolio management has become more proactive during the CPS period. Furthermore, there have been no substantial ICR-ISR disconnects since 2013. The smaller number of U and MU ratings in the active portfolio can be attributed to better project implementation readiness, improved client implementation capacity, and enhanced implementation support and supervision.

Ethiopia’s PFM performance of Ethiopia is among the best in Africa, as reflected in the 2014 PEFA scores. This allowed the Bank to use country systems during the CPS period for the main part of its projects: only cash management and financial reporting are managed according to the Bank’s standard procedures. The bulk of project management is performed by Ethiopian civil servants, not by PIUs. Use of country systems also implies greater client ownership and long-term project sustainability.

The Bank Is at Its Best When It Does Not Operate in Isolation

Coordination with DPs was very strong during the CPS period. The Bank’s leadership in lending, coordination, and technical capacity helped to leverage financing from multilaterals, traditional, and nontraditional partners for projects including the PBS, PSNP, GQEIP, and ULGDP. These partnerships will continue under the CPF, allowing the WBG to further leverage financing and knowledge from traditional as well as non-traditional DPs.

Table 4: CPS Revised Results Matrix and Progress to Date

(*all changes and updates made during CPSPR are in blue)

CPS Outcomes and Indicators (With 2011 Baselines and End-FY16 Targets)	Indicative Milestones	World Bank Group Program (FY15–FY16)	Lessons and Suggestions for the Forthcoming CPF
Overall CPS Theme: Sustainable Growth and Reduced Poverty			
GTP Goals:			
<div>1. Maintain average GDP Growth rate of 11%</div> <div>2. Reduce total poverty headcount from 29.2% in 2010/2011 to 22.2% in 2014/15</div> <div>3. Attain MDGs in social sectors (health & education)</div> <div>4. Create stable democratic and developmental state</div> <div>5. Maintain a stable macroeconomic framework</div>			
Pillar 1: Fostering Competitiveness and Employment			
CPS Strategic Objective 1: Stable Macroeconomic Environment			
GTP Goals:			
<div><div>• Rapid growth could pose risks to macro stability, in rising inflation and external imbalances.</div><div>• Inflation has been high and non-subsiding since June 2011.</div><div>• Need to further strengthen dialogue to develop policy options to discuss emerging issues.</div></div>	<div><div>• Timely preparation and monitoring of an integrated and consistent Macroeconomic and Fiscal Framework</div><div>The macroeconomic and fiscal framework is prepared in a timely manner and monitored on a regular basis.</div><div>• Establishing a system (database) to monitor off-budget investments and contingent liabilities in the public enterprises</div><div>No progress has been made on this milestone, due to insufficient client demand. However, the Bank has worked with GoE in several areas including MTDS, financing strategies, PER, and debt monitoring.</div><div>Establishing a mechanism for discussing macroeconomic issues between the GoE and development partners (IMF, WB)</div><div>A Macroeconomic Discussion Forum was established in April 2014 and will convene twice yearly.</div></div>	<div><div>Ongoing</div><div>Financing</div><div>• Ethiopia Statistics for Results Facility</div><div>Knowledge Services</div><div>• Growth Study</div><div>• Ethiopia IC: Business Taxation</div><div>• Public Expenditure Review</div><div>Planned for FY15 and FY16</div><div>Financing</div><div>• DPOs General or Sectoral</div><div>Knowledge Services</div><div>• Systematic Country Diagnostics</div><div>• Economic Update Series</div><div>Completed</div><div>Knowledge Service</div><div>• Poverty Mapping</div><div>• Economic Updates Series (I. inflation and competitiveness; II. savings and trade logistics; III. export performance and competitiveness)</div></div>	Analytical work related to macroeconomic management provided valuable input to policy dialogue with the GoE.

<ul style="list-style-type: none"> Revenue growth has fallen short of GDP growth recently and constrains the fiscal space. Domestic resource mobilization has been weak. Revenue to GDP is low compared to Sub-Saharan Africa's average. 	<p>Outcome 1.2—Increased domestic resource mobilization</p> <p><i>Indicator 2: Number of urban local governments that achieve an increase of own source municipal revenue of at least 10 percent over the previous year under ULGDP II.</i></p> <p><u>Baseline:</u> Zero (FY14)</p> <p><u>Target:</u> 18 out of 44 participating ULGs (FY16)</p> <p>Progress to date: 34</p> <p>Indicator changed as the original indicator related to WBG support through PSCAP, which closed in December 2012. For the remainder of the CPS period, ULGDP II will play an important role in increasing revenue.</p>	<ul style="list-style-type: none"> Continued increase of taxpayer registration using biometric systems (1.8 million in 2011) The biometric taxpayer information registration system is implemented across the nation and registered over 2 million taxpayers' information from a baseline of zero in the last four years. Equipping tax collection institutions with adequate enforcement power (information and tax-auditing systems) at federal and regional levels <p>The tax system reform program implemented in all regions and at all levels of government. The program has streamlined manuals for tax assessment, collection, audit and administration across regions.</p> <ul style="list-style-type: none"> Enhancing the capacity of tax collection and administration <p>Between FY05 and FY13, the revenue reform has overhauled tax laws and manuals; introduced VAT and other taxes; restructured tax bodies; strengthened the IT-assisted systems (0–7 regions); Biometric TIN (0–2 Million, ASYCUDA, Cash register (0–39 K users); reduced average processing time for tax collection (4 hr 35 mins—15 mins).</p>	<ul style="list-style-type: none"> Debt Management Strategy; Performance Assessment Structural Change in Ethiopia Non-Concessional Borrowing Strengthening Public Debt Management Capacity Fiscal Decentralization <p>Partners</p> <ul style="list-style-type: none"> IMF 	<ul style="list-style-type: none"> Local Govt Dev Project II Ethiopia Statistics for Results Facility Knowledge Services Ethiopia IC: Business Taxation <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> DPOs General or Sectoral Knowledge Services Systematic Country Diagnostics Economic Update Series <p>Completed</p> <p>Financing</p> <ul style="list-style-type: none"> Public Sector Capacity Building (PSCAP) Knowledge Service Economic Updates Series Debt Management Strategy; Performance Assessment Strengthening Public Debt Management Capacity <p>Partners</p> <ul style="list-style-type: none"> IMF
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Issues and Obstacles	CPS Outcomes and Indicators (With 2011 Baselines and End-FY16 Targets)	Indicative Milestones	World Bank Group Program (FY15–FY16)	Lessons and Suggestions for the Forthcoming CPF
CPS Strategic Objective 2: Increased Competitiveness & Productivity				
GTP Goals:				
<ol style="list-style-type: none"> Agriculture: Intensify production of marketable farm products for domestic and export markets by small farm holders and private agricultural investors <ul style="list-style-type: none"> Increased cereal productivity (qt/ha) from 17 qt/ha in 2010 to 22 qt/ha in 2015 Increased value of agricultural sector export (in US\$) from 1.55 bn in 2010 to 6.58 bn in 2015 Private Sector and Improved Competitiveness: Raise the efficiency and competitiveness of trade sector and establish a favorable environment for productive investors <ul style="list-style-type: none"> Total exports as % of GDP increased from 13.6% in 2010 to 22.5% in 2015 3 million new jobs created through MSEs: 40,000 jobs in textile and garment; 200,000 jobs in sugar industry Financial Sector: Strengthen the financial sector with the aim of establishing an accessible, efficient and competitive financial system <ul style="list-style-type: none"> Access to finance increased from 20% currently to 75% by the end of the GTP period 				
<ul style="list-style-type: none"> Low productivity of crop and livestock in many geographical areas. Weak land and water management practices and institutions. Fragmented and uncoordinated agricultural public services. 	<p>Outcome 2.1—Increased agriculture productivity and marketing in selected areas</p> <p><i>Indicator 3: Average yields of selected crops in targeted woredas (index, see AGP PDO)</i> Baseline: 9.9 qt/ha Target: 11.5 qt/ha</p> <p>Progress to date: Due to the extension of closing date for AGP the end of project sample survey has not been completed. As a proxy CSA official data applied to the index constructed by IFPRI for AGP, and limited to those regions under AGP, were used. Yields per hectare nearly doubled from 16.4 in 2011/12 to 28.4 in 2014/15.</p> <p><i>Indicator 4: Value of marketed agricultural products in targeted woredas</i> Baseline: 5,790 ETB per household Target: 7,064 ETB per household</p> <p>Progress to date: The end of project evaluation completed for the marketing component of AGP (conducted by USAID) finds the benefit of AGP equal to approximately 3,150 ETB per beneficiary since 2011, i.e., more than twice the CSP target for households.</p>	<ul style="list-style-type: none"> Land areas with improved technologies in targeted woredas The area with improved land and water management technologies has increased by 224,014 ha since 2009/2010. Additional irrigation areas developed or rehabilitated (ha) The irrigation system which is under construction/design/ rehabilitation covers a total area of 25,379 ha. Km of feeder roads constructed or rehabilitated Since 2009/2010, AGP and SLMP have constructed 2029.2 km of feeder roads. Development outcomes of Ethiopian Coffee Project <p>FY14 has been the third year of IFC's Ethiopian Coffee Project, and this project continues to perform well with zero non-performing loans, strong farmer outreach and increases in employment. Main development outcomes include: (i) 47,000 farmers have been supported in the Ethiopian coffee supply chains and 1,080 jobs have been created; (ii) volume of coffee processed has increased from 1,023 MT to 1,375 MT.</p>	<p>Ongoing</p> <p>Financing</p> <ul style="list-style-type: none"> Productive Safety Nets (APL III) Irrigation & Drainage Project Tana & Beles Int. Wat Res Dev Project Agricultural Growth Program Protection of Basic Services (PBS) Phase III Pastoral Community Development (PCDP) III Eastern Africa Agricultural Productivity Project Sustainable Land Management Project Sustainable Land Management Project II Ethiopia-Nib Bank Coffee Cooperative Risk Sharing Facility (IFC) <p>Knowledge Services</p> <ul style="list-style-type: none"> Land Administration Climate Innovation Center (InfoDev) Growth Study Strengthened RED&FS Coordination (Agriculture) Programmatic Advisory Services to the CRGE Facility (Climate) Urban Transport Study Sustainable Groundwater Development and Management Access to Finance for Producers/Farmers (IFC) <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> Productive Safety Nets Program Phase IV Regional Pastoral Livelihoods Resilience Additional Financing for Ethiopia 	<p>Operations exceeded CPS targets in terms of agricultural yields and value of marketed agricultural products.</p> <p>Regional project (EAAPP) supported the dissemination of agricultural technologies with neighboring countries; a mid-course correction at CPSPR reflected an upward adjustment of the baseline and targets to reflect implementation progress.</p>

