

Ethiopia: Protecting the Most Vulnerable

Since the end of a devastating civil war in 1991, IDA has supported the Government of Ethiopia through 60 operations and more than US\$7.6 billion. Important results include a near two-fold increase in the number of children in primary school between 2001 and 2008, a reduction in child mortality to 109 in 2010 from 204 in 1990, increased rural access to safe water to almost 62 percent in 2009 from only 19 percent in 1990, all the while building local government capacity for service delivery and increased accountability.

Challenge

Over the last 15 years, Ethiopia has been experiencing steady economic growth, although this performance has been accompanied by growing economic imbalances. In recent years, Ethiopia has been one of the fastest-growing non-oil economies in Africa, with double-digit average growth at just over 10 percent over the last 6 years. It has also seen continued improvement in poor households' access to basic services. The average Ethiopian now has a level of income that is about 43 percent higher than the level prevailing at the end of the 1990s. Yet given the extremely low initial per capita income, the country remains one of the poorest in the world, underscoring the urgency of accelerated growth and development on a sustained basis.

Moreover, the economy faces several risks—for example double-digit inflation—that suggest that the understandable optimism over recent growth should be moderated by caution.

Indeed, Ethiopia's growth performance and the considerable development gains from 2003 to 2007 came under threat in 2008 with the emergence of the twin macroeconomic challenges of high domestic inflation and a difficult balance of payments situation. These challenges were made worse by high fuel and food prices. While these threats have moderated over the last year-and-a-half, substantial risks remain. The annual average inflation, after reaching a historical peak of 64 percent in July 2008, had fallen to 30 percent in July 2009, and 7.3 percent in June 2010.. At the same time, foreign exchange reserves have risen from barely four weeks of imports cover in October 2008 (US\$764 million) to the equivalent of eight weeks of imports in June 2010 (US\$1.8 billion). The economy is likely to slow down in coming years, though the growth rate will remain economically acceptable from a global perspective. The International Monetary Fund (IMF) projects that real growth in gross domestic product (GDP) will slow from 11.2 percent in 2007/08, 9.9 percent in 2008/09 and 7 percent for 2009/10 before increasing again to 7.7 percent in 2010/2011. The government itself maintains that the slowdown should be less significant. The current-account deficit (excluding official transfers) is expected to widen to 13 percent of GDP during 2009/10 before improving to average around 7 percent over the longer term due to a projected increase in exports.

The Government of Ethiopia has undertaken a number of actions in recent months to address its macroeconomic problems. These include tightening fiscal policy and reducing government's domestic borrowing, mitigating the impact of high food prices on the poor, reducing the domestic borrowing of public enterprises, tightening money supply, and gradually depreciating the local currency.

Ethiopia's macroeconomic situation, however, is expected to remain tenuous, especially as the global economic crisis continues

Approach

IDA has worked to promote economic growth and address systemic poverty challenges across many sectors.

Education. IDA's support for the education sector has helped Ethiopia expand access to primary education over the last 10 years. IDA invested US\$125 million in education between 1998 and 2009. In addition, a significant proportion of a grant for budget support and protection of basic services have gone to education. Total primary enrollment climbed to 15.3 million in 2007/08 from 8.1 million students attending primary school in 2000/01. There has also been a considerable reduction of the gender gap for primary schooling—defined as the ratio of girls to boys—to 0.90 in 2008 from 0.65 in 2000. The gross enrollment rate for secondary school (grades 9-10) stood at 37 percent in 2007/08, more than double the level of 2001/2002.

The expansion of general education has occurred at the same time as a major expansion of both technical and vocational education (and higher education sub-sectors), which showed an annual average increment of 21.3 percent and 21.7 percent respectively between 2003/4 and 2007/08. However, this rapid expansion of the education system has not been accompanied by adequate improvements in quality. In order to address this challenge, the Bank will provide US\$50 million between 2009-2013 under the General Education Quality Improvement Program, which is also financed by Fast Track Initiative Catalytic Fund and other development

partners, including the UK's Department For International Development (DFID), Italy, The Netherlands, and Finland.

Roads. Ethiopia's development has been held back by a large infrastructure gap—it has one of the lowest road densities in Africa. IDA has invested about US\$1 billion since 1991 to address that challenge. A road sector development project supported the formulation of Ethiopia's ten-year roads program; it helped establish a dedicated road fund for financing maintenance work and build capacity at many levels. Working in partnership with other donors—including the EC, Germany, Japan, Nordic countries and the UK—IDA helped increase both the size and quality of Ethiopia's road network. The network increased to over 44,000 km of roads in 2008 from under 20,000 km in 1991.

