

Ethiopia: Protecting the Most Vulnerable

When Ethiopia's long civil war ended in 1991 with the fall of the Marxist Dergue regime, its population faced dislocation, extreme poverty, and a deterioration of basic services. Infrastructure suffered from neglect and destruction, and policies were built around a paradigm of central control, leaving little space for civil society or the private sector.

In the years that followed, there have been intermittent droughts, a two-year war with Eritrea, and heightened political tensions related to Ethiopia's fragile transition to democracy. Yet through these setbacks, Ethiopia has registered strong economic growth, along with significant gains in key human development indicators. Primary school enrollments have more than doubled, child mortality has been almost cut in half, and the number of people with access to clean water has nearly doubled. Poverty, too, has declined, though the country remains desperately poor, with many rural Ethiopians remaining isolated and vulnerable to food shortages.

Country Indicators	1991	2005
GDP per capita (US\$)	108	141
Inflation (% change in consumer prices)	36	12
External debt (% of GDP)	97	16 (2006)
Poverty incidence (%)	46 (1996)	39 (2006)
Gross primary school enrollment rate (%)	30	79
Under-five child mortality (per 1,000)	204 (1990)	123
Access to clean water (% of population)	19 (1990)	36 (2004)
Road network (km)	23,442 (2005)	37,018
Population (millions)	53	71

Sources: Government of Ethiopia, Plan for Accelerated and Sustained Development to End Poverty (PASDEP); World Bank, *World Development Indicators*.

The International Development Association (IDA), the World Bank’s fund for the world’s poorest countries, supported this transition—not only financially, as Ethiopia’s largest provider of development assistance, but also by providing analysis to help underpin needed reforms and policy changes. In addition, IDA took the lead in mobilizing other donors to support the country through more effective and better harmonized aid programs.

Today the challenge for Ethiopia is to continue to improve the livelihoods of its citizens and reduce their vulnerability to hunger. This means not only continuing to improve public services, but also accelerating private-sector-led economic growth and improving governance at all levels—with greater transparency, accountability and public participation.



COUNTRY ACHIEVEMENTS

A difficult legacy.

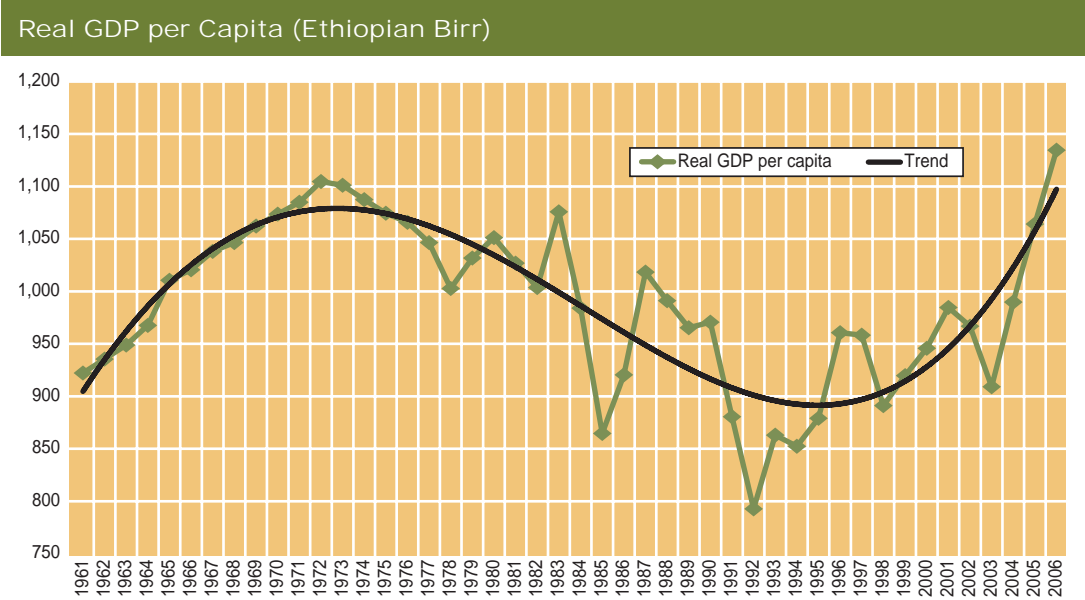
Income per capita in the early 1990s was back where it was in the early 1960s. At the fall of the Marxist Dergue regime in 1991, the new government inherited a legacy of poor governance, misguided economic policies, deteriorating infrastructure, and declining social services.

With international support, the new government initiated a series of reforms designed

to move from a centrally-planned economy toward a market-driven one, and to decentralize by shifting some responsibility and resources to regional and local governments.

Revival of growth.