<ul style="list-style-type: none"> Business regulations and policies in need of improvement. Weak public-private dialogue. Shortage of business development services including skills. Poor trade logistics. 	<p>Outcome 2.2—Increased competitiveness in manufacturing and services</p> <p><i>Indicator 5: Number of new jobs created in targeted manufacturing and services firms</i></p> <p>Baseline: Zero</p> <p>Target: 15,000</p> <p>Progress to date: 12,014 jobs were created in targeted firms. In addition, 319,000 jobs were created, but not linked to this outcome indicator (manufacturing and services).</p> <p>CJCP became effective on August 4, 2014, allowing less than two years in which to meet the target, which was insufficient time to generate improvements in the export component of sales by supported firms</p>	<ul style="list-style-type: none"> Regularly convene Public-Private Dialogue Forum (PPDF) with recommendations provided to the government for adoption <p>There have been various dialogue forums aiming to support the adoption of 10–15 investment climate improvements, and recommendations have been adopted as a result of PPD on company formation issues and tourism sector challenges.</p> <ul style="list-style-type: none"> Streamlined registration and licensing requirements <p>IFC IC team has worked on inventory, analysis and recommendations on all business licenses and upgraded the existing ICT system for business registration—OTRLS. The upgraded OTRLS has been deployed in 130 sites in Addis Ababa.</p> <ul style="list-style-type: none"> Number of firms supported in selected manufacturing and service sectors through business development services (BDS), by owner gender <p>PSDCB, together with the ongoing tourism project, has provided support to 191 firms by improving the enabling environment and institutional capacity.</p> <ul style="list-style-type: none"> Average number of trade logistic documents and steps reduced <p>Although no trade logistic document has been removed in the import/export clearance process, ERCA has eliminated the submission of copy of TIN for import and export based on a memo IFC provided.</p> <ul style="list-style-type: none"> "Ethiopian Cities Day" to promote competition conducted on annual basis <p>This event has been conducted annually in Nov/Dec by ULGDP.</p>	<p>Completed</p> <p>Knowledge Services</p> <ul style="list-style-type: none"> Disaster Risk Management Financing Pastoral Community Development Project II Sustainable Land Management Program (FY08) <p>Partners</p> <p>USAID, CIDA, Spain, AFO, Netherlands, UNDP</p> <p>Ongoing</p> <p>Financing</p> <ul style="list-style-type: none"> Tourism Development Project SIL Competitiveness and Job Creation Project Urban Local Govt Development Project (ULGDP) Local Govt Dev Project II Women Entrepreneurship Development Project (WEDP) Derba Midroc Cement Company (IFC) GTST Ethiopia II (IFC) CrownPlaza Addis (IFC) Dallol Potash (IFC) AfricaJUICE (IFC) Tulu Kapi Gold Project (IFC) JSDP: Support to Artisan Miners <p>Knowledge Services</p> <ul style="list-style-type: none"> Finance Leasing Scaling up MSME Finance (knowledge exchange with India) Ethiopia Cheque Standardization Project Regulatory and Supervisory Framework for Microinsurance Improving efficiency of payments system Ethiopia IC: Trade Logistics Project (IFC) Ethiopia IC: Business Regulation (IFC) Ethiopia Business Forum (IFC) Ethiopia IC: Business Taxation Project (IFC) ET-TAF: Improving Extractive Industries Dev <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> SME Finance IC Program (IFC) <p>Completed</p> <p>Financing</p> <ul style="list-style-type: none"> Private Sector Development Capacity Building (PSD CB) Project 	<p>There was no progress toward the CPS target of increased value of exports generated by firms located in supported industrial zones. As export competitiveness was hampered by the appreciated currency, CPF indicators should not be linked to factors such as this which are beyond the Bank's control.</p>
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CPS Outcomes and Indicators (With 2011 Baselines and End-FY16 Targets)			World Bank Group Program (FY15–FY16)	Lessons and Suggestions for the Forthcoming CPF
Issues and Obstacles	Indicative Milestones			
<p>Lack of medium- and long-term finance.</p> <p>Micro and small enterprises (MSEs) currently having limited access to financial services.</p>	<p>Outcome 2.3—Increased MSE access to financial services</p> <p><i>Indicator 6: Volume of bank funding: Lines of credit to MSEs</i></p> <p>Baseline: Zero</p> <p>Target: US\$28 million</p> <p>Progress to date:</p> <p>WEDP has disbursed US\$43 million to MFIs (as of November 1, 2015)</p>	<p>Coverage of the Credit Information Center (CIC) increased to include also MFIs' clients</p> <p>The coverage of lending institutions by the new credit reporting was extended to include all banks and key NBE regulated MFIs. The IFC CIC project provided a short-term intervention to support NBE to undertake a technical upgrade of its credit reporting system. It will take at least 2–3 years after project completion to achieve the project target, which is, the total credits in SME leading expand by 10%. It is too early to judge at this stage.</p> <ul style="list-style-type: none"> Line of credit to support MSEs established <p>A line of credit to support MSEs has been established under the Women Entrepreneurship Development Project (WEDP). The line of credit is channeled from MoFEC to DBE to MFIs. It combines the provision of liquidity with a package of technical assistance to help MFIs to better serve growth-oriented MSEs on an individual basis and through larger loans.</p>	<p>Knowledge Services</p> <ul style="list-style-type: none"> Chinese FDI in Ethiopia Structural Change in Ethiopia: An employment perspective Investment Climate from a Regional States Perspective I Skills for Competitiveness and Growth in Manufacturing SME Finance in Ethiopia IFC CIC project ICT for Transformation Ethiopia Mining Sector Assessment <p>Partners</p> <p>DFID, EU, AfDB, GTZ, IMF, CIDA</p>	<p>While access to credit surpassed the CPS target, access to financial services remains extremely limited. This constraint will be addressed in the CPF.</p>
CPS Strategic Objective 3: Increased and Improved Delivery of Infrastructure				
GTP Goals:				
<ul style="list-style-type: none"> Low access rates in areas already connected to the grid. Major network bottlenecks due to rapid growth in demand require reinforcement of transmission network. Low access to off-grid renewable energy. Weak implementation and management capacity of Ethiopia Power Corporation (EPCO) to manage large and complex projects. 	<p>Outcome 3.1—Increased Access to Electricity</p> <p><i>Indicator 7: Number of people provided with access to electricity in selected areas</i></p> <p>Baseline:</p> <p>On-grid: 0 million (revised at CPSPR)</p> <p>Off-grid: 0 million (revised at CPSPR)</p> <p>Target:</p> <p>On-grid: 1.7 million (revised at CPSPR)</p> <p>Off-grid: 0.25 million (revised at CPSPR)</p> <p>Progress to date:</p> <p>On-grid: 1.6 million</p> <p>Off-grid: 3.4 million</p>	<p>1. Power: (i) Electricity coverage increased from 41% in 2010 to 75% in 2015; (ii) Power generating capacity (MW) increased from 2,000 in 2010 to 10,000 in 2015</p> <p>2. Transport: (i) Road network increased from 49,000 km in 2010 to 136,000 in 2015; (ii) Roads in fair and good conditions increased from 81% in 2010 to 86% in 2015</p> <p>3. Water and Sanitation: (i) Potable water coverage increased from 68.5% in 2010 to 98.5% in 2015; (ii) Water sanitation coverage increased from 52.4% in 2010 to 84% in 2015</p> <p>(Source: Sanitation Action Plan)</p>	<p>Ongoing</p> <p>Financing</p> <ul style="list-style-type: none"> Electricity Access Rural II GOPBA Electricity Access Electricity Network Reinforcement & Expansion Project (ENREP) Ethiopia Geothermal Sector Development Project <p>Knowledge Services</p> <ul style="list-style-type: none"> Geothermal Sector (IFC) <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> Energy Network Reinforcement Phase II <p>Knowledge Services</p> <ul style="list-style-type: none"> Energy Sector Review Renewable Energy Resource mapping 	<p>GoE decisions regarding new connections and sole-sourcing meters imposed long implementation delays, and eventually resulted in cancellation of a significant portion of project funds. Future projects should take greater note of potential policy risks in the definition of CPF targets.</p>

<ul style="list-style-type: none"> Low road density—only 10% of rural population lives within 2 km of an all-weather road. Low Ethiopia Road Authority (ERA's) capacity for design review, assessment, quality assurance, contract management, safety enforcement, and safeguards compliance. ERA needs to be modernized to deliver high quality roads at competitive cost. 	<p>Outcome 3.2—Improved roads, transport infrastructure</p> <p><i>Indicator 8: Additional km of roads constructed (new or upgraded with asphalt) or rehabilitated to fair and good condition</i></p> <p>Baseline: Federal constructed or rehabilitated: zero (revised at CPSPR)</p> <p>Target: Federal constructed or rehabilitated: 1,008 km (revised at CPSPR)</p> <p>Progress to date: 803 km</p> <p><i>Indicator 9: Additional km of rural access roads constructed and/or rehabilitated to fair and good condition</i></p> <p>Baseline: 800 km Target: 71,500 km</p> <p>Progress to date: 67,895 km</p>	<ul style="list-style-type: none"> WBG progresses on road construction and rehabilitation. Since 2011, a total of 481 km in federal road construction has been financed by the Bank, accounting for about 16% of GTP progress and 10% of total GTP funding. The Bank's financing of rural roads has resulted in construction or rehabilitation of roads almost identical to the GTP target. ERA Quality Assurance System implemented ERA Maintenance Management System improved <p>Both systems are in place and final operational manuals are prepared; Both systems are being enhanced to the maximum efficiency.</p> <ul style="list-style-type: none"> ERA Cost Monitoring System implemented <p>PMS study has been completed. Selection of consultants for FM is finalized and the contract was signed.</p> <ul style="list-style-type: none"> Increased routine maintenance contracts implemented <p>APL III has provided TA to develop Trial OPRC Maintenance Contract. The consultant has submitted all deliverables to ERA and the service is complete.</p> <ul style="list-style-type: none"> Urban road construction <p>Some 670 kilometers of urban roads have been constructed since FY09 by ULGDP.</p>	<p>Completed Financing</p> <ul style="list-style-type: none"> Nile Basin Initiative: ET/SU Interconnection Electricity Access (Rural) Expansion Project Energy Access SIL <p>Knowledge Services</p> <ul style="list-style-type: none"> Accountability Issues in Power Sector <p>Partners</p> <ul style="list-style-type: none"> AFDB, AFD (France), SNV, Japan, Iceland <p>Ongoing Financing</p> <ul style="list-style-type: none"> Road Sector Development Support Program Project APL III Road Sector Development Support Program Project APL IV Transport Sector Project In Support of RSDP4 Road Sector Support Project RSSP Urban Local Government Development Project (ULGDP) Local Govt Dev Project II Productive Safety Nets III (PSNP) Agricultural Growth Program (AGP) Protection of Basic Services Phase III Pastoral Community Development (PCDP) III <p>Knowledge Services</p> <ul style="list-style-type: none"> Urban & Metropolitan Transport Review Road Construction Cost Study Systematic Country Diagnostic Rural Accessibility to Solve Development Constraints <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> Rural Infrastructure Support (PforR) Project Expressway Development Urban Transport & Planning Project <p>Completed Financing</p> <ul style="list-style-type: none"> Pastoral Community Development Project II Protection of Basic Services (PBS) II <p>Partners</p> <p>AFDB, EU, JICA, DFID, China, BADEA</p>	<p>The success of PSNP3 in supporting remarkable progress in road construction and water and sanitation shows the value of multi-sectoral projects. This crosscutting approach will be applied in the CPF.</p> <p>Notwithstanding great progress in boosting the number of rural and urban people with improved sanitation, and the role of WSSP in providing training to community leaders, greater precision is needed in defining indicators such as "improved sanitation" to allow for accurate M&E of results.</p> <p>The Inspection Panel (IP) findings regarding PBS III highlight the need for risk-mitigation measures for communities affected by GoE policies such as villagization. The Management Response to the IP acknowledged the need for more extensive risk analysis.</p>
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Issues and Obstacles	CPS Outcomes and Indicators (With 2011 Baselines and End-FY16 Targets)	Indicative Milestones	World Bank Group Program (FY15–FY16)	Lessons and Suggestions for the Forthcoming CPF
<ul style="list-style-type: none"> Low coverage rates, particularly in emerging regions. Utility inefficiencies largely due to underpricing and distribution losses (typically around 40% compared with 33% in other LICs in Africa) and above good practice levels (below 23%) for developing countries (AICD, 2008). Inadequate assessment, development and management of groundwater potential. 	<p>Outcome 3.3—Increased access to improved water and sanitation services in urban and rural areas</p> <p><i>Indicator 10: Additional people provided with improved water resources in selected urban and rural areas</i></p> <p>Baseline: zero Target: 4.2 million</p> <p>Progress to date: 17,845,569</p> <p><i>Indicator 11: Additional rural/urban people with improved sanitation (latrines)</i></p> <p>Baseline: Zero Target: 4.5 million</p> <p>Progress to date: 3.3 million households</p>	<ul style="list-style-type: none"> User groups' capacities to operate and maintain water sources strengthened WSPSP has established the <i>woreda</i> water and sanitation teams in 224 <i>woredas</i>. In addition, the program has established autonomous water boards in 50 town/urban areas. These capacity-building approaches have influenced the GoE's policy on the sector and other Development Partner Programs. Urban water utilities' capacities to manage and implement business plans strengthened <p>So far, all participating cities (Addis and 5 secondary cities) have developed their business plans and been implementing them.</p>	<p>Ongoing</p> <ul style="list-style-type: none"> Urban Water Supply & Sanitation (UWSS) Water Supply, Sanitation and Hygiene (WASH) Local Govt Dev Project II Urban Local Govt Development (FY08) Protection of Basic Services Project Phase III Pastoral Community Development Project (PCDP) III <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> Regional Pastoral Livelihoods Resilience Additonal Financing for Ethiopia Rural Infrastructure Support (PforR) <p>Knowledge Services</p> <ul style="list-style-type: none"> Water and Sanitation Economic Benefit Analysis <p>Completed</p> <p>Financing</p> <ul style="list-style-type: none"> Water Supply and Sanitation Project <p>Partners</p> <ul style="list-style-type: none"> WSP, Finland, DFID, Italy, UNICEF, AfDB, EU, France 	
<p>CPS Strategic Objective 4: Enhance Regional Integration</p> <p>GTP Goals:</p> <ol style="list-style-type: none"> Export power to neighboring countries Produce sufficient food crops and high value products for international markets Integrate into the multilateral trading system through, <i>inter alia</i>, completing WTO accession, strengthening regional trade integration with IGAD and COMESA, conclude EPA with EU 				
<ul style="list-style-type: none"> Limited generation capacity for power export to region. 	<p>Outcome 4.1—Improved Eastern Africa Power Pool Mechanism</p> <p><i>Indicator 12: Total quantity of electricity exported in GWh</i></p> <p>Baseline: 33 GWh (to Sudan) Target: 1,401 GWh (569 to Djibouti + 832 to Sudan)</p> <p>Progress to date: 781.88 GWh</p>	<ul style="list-style-type: none"> Transmission line from Ethiopia power grid to Kenya designed and under construction by 2016. <p>There is no result yet, as this project is still in the bidding process. The Ethiopia-Kenya interconnector was expected to begin trading with 7,000 GWh of power exported to Kenya at the beginning of 2017.</p>	<p>Ongoing</p> <p>Financing</p> <ul style="list-style-type: none"> Eastern Electricity Highway Project <p>Planned for FY15 and FY16</p> <p>Knowledge Services</p> <ul style="list-style-type: none"> Systematic Country Diagnostic <p>Completed</p> <p>Financing</p> <ul style="list-style-type: none"> ET/SU Interconnection <p>Partners</p> <p>AfDB, AFD (France)</p>	<p>Complex procurement and approval processes, from utilities and governance bodies in two neighboring countries, led to prolonged project delays. Results indicators for future projects such as this should reflect the risks associated with such complexity.</p>