Energy. Ethiopia has the potential to become the electricity generation hub of the Eastern Africa Power Pool. The country is bestowed with abundant hydro-electric generation potential. In addition, the country also has several renewable energy resources such as geothermal, wind and solar. IDA is helping Ethiopia's energy sector to bring this potential to fruition. In the late 1990s, IDA supported the financing of Gilgel Gibe I hydro power plant with about US\$200 million. This 184-megawatt plant was the largest power plant in Ethiopia until only recently. IDA is now supporting Ethiopia with a US\$ 41 million credit to construct a transmission inter-connection with Sudan that will enable Ethiopia to realize its power export revenue generation capacity. Several other projects funded by IDA totaling about US\$400 million are helping Ethiopia increase rural access to electricity. Ethiopia is now connecting more than 300,000 new consumers (about two mil-

lion people) every year by expanding its rural grid network. In areas that are too remote, Ethiopia is providing solar-based electricity to institutions such as schools and health centers.

In addition to financing projects, IDA is supporting technical capacity building in the Regional Energy Bureaus that will enable them to appraise off-grid and other renewable energy projects such as mini-hydro and biomass projects. IDA projects also aim to increase the efficiency of the energy sector through various demand-side management measures. IDA has helped Ethiopia conserve energy by financing the replacement of around 5 million conventional incandescent lamps with efficient compact fluorescent lamps.

Decentralization. Decentralization, first to the regional level in the 1990s, and now to the district (woreda) and sub-district (kebele) levels, is the centerpiece of Ethiopia's strategy to improve responsiveness and flexibility in service delivery, increase local participation, and democratize decision-making. IDA is providing capacity-building and financial support to local governments that is enabling them to deliver better quality basic services (health, education, water supply, etc.) to more of their citizens. As a result of such support, Regions and Woredas have increased basic services spending by over 100 percent since 2006, while strengthening their fiduciary systems. As of June 2010, all regions and 90 percent of Woredas were posting their budgets in public places, and quarterly audits take place for over 90 percent of local governments nationwide.

Private sector. After the change of governments in 1991, IDA helped Ethiopia shift

from a state-controlled economy to one that encourages private sector growth and job creation. It helped the post-Dergue government address an over-valued currency that stifled exports, reduced tariffs and taxes, and ended most price controls, thereby creating a space in which Ethiopian companies can play a natural role in generating income and creating jobs. Still, more needs to be done to improve the investment climate and improve business confidence. The Bank is also working with the government to accelerate privatization of public enterprises, strengthen competition policy, improve the financial system, and support firms in building new technical and business management skills.

Regional cooperation. Historically, there has been tension over water usage rights between upstream Nile riparians (such as Ethiopia), which contributes 85 percent of Nile waters, and downstream countries, such as Egypt, for which the river is the lifeblood of its economy. The Nile Basin Initiative (NBI) aims to foster cooperation among nations through which the Nile runs, and to find win-win opportunities for better management of the river. The success of the NBI so far in building cooperation among Nile countries has opened the possibility for Ethiopia to draw on the waters of the Nile in new ways, and on a larger scale. Ethiopia, with support from IDA, is also a beneficiary and active member of two key sub-regional HIV/AIDS initiatives; one is the African Regional Capacity Building Network for HIV/AIDS Prevention, Care, and Treatment Project and the Intergovernmental Authority on Development (IGAD) Regional HIV/AIDS Partnership Program Support Project.

Recently, IDA provided financing for the Tana and Beles Integrated Water Resources Development Project, which aims to lay the foundation needed to accelerate sustainable growth

in the sub-basins by developing institutions and facilitating investments for integrated planning, management, and development. This project will be critical not only for local beneficiaries and Ethiopia in general, but will also improve regional cooperation among Nile riparian countries. It seeks to develop a new paradigm of institutional modernization and convergence in managing precious water resources, while also stimulating sustainable development.

In the coming years, IDA plans to continue providing financing for investments in Ethiopia that build on the political openings achieved by NBI, in areas such as energy, irrigation, and water resources management.

Results

With the support of IDA credits and grants, the Government of Ethiopia has made important strides on a number of Core Sector Indicators. These results are summarized in table 1.

Bank Contribution

The International Development Association is Ethiopia's largest provider of official development assistance: it has committed US\$7.6 billion to 60 projects in Ethiopia since 1991, most notably for the protection of basic services, health services, the fight against HIV/AIDS, productive safety nets, food security, and roads. In March 2006, the World Bank's Board of Executive Directors approved a 100 percent cancellation of Ethiopia's debt to IDA, as part of the Multilateral Debt Relief Initiative, freeing resources for programs that benefit the poor. As of August 2010, the bank's portfolio in Ethiopia consists of 27 operations, with a total IDA net commitment of US\$3.55 billion, out of which US\$1.48 billion has been disbursed. In addition, the bank