Steady economic growth over the last 15 years, despite serious challenges and setbacks, has finally raised GDP per capita above its previous peak in the early 1970s (see figure below). Real GDP growth was 10.5 percent in 2004/05, following an 11.9 percent economic rebound in 2003/04 after a severe drought.



The strong growth performance has come amid various disruptions and shocks, including the 1998-2000 war with Eritrea, recurring droughts, and terms-of-trade setbacks such as the plunge in coffee prices (Ethiopia's largest export) and a spike in oil prices.

Better prospects for children.

Since the early 1990s, primary school enrollments have more than doubled, child mortality has almost been cut in half, and the number of people with access to clean water has nearly doubled. These gains, together with more recent moves to strengthen the fight against malaria, paint a picture of improved well-being for Ethiopia's children, who nonetheless represent a highly vulnerable segment of society. They also set the stage for broader poverty reduction and growth.

The progress can be largely attributed to: prudent economic management; decentralized government and a more market-oriented economy; investment in policies that channel resources toward programs that directly benefit poor households. All three of these contributing factors constitute areas strongly supported by Ethiopia's international partners.

Notwithstanding the progress in critical aspects of human development, Ethiopia is still a long way from achieving its Millennium Development Goals (MDGs) by 2015, given the country's very low starting point, and the toll taken by Ethiopia's persistent and recurring droughts.

IDA CONTRIBUTIONS

The International Development Association is Ethiopia's largest provider of official development assistance: it has committed US\$4.2 billion to 41 projects in Ethiopia since 1991, most

notably for the protection of basic services, food safety and roads. Debt relief measures have also freed resources for programs that benefit the poor.

IDA's partnership with Ethiopia has aimed to support vulnerable populations in periods of political uncertainty, drought and even conflict.

A strong presence through different crises.

Immediately following the end of the civil war in 1991, the Bank coordinated a US\$650 million multi-donor program to begin the process of economic and social recovery, including the provision of medicines, rehabilitation of damaged infrastructure and early steps toward a market economy.

Bank analytical and capacity-building work contributed to the affordable construction of schools, community-driven development in pastoral areas, and helping former guerilla leaders assume responsibility for effectively managing government programs.

The 1998-2000 conflict with Eritrea prompted a number of donors to scale back development programs, but IDA stayed engaged—continuing disbursements under existing projects, though not launching new operations—and then mounted a significant program to stabilize and rehabilitate the economy once the war ended. IDA development assistance in the immediate post-conflict period (Fiscal Years 2001-02) totaled well over US\$800 million—four times more than the next largest donor. An IDA-funded demobilization project launched in December 2000 helped demobilize 148,000 soldiers, reintegrate veterans into civilian life and free government resources for medical services for disabled citizens.

IDA moved quickly again during the severe 2002-03 drought to provide quick-disbursing assistance to stabilize the macro-economy, defend the government's human development expenditures, and prevent irreversible losses of assets among the affected population.

After contested elections in 2005 were followed by public protests, mass arrests, and an increasingly polarized climate, the World Bank and other donors suspended direct budget support but agreed to press for improved governance, including greater civic participation, while protecting critical services in health, education, agriculture and access to safe water.

IDA led an effort to protect basic services to the population through a program that channeled assistance directly to local governments.

IDA financing of US\$215 million for the Protection of Basic Services program leveraged over US\$400 million in financing chiefly from the United Kingdom but also from the African Development Bank (AfDB), Austria, Canada, the European Commission, Ireland and the Netherlands.

Improving food security.

In a drive to establish greater food security in a country chronically subject to shortages, IDA helped design and fund a Productive Safety Nets Program (PNSP) that provides food, cash and public works to vulnerable populations. The program, funded by a large consortium of donors¹ marks a break from traditional food aid to try to tackle some of the root problems at the source of food insecurity.

1. Canada, the EC, Ireland, the UK, the US and the World Food Programme.

From Emergency Food to Cash Transfers

Rather than distributing bags of wheat or oil cans, the program delivers cash-based aid that does not distort local food markets and mobilizes labor for productive civil works. A public works component pays citizens for performing jobs that rehabilitate damaged ecosystems, thus providing income while making land more capable of sustaining agriculture.

Surveys show that communities covered by this program are less likely to sell assets to deal with droughts, and more likely to use healthcare facilities and keep their children in schools.

The Productive Safety Net Program complements other ongoing projects focused on food security, pastoral community development and emergency drought recovery.

Beyond extending basic humanitarian aid, IDA has worked to address systemic poverty challenges across many sectors.

Education. IDA's support for the education sector, budget support and the Protection of Basic Services program have all helped Ethiopia expand access to primary education over the last eight years. School enrollment (grades 1-10) increased by 12.3 percent per year between 1999/96 and 2003/04. Educational quality, as measured by completion rates, has also improved, but more slowly, and remains a major focus for the government, IDA and its partners.