<ul style="list-style-type: none"> Inefficient dissemination of agricultural technologies across countries. Weak regional capacity of the regional centers of excellence. High impact of transboundary pests and diseases. 	<p>Outcome 4.2—Enhanced involvement in regional agriculture technology generation and dissemination</p> <p><i>Indicator 13: Number of existing and new technologies from Ethiopia disseminated in more than one EAAPP country compared to plan</i></p> <p><u>Baseline</u>: 37 (revised at CPSPR)</p> <p><u>Target</u>: 82 (revised at CPSPR)</p> <p><i>Progress to date</i>: 57</p>	<ul style="list-style-type: none"> Regional Center of Excellence in Wheat established in Ethiopia <p>WRCoE is established to organize and lead the wheat research and development efforts in the regions. Improved wheat technologies and germplasm of improved wheat varieties are shared with the program countries. In addition, as a regional resource and knowledge hub, it also provides training on wheat production techniques both for technical staff and for beneficiaries in Ethiopia and the region.</p> <p>Continued cooperation of Ethiopia agricultural research and extension with regional agricultural institutions (ASARECA).</p> <p>A total of 27 regional agricultural research projects were implemented as of FY13.</p>	<p>Ongoing Financing</p> <ul style="list-style-type: none"> Eastern Africa Agricultural Productivity Project <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> Regional Pastoral Livelihoods Resilience Additional Financing Knowledge Services Systematic Country Diagnostic <p>Partners</p> <ul style="list-style-type: none"> USAID/VOCA (wheat value chain), Japan (rice), CGIAR (wheat, rice and cassava) 	
Pillar 2: Enhanced Resilience and Reduced Vulnerabilities				
CPS Strategic Objective 5: Improved Delivery of Social Services				
<p>GTP Goals:</p> <ol style="list-style-type: none"> Improve access to and quality of health services: <ul style="list-style-type: none"> Maternal mortality rate (per 100,000) decreased from 590 in 2010 to 267 in 2015 Under five mortality rate (per 1,000) decreased from 101 in 2010 to 67 in 2015 Improving access and quality of education: <ul style="list-style-type: none"> Secondary gross enrollment ratio increased from 38.1 % in 2010 to 75% in 2015 				
<p>Despite some good progress in reducing child mortality, Ethiopia is facing significant challenges in scaling up evidence-based interventions to reduce maternal deaths. The gains made in child mortality reduction also need to be sustained and further enhanced.</p> <ul style="list-style-type: none"> Lack of 24/7 delivery services in most health facilities, especially health centers. Shortage, high turnover and insufficient skills of midwives and delivery attendants. High unmet need for family planning. 	<p>Outcome 5.1—Increased Access to Quality Health Services</p> <p><i>Indicator 14: Pentavalent vaccination coverage</i></p> <p><u>Baseline</u> (2013): 65.7 % (revised at CPSPR)</p> <p><u>Target</u> (2016/2017): 75.7% (revised at CPSPR)</p> <p><i>Progress to date</i>: Not Verified (pending information from the ongoing DHS, which will conclude by end 2016).</p> <p><i>Indicator 15: Proportion of births attended by skilled health personnel</i></p> <p><u>Baseline</u> (2014): 10%</p> <p><u>Target</u> (2015/2016): 18%</p> <p><i>Progress to date</i>: 16%</p> <p><i>Indicator 16: Contraceptive Prevalence Rate</i></p> <p><u>Baseline</u>: 29%</p> <p><u>Target</u>: 35%</p> <p><i>Progress to date</i>: 42%</p>	<ul style="list-style-type: none"> Increase in health centers having functional cold chain equipment (%) <p>As per the cold chain inventory 2013, the nonfunctionality of refrigerators ranges from as high as 81.7% to as low as 40.6%. MoH immunization logistics coordination team has confirmed that the current functionality is 85% as nonfunctional refrigerators had been maintained by the national CCE maintenance campaign.</p> <ul style="list-style-type: none"> Increase in health centers providing round the clock delivery services (%) <p>% of public facilities offering normal delivery services that have provider of delivery care available on site or on call 24 hours/day, with or without observed duty schedules is 95.</p> <ul style="list-style-type: none"> Reduced stock out of long acting contraceptives at health facilities (%) 	<p>Ongoing Financing</p> <ul style="list-style-type: none"> Health MDG Support (PforR) Protection of Basic Services (PBS) Project Phase III <p>Knowledge Services</p> <ul style="list-style-type: none"> Social Health Insurance Case Study for Universal Health Care <p>Planned for FY15 and FY16 Financing</p> <ul style="list-style-type: none"> Health Sector Additional Financing Knowledge Services Health Finance Programmatic Work Health and Education Service Delivery Quality <p>Completed Financing</p> <ul style="list-style-type: none"> Protection of Basic Services (PBS) Phase II Nutrition SL 	

(continued)

Issues and Obstacles	CPS Outcomes and Indicators (With 2011 Baselines and End-FY16 Targets)	Indicative Milestones	World Bank Group Program (FY15–FY16)	Lessons and Suggestions for the Forthcoming CPF
<ul style="list-style-type: none"> Low quality of education resulting from, <i>inter alia</i>, inadequate number of teachers, insufficient number of qualified teachers, inadequate number of textbooks. 	<p>Outcome 5.2—Increased Access to Quality Education</p> <p><i>Indicator 17: Percentage of students attaining basic competency</i></p> <p><u>Baseline (2006/07):</u></p> <p>Grade 4: Reading in English 48%; Mathematics 46%</p> <p>Grade 8: English 40%; Mathematics 40%</p> <p><u>Target (2015/16):</u></p> <p>Grade 4: Reading in English 58%; Mathematics 56%</p> <p>Grade 8: English 50%; Mathematics 50%</p> <p>Progress to date:</p> <p>Grade 4: English: 47%; Mathematics: 63%</p> <p>Grade 8: English: 74%; Mathematics: 68%</p> <p>“Reading in mother tongue” components were revised to “Reading in English” due to the lack of data.</p>	<p>Public facilities: IUCD 21 % out of stock. Implant 12.4 % out of stock</p> <ul style="list-style-type: none"> Growth, monitoring, promotion (GMP) and community conversations conducted regularly <p>Proportion of children 6–59 months screened for malnutrition 27%; 0–24 month Growth Monitoring (GMP) 54%</p>	<p>Knowledge Services</p> <ul style="list-style-type: none"> PSIA of the PBS Health Results Innovation IE of the health facility performance incentives China/Ethiopia/WB Health Collab. (FY12) International Health Partnerships Program ICT for Transformation <p>Partners</p> <p>All partners supporting the Health Sector Development Program IV and in particular those financing the MDG performance fund (DFID, Spanish Corporation, Italian Corporation, Irish Aid, UNFPA, UNICEF and WHO)</p>	
	<p>Outcome 5.2—Increased Access to Quality Education</p> <p><i>Indicator 17: Percentage of students attaining basic competency</i></p> <p><u>Baseline (2006/07):</u></p> <p>Grade 4: Reading in English 48%; Mathematics 46%</p> <p>Grade 8: English 40%; Mathematics 40%</p> <p><u>Target (2015/16):</u></p> <p>Grade 4: Reading in English 58%; Mathematics 56%</p> <p>Grade 8: English 50%; Mathematics 50%</p> <p>Progress to date:</p> <p>Grade 4: English: 47%; Mathematics: 63%</p> <p>Grade 8: English: 74%; Mathematics: 68%</p> <p>“Reading in mother tongue” components were revised to “Reading in English” due to the lack of data.</p>	<ul style="list-style-type: none"> Increased primary completion rate <p>Primary completion rates (PCR) have decreased after a strong increase in the over the last CAS cycle. Between 2012/2013 and 2014/2016, the primary school completion rate (grade 8) has decreased from 52.8% to 51.3%.</p> <ul style="list-style-type: none"> Improved primary pupil to textbook ratio <p>In 2013/14, pupil-book ratio of 1:1 or better was achieved in seven subjects of primary education, and thirteen subjects of secondary education provided by GEQIP1. GEQIP2 is currently supporting replenishment of these textbooks to maintain the ratio. Data is not available for current status.</p> <ul style="list-style-type: none"> Increased percent of primary teachers with appropriate qualification and teacher/pupil ratio <p>Percentage of qualified primary teachers (i.e., teachers with at least a certificate qualification) has increased from 64.7% in FY12/13 to 91.5% in FY14/15. Percentage of qualified secondary teachers has decreased from 91.5% to 91% in the same period.</p> <p>From FY12 to FY14, teacher/pupil ratio (Grade 5–8) has increased from 1:51 to 1:49.</p>	<p>Ongoing</p> <p>Financing</p> <ul style="list-style-type: none"> ET GEQIP II Protection of Basic Services Project (PBS) Phase III <p>Planned for FY15 and FY16</p> <p>Financing</p> <ul style="list-style-type: none"> Basic Service Delivery <p>Knowledge Services</p> <ul style="list-style-type: none"> Education Sector Financing Education Learning Achievement Health and Education Service Delivery Quality <p>Completed</p> <p>Financing</p> <ul style="list-style-type: none"> Protection of Basic Services Phase II (FY09) General Education Quality Improvement Project—APL 1 EFA FTI CF Grant 2—GEQIP APL 1 <p>Knowledge Services</p> <ul style="list-style-type: none"> Secondary Education ICT for Transformation <p>Partners</p> <p>Global Partnership for Education, DFID, Finland, Italian Development Cooperation, USAID, JICA, UNICEF, Russia</p>	<p>CPSPR noted that despite improved access to education, the <i>quality</i> of services remains a challenge. The focus on quality of learning outcomes, teacher qualifications, and gender disaggregated learning outcomes will be highlighted in the CPF Results Framework.</p> <p>Although gender featured prominently in the CPS (reflecting the focus in GTP I), there were no sex disaggregated indicators in the Results Framework (RF). The CPF RF will feature a greater focus on gender linked indicators.</p>

Annex 3: GTP II Objectives and Indicators



GTP Vision for Ethiopia

“The main basis of GTP II is the country’s vision to become a lower middle-income country by 2025. In the coming 10 years, Ethiopia’s vision is to reach the level of lower middle-income countries where democracy, good governance and social justice are maintained through people’s participation.”