Table 1. Progress on Core Sector Indicators

Education:	<ul style="list-style-type: none"> • Primary school completion rate (grade 5) increased to 78.9 percent in 2008/09, from 65 percent in 2006/07. • Gender parity: For 1-4 grade, the ratio of girls to boys went from 89 percent in 2006/07 to 90 in 2008/09; grades 5-8 increased from 73 percent to 89 percent over the same period.
Health:	<ul style="list-style-type: none"> • The child immunization rate increased from 70 (2005) to 81.6 percent (2009) • 22.2 million long-lasting insecticide-treated malaria nets were purchased and distributed between 2006 and 2008. • 7,000 health posts and 1,999 health centers were equipped (out of a total of 15,022 and 3,200 respectively) in the same period.
Water:	<ul style="list-style-type: none"> • 1.5 million people in rural areas and 150,000 in urban areas have been provided with access to improved water sources from 2004 to 2010. • 138, 873 improved community water points were constructed or rehabilitated between 2008 and 2010.
Roads:	<ul style="list-style-type: none"> • The proportion of roads in good and fair condition as a share of total classified roads was increased in the following manner: Federal paved roads: 71 percent (2005 baseline) to 88 percent (as of may 2010). • Federal gravel roads: from 61 percent to 72 percent, and Rural/regional roads, from 67 percent to 79 percent over the period. • 23,736 km of rural roads were constructed and 42,417 km of rural roads rehabilitated between 2008 and 2010.
Energy:	<ul style="list-style-type: none"> • 48 rural towns and villages have been connected, corresponding to about 100,000 customers.
ICT:	<ul style="list-style-type: none"> • The monthly cost of Internet connection (including 600 minutes) fell 33 percent between 2008 and 2010. The monthly cost of a 2 Mbps ADSL connection has fallen by 77 percent over the same period.

also manages a US\$868-million trust fund portfolio. Transportation is the largest Sector, with 23 percent of the IDA portfolio, followed by Energy and Mining and Health and Social Services (both at 16 percent) and Education and Public Sector Administration (both 12 percent), Water and Sanitation (10 percent) and Agriculture (8 percent).

Partners

Official Development Assistance (ODA) to Ethiopia has been increasing steadily since 2000. A large number of donors are active in Ethiopia, with 25 bilateral and multilateral donors averaging more than US\$2 billion per year in ODA during 2000-2006. Both the government and a majority of international partners have been keen to proceed with the

deepening of the harmonization process in the spirit of the Rome and Paris Declarations.

The Bank, with UN Development Programme and one bilateral donor, is one of the rotating co-chairs of the Development Assistance Group, the main forum for donor coordination in Ethiopia. Through this group, efforts are underway to make strong progress on the implementation of commitments in the Paris Declaration, including joint research (much of the Bank's major analytical work has already been prepared jointly with partners) and joint missions. Much of the collective effort is focused on furthering coordination through a few major multi-donor programs and policy areas of importance. The target of channeling at least 66 percent of donor support through program-based approaches has been

surpassed, with 85 percent of IDA assistance flowing through the eight approved programs by fiscal year 2010.

The World Bank has taken the lead in developing a set of multi-donor instruments to reduce transactions costs, align support with the country's decentralized model, and enhance the predictability of aid. These instruments allow for large-scale leveraging of IDA support. Such approaches include: the Protection of Basic Services program; the Public Sector Capacity Building program; the Productive Safety Nets program; the Water Supply, Sanitation, and Hygiene Universal Access program and the Sustainable Land Management program. For more traditional projects, such as investments in roads, action plans are being implemented to harmonize implementation procedures (such as common environmental assessment procedures) with a focus on three priorities—disbursement procedures and financial reporting, monitoring and evaluation, and procurement (starting with standard documents for goods, works, and consulting services for national competitive bidding.

Moving Forward

For the remainder of the current Country Assistance Strategy period (until FY12), IDA will continue to support the government's objectives of (i) fostering economic growth, (ii) improving access to and quality of basic services, (iii) reducing vulnerability and (iv) fostering improved governance, as outlined in its Plan for Accelerated and Sustained Development to End Poverty. Through its programs, the Bank will continue to address the deeper and complex issues of supporting bottom-up initiatives that are becoming increasingly necessary as a complement to a traditionally

strong state. The Ethiopian government is currently in the process of finalizing its next medium-term development plan (2011-15), which will form the basis for the bank's next Country Assistance Strategy.

Beneficiaries

As a nationwide program, the Protection of Basic Services (PBS) project has helped improve the lives of more than 70 million rural Ethiopians: not least among them are children who now have access to services denied to them before. In a mission by World Bank Management to Ethiopia in November 2009, a 10-year-old child named Sanait in Sele Kebele said “Memar ewodalehu (“I love to learn!”). Going to school has become the highlight of her life. The ‘older’ classroom she studied in lacked proper light and ventilation. She was excited to start studying in her new classroom and was eagerly awaiting the completion of the facilities there.

Access to Health services has also increased: 23-year-old Birhane Wolde Giorgis has worked as a Health Officer for the past year at the health centre which serves the Debre Libanos woreda, consisting of about 50,000 people. On a very busy day, the health center receives as many as 40 patients. The new wing of the health centre—which took five months to build with a PBS grant—provides basic maternal and childcare facilities. As a result of increased confidence in the services provided at health center the number of visitors has more than doubled from 200 cases a month two years ago to about 500 visitors currently.

Last updated September 2010.
<http://www.worldbank.org/ida>