GTP Objectives

1. Maintain macroeconomic stability and achieve average real GDP growth rate of 11 percent;
2. Boost competitiveness of the domestic productive sectors in agricultural and manufacturing industries for greater structural transformation;
3. Promote further public mobilization for ownership of development outcomes; and
4. Ensure a stable democratic developmental state.

GTP Pillars

1. Sustain rapid and equitable economic growth and development;
2. Increase productivity and competitiveness of agricultural and manufacturing sectors;
3. Enhance transformation of domestic private sector;
4. Bridge infrastructure gaps through the domestic construction industry;
5. Manage urbanization as part of the structural transformation of the economy;
6. Enhance human development and sustainable technological capacity building;
7. Enhance democratic good governance and public participation;
8. Promote women and youth empowerment;
9. Build climate-resilient green economy.

Annex 4: Selected Indicators of World Bank Portfolio Performance and Management (FY17 as of 05/22/2017)

Indicators	FY13	FY14	FY15	FY16	FY17
Portfolio Assessment					
Number of Projects under Implementation	21	24	23	26	30
Average Implementation Period (Years)	4.1	3	2.9	3.1	3.2
Percent of Problem Projects by Number	28.7	17.3	16.6	11.5	10.0
Percent of Problem Projects by Amount	14.2	7.4	6.0	10.7	10.0
Percent of Projects at Risk	11.5	14.3	19.2	10.7	9.4
Disbursement Ratio (%)	48	41	26	22.3	20.0
Portfolio Management					
CPFR during the Year (Yes/No)	No	No	No	No	No

Annex 5: IDA Operations Portfolio (as of May 22, 2017)

Project ID	Project Name	Date of Board Approval	Closing Date	Net Commitment Amount (\$m)	Total Disbursed (\$m)
Education					
P129828	ET GEQIP II	11/12/2013	07/07/2018	130.00	97.76
Energy and Extractives					
P119893	Electricity Network Reinforcement & Expansion	05/29/2012	06/30/2019	400.00	139.95
P133613	Ethiopia Geothermal Development Project	05/29/2014	06/30/2020	178.50	8.00
Agriculture					
P130276	Pastoral Community Development III	12/12/2013	12/31/2018	110.00	65.15
P133133	Sustainable Land Management Project	11/22/2013	04/07/2019	50.00	37.05
P133410	Sustainable Land Management Project	11/22/2013	04/07/2019	12.96	9.81
P148591	Second Agricultural Growth Project	03/31/2015	10/10/2020	350.00	48.60
P156475	Oromia Forested Landscape Program	03/17/2017		18.00	0.00
Health, Nutrition and Population					
P123531	ET Health MDG Support Operation (FY13)	02/28/2013	06/30/2018	250.00	61.52
Social Protection and Labor					
P128891	ET Promoting Basic Services Phase III	09/25/2012	01/07/2019	600.00	563.98
P146883	ET Productive Safety Nets Project 4	09/30/2014	12/31/2020	700.00	531.38
160279	ET Productive Safety Nets Project 4 Additional Financing	09/30/2014	12/31/2020	108.10	108.10
P151432	Ethiopia Enhancing Shared Prosperity	09/15/2015	05/01/2019	600.00	255.88
P151712	Urban Productive Safety Net (UPSN)	12/16/2015	07/07/2021	300.00	19.66
Social, Urban, Rural and Resilience Global Practice					
P133592	ET Local Govt Dev Project II	05/02/2014	12/31/2019	380.00	235.71
Transport					
P117731	Ethiopia—Transport Sector Project	09/25/2012	04/30/2019	415.00	223.40
P131118	Ethiopia—Road Sector Support Project	02/19/2014	01/07/2024	320.00	60.30
P148850	Ethiopia—Expressway Development Support	05/19/2015	12/31/2021	370.00	25.86
P151819	Transport Systems Improvement Project	06/03/2016	12/31/2023	300.00	13.70
P106872	ET RSDP Stage IV APL (FY09)	06/02/2009	06/30/2017	245.00	219.78
Water					
P092353	ET Irrigation & Drainage SIL (FY07)	06/21/2007	10/31/2017	150.00	73.09
P101473	ET Urban WSS SIL (FY07)	04/24/2007	12/31/2017	250.00	166.49
P133591	ET Water Supply, Sanitation and Hygiene	03/20/2014	06/30/2019	205.00	70.47
P156433	Second Ethiopia—Urban WSSP	03/31/2017	07/07/2013	445.00	0.00

(continued)

Project ID	Project Name	Date of Board Approval	Closing Date	Net Commitment Amount (\$m)	Total Disbursed (\$m)
Finance and Markets					
P122764	ET Women Entrepreneurship Development	05/24/2012	12/31/2017	50.00	45.34
P148447	Ethiopia SME Finance Project	05/17/2016	08/31/2022	200.00	0.00
Governance					
P150922	Ethiopia PFM Project	02/26/2016	04/07/2020	33.00	2.63
Trade and Competitiveness					
P143302	ET CJCP	05/13/2014	06/30/2020	250.00	18.31
P156590	Trade Logistics Project	03/31/2017	07/07/2022	150.00	0.00
P160279	NQI Development Project	03/31/2017	07/07/2022	50.00	0.00
P147356	Ethiopia Statistics for Results Project	05/30/2014	06/30/2017	10.00	5.54

Annex 6: IFC Statement of Held Investments

IFC Investment Program (as of April 30, 2017)

Project	Sector	Committed— IFC (US\$ million)	Outstanding— IFC (US\$ million)
36565-GTST Ethiopia 3	Finance & Insurance	21.0	21.0
35938-Afriflora	Agriculture and Forestry	46.0	46.0
33523-AfricaJUICE	Food & Beverages	2.75	0.35
33201-Tsemex Hotel	Accommodation & Tourism Services	9.4	4.67
26410-Midroc Derba	Nonmetallic Mineral Product Manufacturing	11.0	11.0
Ethiopia		90.2	83.0

IFC's committed balance in Ethiopia totaled US\$90.2 million as of end-May 2017, of which US\$83.0 million of the disbursed was outstanding.

IFC Advisory Program (as of March 31, 2017)

Project ID	Project Name	Owning Department Code	Total Funds Managed by IFC (US\$ millions)
599466	Ethiopia IC: Trade Logistics Project	Trade and Competitiveness	2.1
599467	Ethiopia IC: Business Taxation Project	Trade and Competitiveness	1.3
599468	Ethiopia IC: Business Regulation	Trade and Competitiveness	1.6
600201	Lighting Africa Ethiopia	Cross-Industry Advisory Services	3.2
600316	Ethiopia Investment Policy	Trade and Competitiveness	1.8
600666	Sub Saharan Africa Credit Bureau African Countries Consolidated	Finance and Markets	1.1
601053	Ethiopia—Livestock—MIRA	Trade and Competitiveness	2.1
601293	IB Challenge Prototype—LUNA	Development Impact	0.1
601522	Secured Transactions & Collateral Registries Ethiopia	Finance and Markets	0.5
601584	Ethiopia Scaling Solar	Cross-Industry Advisory Services	2.1
601633	Ethiopia Nespresso Coffee	Manufacturing, Agribusiness & Services	3.2
601995	LUNA Livestock and Out-Grower Development Project	Manufacturing, Agribusiness & Services	3.0
Grand Total			22.0

Annex 7: MIGA Portfolio

Management Sector	Investor Name	Project Name	Business Sector	Region Name	Host Country	Investor Country	Priority Area	Risk Covers	Gross Exposure (US\$)
AGS	Industrial Development Corp. of South Africa	Africa Juice TSC	Agribusiness	Sub-Saharan Africa	Ethiopia	South Africa	IDA	TR;EXP,WCD	4,782,501
AGS	Africa Juice BV	Africa Juice TSC	Agribusiness	Sub-Saharan Africa	Ethiopia	Netherlands	IDA	TR;EXP,WCD	4,092,000
AGS	Mr. Dirieh Ali Mawel	Alvima Import and Export PLC	Manufacturing	Sub-Saharan Africa	Ethiopia	Djibouti	IDA	EXP,WCD	5,409,468
Grand Total									14,283,969

Annex 8: Spatially Inclusive Growth in Ethiopia

The World Development Report in 2009, “Reshaping Economic Geography,” put forward a policy framework to gauge spatially inclusive development. Combining this with insights from literature on pro-poor growth, a background study to the CPF evaluated Ethiopia’s current challenges and suggested policy options to ensure spatially inclusive development. This study primarily defined the way the CPF will try to address the spatial challenges in Ethiopia over the next five years. The note found that poverty and human development indicators display spatial disparities across and within regions in Ethiopia. While agricultural growth has contributed significantly to overall GDP growth, access to key inputs driving agricultural growth is not evenly distributed across regions. Similarly, medium and large-scale firms are also concentrated in a central belt in Ethiopia, with the concentration increasing toward the capital and toward the north. Finally, development of roads over a ten-year period between 2006 and 2016 displays the same pattern of concentration toward the center and north of the country. This suggests that remote areas lag behind and have not been able to catch up in relation to the rest of the country. These findings are in line with the key message of the WDR 2009: growth tends to be unbalanced.

Spatial development outcomes can be increased through interventions in three areas:

Expanding productivity in the agricultural sector. An important way to integrate rural populations into the growth process is by engaging them in the agricultural sector, as agriculture has been and will be one of the key drivers of rural growth, poverty reduction and employment. When GDP was growing at an annual rate of 10.7 percent over the last decade, the agricultural sector grew at an average annual rate of 7.6 percent and accounted for 47 percent of GDP on average. It was the largest contributor to GDP until services took over in 2010/2011. Within agriculture, growth was dominated by the crop production subsector. In contrast to other countries, there is no single dominant crop in Ethiopia, although primary products, mainly coffee and oilseeds, make up most of the export earnings. Therefore, the story of Ethiopia’s remarkable growth has been linked to the strong growth in the agricultural sector, and agriculture will remain critical to engage a large part of the population into the growth process.

More connective infrastructure to increase market access for farmers and more and better services through spatially neutral institutions (national programs). The SCD found that poor market access for farmers is a binding constraint to rural income growth, which is consistent with the WDR 2009 framework that rural connectivity is key in overcoming spatial inequalities. Road infrastructure is a major, but not the only, constraint to market access. Although the national roads network in Ethiopia quadrupled in size from 1997 to 2015, road density in Ethiopia remains the lowest in Africa. Cross-country regressions predict that the best policy for growth going forward is continued infrastructure investments to address this deficit. Further road investments have the potential to accelerate poverty reduction for the poorest households who carry the largest burden of remoteness. Poverty rates increase by 7 percent with every 10 kilometers of distance from a market town. From 2005 to 2011, agricultural growth caused poverty to fall by 4 percent for those far from urban centers compared to a 26 percent decline in poverty rates for those living closer to cities. If these results can be extrapolated, poverty would have fallen six times more quickly for remote households had their travel time to urban centers been reduced through improved transport options. Efficient markets, that allow farmers to purchase inputs at low prices and receive a fair price for the goods they produce and sell, provide incentives for agricultural investment. Addressing remoteness also helps increase rural nonfarm income growth. Both of these can be addressed by strengthening satellite cities in areas with dense rural populations. This will have the effect of increasing market access and opportunities. Analysis on the continuous effects of connectivity on employment show that well-connected rural *woredas* perform better, highlighting

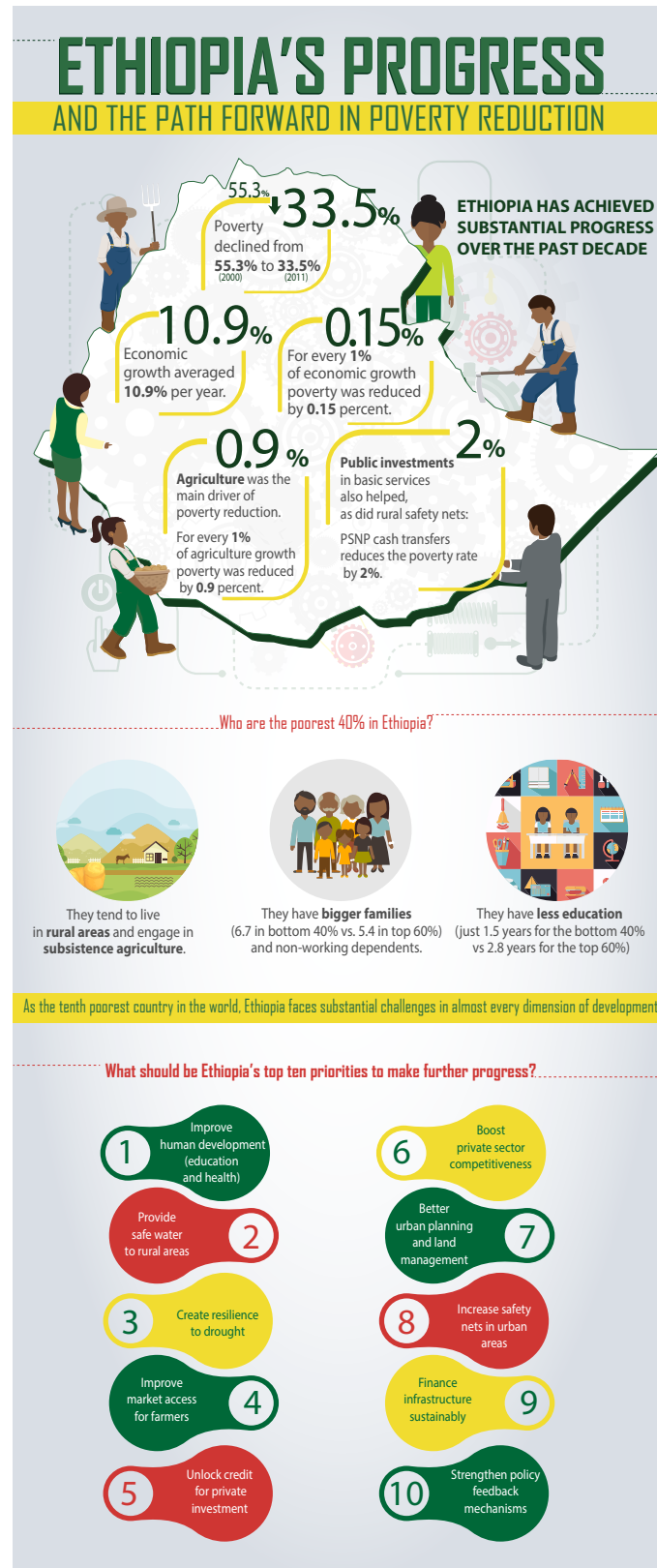
the importance of connectivity to promote spatially inclusive growth. In sum, microeconomic evidence finds that remoteness is the second-most cited constraint to rural income growth.

Ethiopia should also strengthen spatially neutral institutions that provide services of equal quality to all populations in all areas through national programs. Such institutions are the vehicle to provide basic amenities and social services to all residents, regardless of their location, social group or economic status. According to the WDR 2009, spatially neutral institutions that will facilitate economic density should be the bedrock of integration policies. In cases where it is not yet clear which places will be favored by markets, neutrality between places is important. Spatially neutral institutions involve the range of programs, policies and expenditure priorities of the public sector that intend to enable all residents to achieve their full potential as individuals—basic education, primary health, safe water and sanitation, access to infrastructure, and security. Institutions also include those that enable markets to function—those that allow businesses to flourish. Institutions that provide basic services, especially in remote/lagging regions need capacity building support to ensure efficient delivery of services. This is important to ensure that spatially neutral policies driven by the federal government can yield homogeneous results across the board.

Actively managed urbanization. Ethiopia's prospects for spatially inclusive growth critically depend on urban planning and urbanization as this process facilitates structural transformation and high productivity jobs creation. Urbanization could be an important catalyst to promote growth, create jobs, and connect Ethiopians to prosperity. But rapid urban population growth may also pose a demographic challenge as cities struggle to provide jobs, infrastructure and services, and housing. Integrated planning and improved land management to facilitate investments in infrastructure and services will be essential to ensure urbanization is better managed. Rigid and static land use planning, typical for many countries, is giving way to more market-responsive systems, and the current Ethiopian Urban Plan Preparation and Implementation Strategy already signals a positive shift. In addition, more and better urban safety nets can help to make the urbanization process more inclusive.

Secondary cities can be engines of growth and job creation, particularly if they can facilitate labor-intensive industries. Agglomeration matters for firm performance. A percentage point increase in the clustering of firms of the same industry within a city leads to an 8.3 percent increase in employment growth. Clusters with higher levels of inter-industry diversity lead to higher probability for faster growth by incumbent firms, irrespective of their size or ownership. In fact, the depth and variety of skills needed to fulfil the targets of GTP II and transform Ethiopia into a manufacturing hub are more likely to be found in or close to cities, where there is a diverse labor pool. In addition, activities that are part of global value chains are likely to be found in mostly large cities. Yet, while cities in Ethiopia already play an important role in the economy, contributing 38 percent to gross domestic product (GDP), they only employ 15 percent of the total workforce. One reason for this is the capital intensity of production. Rapidly growing cities such as Mekele and Sebeta attract industrial firms primarily in medium and high capital-intensive industries, while larger, more well-established economic centers such as Dire Dawa attract more labor-intensive industries. But these smaller, secondary cities need to be at the forefront of the rural-urban transition, and for that more labor-intensive industries will be needed in those cities to increase the possibility for more balanced, spatially inclusive growth. Addis Ababa is still the number one choice for migrating rural dwellers, with around 40 percent of them migrating to Addis Ababa in the five years prior to 2013.

Annex 9: Systematic Country Diagnostic (SCD) for Ethiopia



Annex 10: Donor Mapping⁵³

		Active in sector during FY16–FY17		Planning new engagement during FY16–FY17		Leaving sector during FY16–FY17		Following sector, but not actively supporting		DPS active in sector during FY16–FY17		DPS planning next engagement during FY16–FY17		DPS leaving sector during FY16–FY17																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
Sectors	Sub-sectors	African Development Bank	Austria	Australia	Belgium	Canada	Denmark	European Union	Finland	France	Germany	International Fund for Agricultural Development (IFAD)	International Monetary Fund	Ireland	Israel	Italy	Japan	Korea International Cooperation Agency (KOICA)	Netherlands	Norway	Spain	Sweden	Switzerland	Turkey	United Nations AIDS Programme (UNDP)	United Nations Development Programme (UNDP)	United Nations Population Fund (UNPFA)	United Nations High Commissioner for Refugees (UNHCR)	United Nations Children's Fund (UNICEF)	UN Women	United Kingdom	United States of America	World Food Programme (WFP)	World Health Organization (WHO)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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⁵³ This table does not include some of the important emerging development partners such as China and Saudi Arabia.

[illegible]

Annex 11: Gender Filter for the World Bank Group Ethiopia Portfolio

Overview and Objectives

The World Bank Group's corporate gender ratings for the Ethiopia portfolio indicate that 94 percent of operations approved during the FY13–FY16 CPS period were rated as gender informed across all three scoring dimensions: analysis, actions, and M&E. However, these ratings provide a very low bar and do not distinguish between superficial ("box ticking") inclusion of gender in PADs and a deeper integration of gender issues that really adds value to projects by facilitating the achievement of development objectives. The need to deepen the approach to gender is all the more urgent in Ethiopia, given: (1) the country's relatively poor performance across many gender issues, such as maternal mortality, fertility, gender gaps in education, gender gaps in the labor market and in entrepreneurship, gender-based violence/female genital mutilation, women's lack of representation in leadership positions and women's lack of voice generally; and (2) the decision by the Gender Cross-Cutting Solutions Area (CCSA) to put in place a new system for monitoring gender in operations (the "gender tag") which places greater emphasis on identifying projects which employ a coherent approach to gender through the entire results chain.

To ensure that operations deepen attention to gender, so as to improve the effectiveness of projects, the CMU will implement a gender filter. The filter is intended to act as a guide to help task teams ask the right questions, as early as possible in the design stage of operations,⁵⁴ while imposing a minimal additional work burden.

Implementation

The Ethiopia gender filter will be implemented by the Ethiopia country gender focal point. The gender focal point will engage with task teams early in the design stage (before formal concept note) and provide their expertise to make project design more gender friendly, broadly guided by the questions listed in Section 4.

The gender focal point will provide the following support at the design stage: (1) meeting with team members to help them think through the potential gender aspects of the project prior to writing the concept note; (2) written inputs for/comments on project documents before and after review (CN, PAD); (3) attending project review meetings (virtually or in person) to ensure wider discussion and awareness of key gender issues and of the objectives of the gender filter; and (4) connecting the project team to additional gender experts (World Bank staff, client staff, NGOs, academics) where this can provide added value.

Depending on demand and budget availability, a selected number of projects may also be provided with implementation support. Such support may include the country gender focal point: (1) joining project supervision missions; and (2) providing inputs for and comments on mid-term and completion reviews.

During all stages of engagement with task teams, filter inputs will be as concise, operationally relevant (directly linked to project development objectives and results), and actionable as possible. Lessons from the implementation of the governance, conflict, and gender filter for the World Bank's Nigeria portfolio show that this is essential to maximize the likelihood that filter inputs gain traction.

⁵⁴ The initial proposal is for support to operations. The experience of a similar filter used with the World Bank's Nigeria portfolio suggests that influencing analytical work is more problematic.

M&E

Outcome/Output	Indicator	Target (end FY18)	Target (end FY19)
Outcome indicators			
Improved effectiveness of World Bank's portfolio in Ethiopia	% of new project concept notes which reflect inputs from gender filter (among those for which inputs were provided)	50	75
	% of new project PADs which reflect inputs from gender filter (among those for which inputs were provided)	50	75
	% of projects which adjusted activities during implementation to reflect advice from gender filter (among those for which adjustments were recommended)	50	75
Output indicators			
Increased resources directed to gender mainstreaming of the World Bank's Ethiopia portfolio	% new projects which receive inputs from gender filter during project design	50	75

Ethiopia Gender Filter Guiding Questions

The inputs provided by the gender filter will be guided by the questions presented in the table below.⁵⁵

Question Group 1: Framing the Problem	
Question	Comments/additional details
Is the problem at the heart of the development objective rooted in or worsened by gender roles and disparities, even if the problem is not, on the surface, a gender issue?	For example, if the main problem is access to transport, but it may be exacerbated for women because of their personal safety concerns.
Are there specific groups of women and men affected by different gender roles and disparities?	For example, different issues by ethnicity, region, religion, marital status, or for migrants.
Does the operation draw on existing gender data/analysis or will it carry out new data collection or consultations to inform the design?	
Does the project use clear language and include explicit details of the gender-related issues that have been identified?	For example, the project should avoid using vague language such as: "women are a vulnerable group." Instead the project should explicitly and clearly state what the constraints are that women face and how these are relevant to achievement of the project objectives.

(continued)

⁵⁵ These questions have been adapted from those used in the Nigeria "Governance, Conflict and Gender Filter," which was developed for the World Bank's Nigeria portfolio in FY2012 and funded by DFID through the Governance Partnership Facility (GPF).

Question Group 2: Tailoring the Solution

Question	Comments/additional details
Does the design of the project account for the specific gender dynamics among specific groups of women and men?	For example, different issues by ethnicity, region, religion, marital status, or for migrants.
Does the project propose specific actions to address the distinct needs of women and girls (or men and boys) identified in analysis?	
Does the project use clear language and include explicit details of how the project design responds to the specific needs of women and men as identified in analysis.	For example, the project should avoid using vague language such as: “there will be a focus on women” or “women’s participation will be encouraged.” Instead the project should clearly and explicitly state how its intentions to address gender issues will be achieved.
Does the project include provisions in the plan of acquisitions and/or operations manual to promote gender equality in economic opportunities (employment, SMEs service provision, etc.), through the contracting/acquisitions process?	

Question Group 3: Implementation

Question	Comments/additional details
What incentives exist for counterparts to deliver on gender aspects? Are sufficient accountability mechanisms in place?	For example, indicators on the gender aspects of the project are clear and measurable and are included in the core project results matrix against which the overall success of the project will be rated.
What resources (including staff) is the counterpart employing to oversee implementation of gender aspects?	For example, has the gender focal point in the counterpart’s ministry been placed on the core project team in the PIU? Is there a specific gender budget for the project?
Is there a gender expert in the core project team at the level at which the project is actually being implemented?	For example, if the project is being implemented by regional level counterparts, but a project member with gender expertise is sitting at the federal level, the project should explain how the team can be confident that implementation on the ground of the gender aspects will be sufficiently overseen.
Does the project intend to use citizen engagement to monitor implementation? If so, what measures are proposed to ensure that women and men are heard?	

Question Group 4: Risks	
Question	Comments/additional details
Is the project expected to cause a change in gender dynamics?	For example, by giving women greater control over household resources.
If so, how are different parties expected to react?	For example, is it expected to lead to tension between husbands and wives or to cause an increase in domestic violence?
Could project activities expose beneficiaries to a greater risk of gender-based violence?	GBV may include intimate partner violence (IPV), sexual assault, female genital mutilation, or child marriage. For example, IPV may result from empowering women or activities perceived as threatening men's/ women's traditional roles, and sexual assault risks may increase as a result of migration of male workers to work on project activities in areas far from their families. For more detailed guidance on GBV risks and potential risk mitigation measures, see: http://www.vawresourceguide.org
What measures are proposed to mitigate any gender related risks?	
Question Group 5: Results and Learning	
Question	Comments/additional details
Does the project monitor beneficiary impact by sex?	This does not mean number of beneficiaries by sex, but differences in outcomes for women and men (e.g., change in income, assets, employment, health, learning, etc).
If there is a target for female beneficiaries, how was the target decided upon?	Is the target realistic? Is the target unambitious? What is the current level of women's participation in the specific sector/industry/activity that the project is targeting?
Will sex disaggregated and gender indicators be captured not only in PAD but also in ISRs/ICR?	
If there is a gap in the evidence base on the gender constraints likely to impact achievement of project objectives; can the project help to fill this gap through data collection and/or impact evaluation?	

Annex 12: CPF Consultations

The CPF has been developed in partnership with the GoE and reflects close consultations with a broad range of stakeholders. Consultations for the CPF took place during the period May 2016 through February 2017, focusing on how best to leverage the comparative advantage of the WBG and other development partners to support Ethiopia's development objectives as articulated in GTP II and maximize the impact of the WBG during this CPF period.

The preparation of the CPF also benefited from meetings with stakeholders during preparation of the CLR. These discussions took place in May 2016 and focused on soliciting feedback from which to draw lessons from implementation of the CPS (FY13–FY16).

Engagement with stakeholders focused on how the WBG can best support the development goals of the GTP II while maximizing the effectiveness of the WBG resources—financial support, knowledge work, and the WBG convening role. Between May 2016 and February 2017, three individual rounds of consultations were conducted in Ethiopia. This outreach was conducted in a variety of formats including formal and informal consultations, multi-stakeholder engagement, public outreach, country opinion survey, and blog contest.

Formal consultations: Meetings took place with the Ministry of Finance and Economic Cooperation (MoFEC), as well as a broader engagement with a full array of federal government ministries and departments. These discussions were intended to confirm the relevance of the proposed strategic focus for the CPF and the proposed interventions to achieve them. In addition to meetings with federal-level officials, CPF teams traveled to regional capitals to engage with government officials from Amhara, Oromia, Gambella, Somali, Harari, Tigray, Afar, SNNPR, Benishangul Gumuz, as well as Dire Dawa. Discussions focused on regional-level development priorities.

Informal consultations: Meetings with bilateral and multilateral development partners were intended to identify opportunities for complementarity and strengthened partnership, as DPs were in the process of preparing their respective strategy documents to guide their engagement with Ethiopia. A number of DPs expressed appreciation for the WBG analytical work (notably the SCD and Great Run report) and the opportunity to be consulted on the proposed focus areas of the CPF.

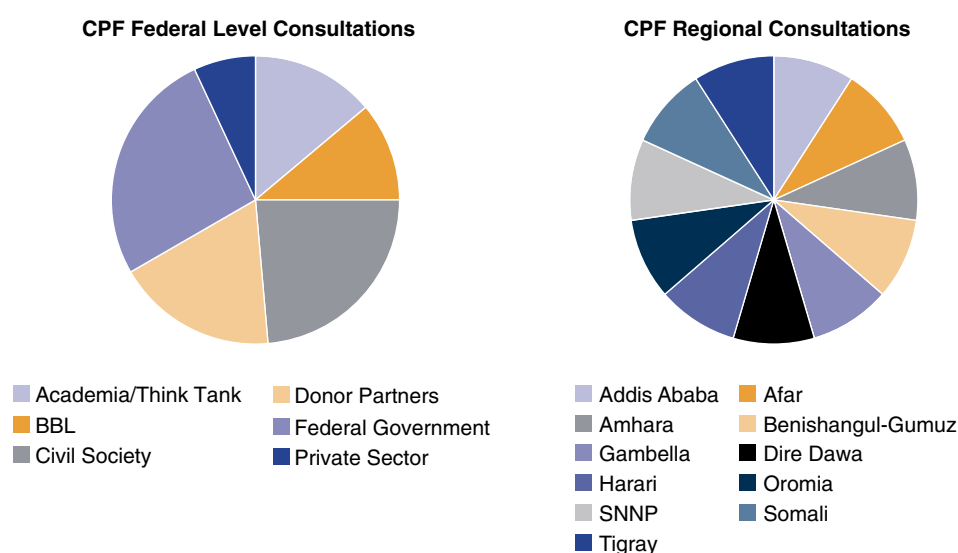
Multi-stakeholder engagements: The WBG CPF team met with representatives of the Ethiopian private sector, civil society organizations, academia and think tanks, which yielded a rich array of comments and suggestions for the World Bank's engagement in Ethiopia.

Public outreach: To complement the consultations with government officials and the groups listed above, the WBG also sought the views of Ethiopian citizens on the challenges and opportunities facing Ethiopia, areas in which the WBG should focus its efforts, and how best to support the GoE aspiration to achieve lower middle-income status by 2025. An on-line consultations platform was created on the World Bank's Ethiopia Country website, which allowed for anonymous comments and suggestions on the CPF. By the end of the month-long consultation period (August 8–September 8, 2016), 665 comments had been submitted. Posts addressed issues such as governance, political freedoms and distribution of wealth in Ethiopia; corruption and institutional capacity; the need to transform agriculture; weaknesses in the education system; and liberalization of trade, the financial sector and economic competitiveness.

A Country Opinion Survey (conducted in FY15) solicited feedback from 290 stakeholders spanning the full range of government, civil society, academia and the private sector. A total of 146

stakeholders participated in the survey—a 50 percent response rate—answering questions on such topics as their familiarity with the WBG, was Ethiopia headed in the right direction, Ethiopia’s development priorities, overall effectiveness of the WBG as well as effectiveness of the WBG in sectoral areas, and how to make the WBG of greater value. Questions also sought views on activities to which the WBG brought the greatest value and which WBG instruments were the most effective and which sectors were most important for reducing poverty. There were particularly strong responses to questions on the “WBG’s greatest weaknesses” in its work in Ethiopia; as well as questions on sectors in which the WBG is effective, the relevance of the WBG role in development in Ethiopia.

A blog contest was held during summer 2016 to invite Ethiopian youth to share innovative ideas on their vision for the country’s development agenda. The WBG Ethiopia Country Office launched the competition framed about the question ‘How Ethiopia can reach middle income country status without leaving anyone behind?’ More than 100 university students submitted entries and three winners were selected. Each of the three winning blogs was posted on the World Bank internal website.



Across the various groups of stakeholders, common themes and priorities emerged:

- Strengthen the **early years’ agenda** by focusing on a package of interventions on **basic education, maternal and child health, and nutrition** for early stimulation and cognitive development.
- Focus on **youth, especially women** by providing access to financial services and credit, setting up centers of excellence, providing skills training in the manufacturing sector, as well as training in professional life skills, to fully capture the country’s demographic dividend.
- Enhanced business climate with better access to finance, infrastructure, and reliable energy is needed to encourage the *domestic* as well as foreign **private sector**.
- Attention to **secondary cities and small towns** is important—including support for roads, water and sanitation, basic service delivery, as well as focus on the small and medium enterprises to help build a vibrant private sector that will create jobs.

- Since **agriculture** continues to be the backbone of the economy, there needs to be a focus on improving productivity, providing market access, and encouraging farmers to take up measures that encourage moving from subsistence to commercial farming.
- Continue and strengthen the program on **social safety nets** and especially in areas that are hosting a large population of refugee communities from neighboring countries.
- Restore degraded landscapes and improve **resilience to natural disasters** by providing alternative means of livelihoods as well as **sustainable sources of energy**.
- Strengthen **citizen engagement**, not just in World Bank projects, but also build platforms that create accountability, transparency and greater public participation.

Annex 13: Informational Annex on Forced Displacement in Ethiopia

Background

Key Elements of Context

With about 800,000 refugees, Ethiopia hosts the fifth largest refugee population in the world and the second largest in Africa, after Uganda. In a region affected by conflict and violence, and in spite of its own difficulties, Ethiopia has maintained a generous “open door” policy to refugees, which has deep roots in the country’s history and is consistent with its ambitions on the regional scene. Most refugees are hosted along Ethiopia’s borders, often in isolated and lagging regions, with over 20,000 residing in Addis Ababa and other urban centers.

Ethiopia’s hosting of refugees is taking place against the backdrop of a fast growing economy. Ethiopia remains a low income country with poor human development indicators, significant challenges in creating jobs for a young population, and a susceptibility to climate shocks (including a likely drought in 2017). Yet its economic progress over the last decade provides a favorable environment for socio-economic inclusion, even though most refugees are located in peripheral regions that are still in the process of “emerging.” There is a strong opportunity, increasingly recognized by the Government, to link a response to the refugee crisis to its job creation agenda and its regional development strategies, notably for the four “emerging regions” where most refugees are hosted.

Ethiopia is one of the hosting countries that most relies on camps:

- ***Most refugees are accommodated in 25 camps located across the country.*** The camps are managed by the Administration for Refugees and Return Affairs (ARRA,) with support by UNHCR and other humanitarian partners. ARRA is also part of the National Intelligence and Security Service (NISS) and operates with a great degree of autonomy. UNHCR contributes to the financing of ARRA’s humanitarian role.
- ***Refugees have limited socioeconomic rights.*** They are expected to remain in the camps (and are subject to arrest if they move without a ‘camp pass’); they do not have the right to work (which is relatively well enforced), and they cannot open bank accounts, obtain a driver’s license, etc. They survive on humanitarian aid (food provided by the World Food Program and nonfood items mainly by UNHCR), which in some situations has created a dependency syndrome. Services (e.g., education, health, water) are delivered through a parallel system coordinated by ARRA with minimal involvement by line ministries.
- ***The reality on the ground is complex and often dire.*** In a context of shrinking humanitarian resources, food rations have been reduced and acute malnutrition is high in many camps (with a peak at 23 percent in the Southwest Gambella region). A number of refugees are engaged in informal activities, but this can be difficult when camps are located in remote areas, far away from production and urban centers, or when refugees lack the ability or skills to work. The concentration of refugees in a few places is also heightening their impact on host communities—both negative (e.g., on the environment) and positive (e.g., trade opportunities). There are often significant inequalities in access to services between refugees (who benefit from external assistance) and host communities, and there is significant scope for efficiency gains by rationalizing parallel service delivery systems.

Onward movements by refugees have raised significant concerns within the international community. A number of refugees who are initially hosted by Ethiopia engage in further movements toward Europe, the Middle East, or Southern Africa. International efforts to halt these onward movements (especially to Europe) are mainly driven by domestic political considerations in OECD countries, which are not directly relevant to development organizations. In fact, secondary movements are often akin to a process of economic migration through which individuals move to an environment where they believe they can have a better income. The economic literature has demonstrated that such movements typically have an overall positive impact on both migrants and host countries. However, in the case of refugees traveling from Ethiopia to Europe or the Middle East, there have been repeated reports of brutality and exploitation during the journey, which are a legitimate source of concern for both humanitarian and development organizations.

The refugee crisis has some significant gender elements. Overall, the conditions for women and girls are often very difficult. Gender-based violence, survival sex, and early marriages are relatively prevalent. Of particular concern to refugee women are the poor state of services for maternal health and the lack of viable economic options for their daughters (even when they have access to education in camps). Men and women may also have different preferences for the future (e.g., some Somali women would prefer to stay while their husbands hope to return). Overall, this dimension can easily be overlooked in an environment where most local stakeholders and decision makers are male.

Overall, the situation is complex, with marked differences between various refugee populations, in terms of their size, demographics, impacts, and prospects:

- ***About 350,000 South Sudanese refugees live along the Southwestern border*** (Gambella Region). This is an ongoing and growing crisis, with a continued flow of arrivals (several hundreds to thousands of people per week) and concerns that the numbers could grow by an additional 125,000 people by the end of 2017. About 90 percent of refugees are women and children (about 70 percent children), with men often staying in South Sudan while sheltering their families in Ethiopia. This group is largely illiterate, with a background of subsistence agro-pastoralism, and a relatively high incidence of trauma. They are largely dependent on the provision of humanitarian assistance. About 19 percent of the South Sudanese refugees are unaccompanied minors, who are typically taken care of by foster families (who are not compensated for their generosity).

South Sudanese refugees outnumber the host population in the entire Gambella region (estimated at about 300,000). This is exacerbating long-standing tensions which can easily be inflamed, in an environment of endemic violence and raids from violent groups based in South Sudan (to steal cattle and children). Additional social tensions result from the reallocation of fertile land to industrial (mechanized) farms and the corresponding displacement of entire communities. Overall, the host population lives in poverty (from subsistence agriculture and pastoralism) with very limited access to basic services.

Looking ahead, there is no clear prospect for a satisfactory socioeconomic solution. Considering the situation in South Sudan, return is unlikely in the short to medium term; inclusion within the host community is difficult in view of the numbers and the fragile social fabric of the region; relocation to another part of Ethiopia would likely cause a tragedy for a population that only speaks Nuer; and long-term confinement in camps is likely to be detrimental to all.

- ***About 250,000 Somali refugees live along the Eastern border*** (Somali region). They fled as entire households, and often clans. Most have arrived after the 2008 drought (as earlier waves had largely repatriated), although some have been in the region for more than 25 years. About 200,000 of them live in 5 camps across the Dollo Ado area in one of the poorest and most remote parts of

Ethiopia. The remaining 50,000 live in camps located in the vicinity of Jijiga (the region's capital). There are marked differences in their background (e.g., urban, agro-pastoralism), their geographic and clan origin, and their current situations (e.g., opportunities, informal economic activities). Overall, their industriousness is often hampered by their isolation in a difficult environment with no access to land. Some of them embark in onward movements. Access to services is also limited (e.g., in a very young population, 48 percent of school-age children are out of school).

Host communities also live in deep poverty, with less aid and often less access to services. Refugees represent about 4 percent of the region's population, but can be a majority in the vicinity of camps. Anecdotal evidence suggests that some Ethiopian Somalis also come to settle near camps to take advantage of the opportunities associated with aid and remittances. There is no significant tension between refugees and their hosts who are linked by a common culture and clan system. The Government is however taking a strong security stance in the region, with particular concerns regarding the possible infiltration or recruitment of young refugees by extremist groups. Also, the presence of refugees has typically not been factored in regional development plans.

Looking ahead, past experience suggests that some of these refugees may return to Somalia once the political and economic situation in their region of origin or in large urban centers improves; some may try to stay in Ethiopia, although the medium-term economic viability of the areas where they currently live is questionable; and some may opt for “split family” strategies, with breadwinners moving to locations of higher opportunity, and the rest of the family staying close to externally-provided services.

- **About 150,000 Eritrean refugees live mainly along the Northern border** (Afar and Tigray regions). They are mainly young, male, single, with a basic education, an often traumatic background of violence, and a pervasive sense of hopelessness. Most of them are on their way to further destinations: about 40 percent stay in camps for less than 3 months and about 80 percent stay less than a year. A number of those who stay are living out of camps, including in urban environments, either regularly or not. About 25 percent of refugees are unaccompanied minors, including a relatively large share between the age of 9 and 15, for whom there is no satisfactory care arrangements.

There is no significant tension with host communities due to the small number of refugees, strong cultural ties, and the region's relative prosperity. The Government has also adopted a relatively welcoming approach, in the context of its difficult relationship with Eritrea. Since 2010, the Government allows some Eritrean refugees to live out of camps (those who have the means to support themselves, and university students).

Looking ahead, prospects for return are limited in the short to medium term, and those refugees who are not engaging in onward movements may look for a degree of socioeconomic inclusion in Ethiopia.

Ethiopia is also host to other groups of displaced persons, including about 50,000 Sudanese (along the border), a small but potentially growing group of Yemenis, and other nationalities. About 20,000 of the refugees live in urban centers, although with no access in the formal sector. In addition, about 450,000 Internally Displaced Persons (IDPs) live in Ethiopia as a result of communal violence, as well as natural disasters. And about 86,000 Ethiopians are refugees abroad, mainly in Sudan.

Finally, Ethiopia is likely to continue to receive inflows of refugees. Over the last 25 years, Ethiopia has received successive waves of refugees from the East, the North and the West. Over the next decade, most of Ethiopia's neighbors are at risk of facing some kind of instability or conflict. Consequently, the challenge is not only to deal with existing situations, but also to develop an effective approach in managing such repeated inflows over the medium term.

The Government's Approach

Ethiopia has demonstrated over several decades its generosity and commitment to providing adequate protection to refugees. The country should be commended for the efforts made over such a long period of time, in spite of limited external support and a difficult regional environment. Ethiopia's hosting of refugees is part of a broader regional policy, which aims to stabilize a troubled Horn region, reduce the threat of violent extremism, and show leadership in Africa.

The Government has realized the limitations of a policy focused on encampment. Under the assumption that refugees would stay in the country for a limited amount of time before returning to their home country, Ethiopia and its partners have long relied on a camp policy, whereby refugees are assigned to camps with very limited socioeconomic rights. Under this system, the authorities provide land for the camps with the expectation that external partners will provide for the needs of an encamped population, and a dedicated agency (ARRA) manages a parallel system of service delivery for refugees. Yet many refugees have stayed and are staying for extended periods of time. In such situations, the camp approach becomes counterproductive for the refugees themselves who are reduced to idleness and dependency, but also for Ethiopia and the world at large, as a disenfranchised and frustrated new generation emerges.

The Government has embarked on an ambitious and possibly "game changing" reform which aims to allow for the eventual socioeconomic inclusion of refugees. The Prime Minister has articulated an emerging vision that refugees should be gradually allowed to live out of camps, work, access mainstream education and health services, cultivate land, and for those who have spent more than 20 years in Ethiopia, even be provided with a formal (legal) integration. This represents a marked shift in a decades-old approach. It could have significant benefits for both refugees and Ethiopia, even though it is expected to be implemented gradually over a period of time (and some groups of highly vulnerable refugees are likely to need continued humanitarian support over the medium term).

During the September 21, 2016 Leaders' Summit organized by then-US President Obama, Prime Minister Hailemariam Desalegn committed to nine pledges to start operationalizing this vision, subject to the availability of external resources to finance some of the most ambitious components of this effort, especially the establishment of industrial parks. Detailed pledges include: (i) expand Out of Camp policy to benefit 10 percent of the total refugee population; (ii) provide work permits to refugees with permanent IDs, and graduate refugees (in areas permitted for foreign workers); (iii) increase the enrollment of refugee children from about 148,000 to 213,000 students; (iv) make available 10,000 hectares of irrigable land; (v) allow for legal integration of refugees who have lived for more than 20 years in Ethiopia; (vi) build industrial parks that could employ up to 100,000 individuals with 30 percent of the jobs reserved for refugees (this pledge is part of a "Jobs Compact"); (vii) strengthen, expand, and enhance basic and essential social services for refugees (including health services); (viii) provide facilities for refugees to obtain bank accounts, driving license, etc.; and (ix) provide birth certificates to children of refugees born in Ethiopia.

At the local level, authorities are aware of the opportunities and challenges. Officials recognize the economic gains related to the presence of refugees; they are aware that negative impacts are heightened by the camps policy (e.g., on the environment); they often tolerate a degree of *de facto* economic inclusion; and in some cases they even provide (limited) agricultural land (e.g., in Dolla Ado). Yet there are also concerns about the transition to a more inclusive policy in terms of labor market competition, social cohesion, and security.

Ongoing Assistance Programs

A number of humanitarian actors have been engaged for several decades in supporting Ethiopia on refugee issues (e.g., European Community Humanitarian Aid Office [ECHO], WFP, UNHCR, and key bilateral agencies). In the context of a protracted situation, and with competing crises in other parts of the world, many such partners are expecting resources to shrink in the coming period and to be focused on the South Sudan emergency. Support has also been provided for a relatively large resettlement program (involving about 20,000 people a year), which has provided hope (and raised expectations) for many refugees, but is now at risk following recent policy shifts in the US.

Development actors have engaged more recently, with a focus on reducing onward movements. The European Union and a number of bilateral European agencies are implementing a series of interventions explicitly aimed at reducing such movements, by enhancing refugees' living conditions in Ethiopia. Key actors include DFID, which is spearheading an effort to create jobs through industrial parks ("Jobs Compact"), the European Investment Bank (EIB), which has pledged to support the Jobs Compact, as well as the European Commission and several bilaterals who are engaged in areas hosting Eritrean and Somali refugees. Overall, beside the DFID program (Great Britain Pound [GBP] 125 million), the main source of funds is a Euro 30 million EU-administered trust fund. Other bilateral contributions are significantly smaller. Refugee-focused programs are only part of a broader international effort to support Ethiopia, which includes many interventions, including some in refugee-hosting areas.

Selected Lessons from WBG Experience

Within the broader context of the Country Partnership Framework (CPF), the WBG has engaged in a number of activities that can provide lessons for a scaled-up engagement on forced displacement. These include: a US\$100 million Development Response to Displacement Impact Project (DRDIP) aimed at improving access to basic social services, expanding economic opportunities, and enhancing environmental management for communities hosting refugees through community-driven development; a series of interventions in emerging regions targeted to strengthen decentralized government administrative functions; and a series of projects in key sectors (e.g., education, health, social protection, agriculture, and urban development).

Key lessons include: (i) the Government often proceeds through a gradual approach to reforms, with a strong emphasis on evidence-based policy making and disciplined implementation; (ii) institutional capacity, especially in emerging regions is low, including to implement projects; (iii) due attention needs to be paid to the relationship between the federal government and the regions; (iv) community-driven approaches have demonstrated their potential in providing support at the local level (for both economic opportunities and service delivery), but the demand side of accountability can be further improved.

World Bank Group Engagement

The WBG engagement on forced displacement in Ethiopia could potentially be supported by a request to the IDA18 sub-window for refugees and host communities. Ethiopia is likely to be eligible given its overall supportive policy environment. Individual country allocations are yet to be set, but as a large host country, Ethiopia is expected to benefit from substantial amounts of resources under the sub-window. A full request for eligibility to access such resources is expected to be presented for Board discussion by Fall 2017.

The WBG engagement on forced displacement is part of a broader international effort, which includes both humanitarian and development components. The WBG will need to work in close partnership

with other actors, including UNHCR, for its interventions to be effective. The Comprehensive Refugee Response Framework (CRRF), for which Ethiopia is a pilot, could provide the overall framework for such coordination and synergies.

WBG Corporate Approach and Comparative Advantage

The overall WBG's approach is focused on the medium-term socioeconomic dimensions of forced displacement. This approach was endorsed by the Development Committee during the 2016 Spring Meetings and is central to the WBG's development mandate, its efforts to achieve the Sustainable Development Goals (SDGs), and its own goal of eradicating extreme poverty by 2030. It is complementary to, but distinct from, the humanitarian approach, which is centered around a rights-based protection agenda and short-term crisis responses. The WBG aims to help the forcibly displaced offset the specific vulnerabilities they have acquired through their displacement experience, so as to be able to seize economic and social opportunities that may be available in the environment where they live. It also aims to support host communities manage their poverty reduction efforts in an environment that has been transformed by an inflow of forcibly displaced persons.

Additional guidance was provided during the negotiations for the IDA18 replenishment. The sub-window for refugees and host communities is a highly visible part of IDA18. The goals of the sub-window are: (i) to mitigate the shocks caused by an influx of refugees and to create social and economic opportunities for refugees and host communities; (ii) to facilitate sustainable solutions to refugee situations; and (iii) to strengthen preparedness for increased or potential new refugee flows. It aims to support a programmatic approach that goes beyond projects and includes a strong element of policy dialogue.

In supporting the GoE's response to the protracted situation, the WBG's comparative advantages are threefold: (i) its capability to offer integrated solutions that bring together policy dialogue, technical assistance, and investment finance; (ii) its experience in designing and implementing development responses to a broad range of problems, with a focus on government ownership and medium-term sustainability; and (iii) its convening power to facilitate dialogue with economic institutions (within the context of the implementation of its broader program in Ethiopia) and its ability to encourage ministries and other entities, which have not been engaged in this area, to do so.

Overall Development Objective

The proposed overall objective of the program is to support the Government's policy shift from a focus on encampment to a sustainable management of refugee situations within a medium-term perspective, which (1) gradually provides out of camp opportunities for the socioeconomic integration of refugees; (2) improves economic opportunities and service delivery for host communities; (3) builds the human capital of the next generation; and (4) transitions away from humanitarian aid where relevant. This is in line with the Government's overarching approach, as restated by Prime Minister Hailemariam Desalegn during the Sept 21, 2016 Leaders' Summit.

This objective can be further articulated along each of the four proposed "business lines":

- ***Providing out of camps opportunities*** will likely require a combination of policy reforms and investments, to allow for: freedom of movement (and residence), work permits (and associated rights (such as to open a bank account, own land, enter into a contract, etc.), skills development, and the creation of job opportunities (including, but not limited to, in and around industrial parks);
- ***Supporting host communities*** will aim to work with local government authorities to boost living standards in host communities (economic opportunities and access to quality services) and reinforce the potential for inclusion of refugees, including through a degree of empowerment;

- **Building the human capital of the next generation** will include a focus on both education (at all relevant levels, including vocational) and health/nutrition, with an understanding that it needs to treat refugees and host communities equally and to address the specific challenges faced by refugees (e.g., unaccompanied minors);
- **Transitioning away from humanitarian aid:** managing the expected reduction of humanitarian aid in a way that minimizes adverse effects and recognizes the persistence of humanitarian needs (new inflows, highly vulnerable groups) as critically important. The work may focus on issues such as the gradual transition away from food aid, the eventual merger of ARRA-managed service delivery with the overall education and health systems.

This objective is expected to play out differently in various parts of the country:

- **For South Sudanese,** there may be limited prospects for economic integration in the short to medium term, but a major effort is needed to support host communities and to build human capital;
- **For Somalis,** the situation varies across subgroups. Some have the potential to access out of camp opportunities, local integration, and greater economic inclusion, while others may require help to build their human capital. Significant support is likely to be needed to boost the potential of host communities to accommodate them in a sustainable manner;
- **For Eritreans** (for those who do not immediately engage in onward movements), major progress could be achieved through the implementation of an effective “out of camp +” approach that combines freedom of movement (and residence), work permits, skills development, and the creation of job opportunities.

This objective calls for several comments. First, the objective is to support a reform that is potentially “game-changing,” (i.e., the move away from long-term dependency in camps toward the inclusion of refugees in a growing economy). This could help move toward an acceptable solution for a number of refugees over time. Second, in view of the situation in neighboring countries, it recognizes that refugee crises constitute a structural risk for Ethiopia. It therefore aims not only to help respond to the current situation, but also to develop an adequate policy and institutional framework to manage this structural risk over the medium term. Third, it places the focus not only on projects, but on the implementation of a policy shift. This is because the policy reforms that the Government is contemplating are likely to have a far broader impact than individual projects. In this context, the main rationale for projects is to underpin and support the implementation of the Government’s reforms. And fourth, the objective is not to reduce onward movement, but to reduce the poverty and vulnerability of refugees and host communities.

It should be underlined that the proposed focus on the “next generation” is critical for the medium-term stability of the region. The 2011 World Development Report (WDR) on Conflict, Security, and Development suggests that there is a high risk that a country like South Sudan remains entrapped in cycles of violence for a long time. Today, a large part of its youth is in exile, mainly in Ethiopia and Uganda. Investing in this youth, to build a cadre of people who can lead in the public and private sectors at local and national level, is an investment in the medium-term stability of the region. It may help a generation emerge that gradually breaks with the violent cycles of the past. While there is no guarantee that such an approach will be effective, there is a quasi-certainty that the return of a frustrated and disenfranchised youth would push the country back into conflict.

Possible Program of Activities

A potential program for Ethiopia will be further elaborated in the “Consultation Note” that will be prepared to explore Ethiopia’s eligibility under the sub-window. It is likely to rest on a combination of policy dialogue, projects and knowledge products, which complement each other. It will aim to be selective and complement ongoing or planned WBG policy dialogues and interventions.

The policy dialogue is likely to concentrate on supporting the effective implementation of the pledges already made by the authorities especially on out of camp, work permits, and access to education. The dialogue is expected to evolve over time from an initial focus on the pledges, to their adjustment and/or expansion (e.g., to move toward a gradual integration of basic service delivery), based on early results and new developments.

Priority projects will aim to support progress toward the overall objective. This may include support to the development of industrial parks which could provide economic opportunities for refugees and host communities; support to host communities through area-based and community-driven development activities; support to the implementation of the Government’s pledges, for example, in social sectors; and a particular effort to ensure refugee children can access adequate education services. This may include new projects (including possibly programs for results), additional financing for existing projects, or adjustments to the existing portfolio.

Possible knowledge products will aim to strengthen the effectiveness of the policy dialogue and the design of projects. This could include a poverty and vulnerability assessment for refugees and host communities to establish the baseline against which further activities can be defined, as well as to better understand the specific issues faced by refugees and host communities. It could also include specific work to facilitate an orderly transition from humanitarian assistance (e.g., on transition to country systems, institutional arrangements, emergency planning with a medium-term horizon, or economic sustainability of camp areas) through a series of notes to be prepared in partnership with key humanitarian agencies and bilaterals.

Coordination and Implementation

To advance the policy dialogue, close coordination with UNHCR and key bilaterals will be essential. Because all will engage with the authorities (and with different parts of the Government), ensuring consistency across messages is key. Dedicated efforts are needed to ensure there continues to be a close working relationship with UNHCR and key bilaterals (e.g., DFID) on this issue. The WBG could also support efforts to rapidly merge relevant coordination groups under the Government’s leadership, ideally within the broader Comprehensive Refugee Response Framework (CRRF). The CRRF was established by a UN declaration on September 20, 2016 to facilitate better synergies between humanitarian and development actors, with the aim of easing the pressure on host countries and enhancing refugee self-reliance. It is spearheaded by a small UNHCR-led secretariat to which the WBG contributes a staff.

Risks and Mitigation

The overall risk for the successful implementation of a WBG-supported forced displacement program in Ethiopia is high. This is a new area of engagement for the WBG, in which there is limited knowledge and significant sensitivities. Yet the Government’s commitment to adopt a set of ambitious reforms provides an environment where WBG support could be transformational and is worth the risks. Key risks

include: overall country risks; risks of policy reversal or reduced focus; risks that key issues are inadequately addressed; implementation risks; and reputational risks.

An effective risk mitigation system needs to be in place as part of the management of the WBG engagement. Ethiopia is expected to be among the first countries to benefit from sizable WBG resources for forced displacement related operations. As such, the program is likely to include some high-risk elements, an approach which Board members have indicated they may be willing to support. But the program should also be construed as a potential source of learning. Risk management systems should allow for identifying and responding to potential challenges in real time, with an adequate degree of flexibility.

Overall country risks. These risks are identified in the upcoming CPF and include political, macroeconomic and social risks. The forced displacement program will have to be managed as part of the broader WBG engagement in the country, including in terms of mitigating such risks.

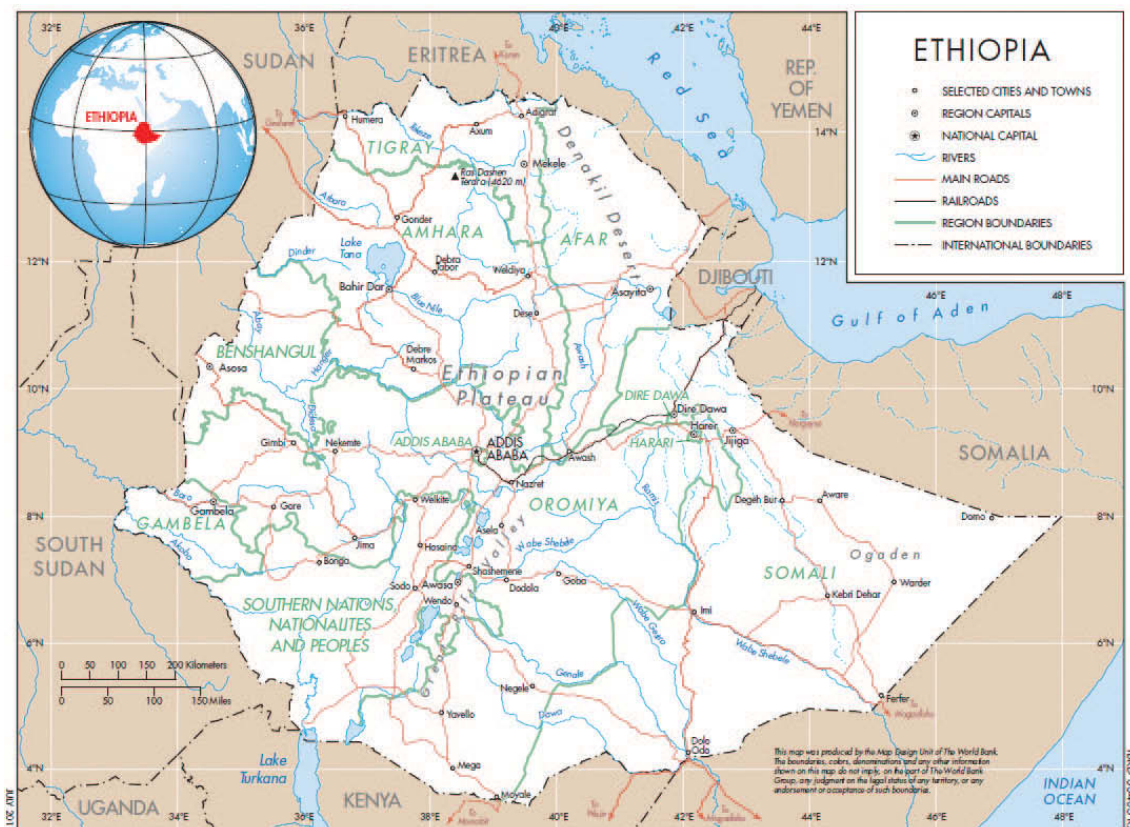
Policy reversal or loss of focus. Political events in Ethiopia or in the region may result in a loss of momentum for the policy shift on refugees, for example, in case of further social unrest and political tensions, security incidents associated with refugees, new inflows that would overwhelm accommodation capacities, etc. The current focus on the expected drought may also complicate the desired shift of mind-set from emergency response to a longer term approach. Finally, some institutions may resist the pledged reforms or the shift from humanitarian assistance to development approaches, for example if ARRA felt this would reduce its influence. The WBG will need to engage in the design and implementation of the reforms to support the Government's efforts and help accelerate their implementation, including by helping manage vested interests.

Inadequate treatment of key issues. Issues such as the impact of trauma or the dependency that has been created by years of aid could have an impact on the refugees' willingness and ability to seize economic opportunities. Yet psychosocial factors and mental health are areas where the WBG has limited experience. The current design assumes that for most refugees these will not constitute a major obstacle once job and education opportunities are available—yet this may not be the case for some groups. The WBG should make a determined effort to learn from (and during) implementation, and be open to adjustments in project design/restructuring, should such risks materialize.

Implementation challenges. Implementation is likely to be difficult in emerging regions where administrative capacity is limited. The design of the proposed program and in particular, the choice of areas of engagement and financing instruments, is based on an acknowledgment of this reality. It will need to be complemented by efforts to ensure these risks are adequately reflected in the design of each operation.

Reputational considerations. There may be misguided expectations on the WBG-supported program, which is not about reducing the number of refugees or preventing their secondary movements, but about managing the medium-term socioeconomic dimension of the crisis. Humanitarian aid is expected to decrease, which could have dramatic consequences in some areas and the WBG's involvement may be seen as an enabling factor for such developments. The WBG program could also be criticized by political stakeholders should the popular attitude toward refugees become hostile. Finally, working conditions in industrial parks may be controversial and the WBG may be blamed for it (even if safeguard policies are adequately implemented). To mitigate these risks, the WBG program will need to be accompanied by a proactive communications effort.

Annex 14: Map of Ethiopia



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