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\$500 million since 1991 to start addressing 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 from under 23,500 km of roads in 1995 to over 37,000 km in 2005. Sixty-four percent of paved roads were found to be in good condition in 2004, up from a mere 14 percent in 1995.

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 support 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.

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, reduce tariffs and taxes, and end 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 as political tensions have affected business confidence. The Bank is also working with the government to accelerate privatization of public enterprises,

strengthen competition policy, and support firms in building new technical and business management skills.

Regional cooperation. Historically, there has been a strong 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 find win-win opportunities for better managing and exploiting 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.

Goodwill on the Nile

IDA has been the main international facilitator behind the Nile Basin Initiative.

The Bank was invited to coordinate international support to Nile cooperation beginning in 1995, and since 1998, the Bank has been promoting dialogue, resolving disputes and supporting joint actions, with a major focus on 'changing hearts and minds' over the shared usage of Nile waters.

The Bank now coordinates the involvement of about 17 multilateral and bilateral development partners of the NBI.

The Bank is currently helping to facilitate a Nile cooperative framework treaty that would establish principles and a permanent Nile River Commission—a prerequisite for sustained cooperation, as well as for public/private financing of Nile investments.

In the coming years, IDA plans to provide financing for investments in Ethiopia that build on the political openings achieved by

NBI, in areas such as energy, irrigation and water resources management.

CHALLENGES AHEAD

Ethiopia needs more money to achieve its development goals.

The main challenges for Ethiopia are to continue the progress made in recent years toward the Millennium Development Goals (MDGs) and to address the root causes of poverty among Ethiopia's population.

Since fiscal deficits and taxation are already high, and the government is already devoting more than half of its budget to investment, increased donor support is the only option in the near term to finance the increased spending needed to meet these challenges.

However, even if donor support is increased, using aid effectively will require Ethiopia to improve governance, empower local authorities, and become more accountable to its citizens.

Improving governance to maximize aid effectiveness.

After dialogue within the country and with development partners including the World Bank, the government has committed in its new poverty reduction strategy to a series of governance reforms, including civil service reform and public sector capacity-building; financial management; human rights and conflict prevention; democratic representation; access to information; the justice system; decentralization; and civil society participation. The Bank is supporting the government in implementing these reforms through pro-

grams that seek to protect basic services and build capacity in the public sector.

The Bank is taking a lead role in interventions to help strengthen key areas of economic governance—such as building institutional capacity for decentralization, supporting private sector growth, and improving transparency and accountability

Scaling up assistance.

Ethiopia is a prime candidate for scaling-up of assistance because of the extreme poverty that afflicts segments of the society, but also because the government's commitment and capacity to deliver on poverty-reduction programs is comparatively strong. By any estimation, massive external investment is required for Ethiopia to meet the MDGs.

Moreover, Ethiopia's per capita development assistance is well below – about half- the sub-Saharan Africa average. It is estimated that for Ethiopia to have a realistic chance of achieving the MDGs, donor support would need to rise from the current annual level of US\$20 per capita to about US\$30 per capita by 2010, and then rise again to about US\$60 per capita by 2015, or US\$4.5 billion per year.

From Crisis Management to Long-term Development

“Ethiopia is moving from a crisis orientation toward a long-term development paradigm,” says Paul Ackrod, head of the United Kingdom's Department for International Development (DFID) in Addis Ababa. “There will be upsets along the way—particularly if there is a year of low rainfall. But the institutions and the mechanisms are there now.”

In specific sectors, some of the more urgent investment needs include:

Health and education. Ethiopia will still have difficulty meeting MDGs at current rates of progress. For example, under-five child mortality decreased at a trend of 3.3 percent per year from 1990 to 2005. This trend will need to accelerate to a reduction of 5.8 percent per year in order for Ethiopia to meet the child mortality MDG.

Access to clean water and sanitation. In 2000, about 16 million people had access to improved water supply, and 9 million to adequate sanitation. To achieve the MDG for water supply, 40 million more people would need to be served by 2015. Even then, some 30 million people would be without service. A total investment of at least US\$2 billion (US\$200 million per year) is needed to achieve the MDG in Ethiopia, while current resources available—mostly from the Bank, AfDB, and the Treasury—amount to about half that amount.

Infrastructure. Despite large gains in the last decade, Ethiopia's infrastructure endowment remains far short of what it should be—with five times less roads, and 29 times less electricity usage than comparable countries - controlling for income, geography, and other factors.

Learning from the past.

The Bank's Independent Evaluation Group (IEG) conducts assessments of the performance of Bank-financed projects. During the period covered by this note (FY1991-2007), IEG evaluated 32 completed IDA projects for Ethiopia. Of these, IEG rated 81 percent of projects (as a percentage of commitments)

as having a satisfactory outcome, and rated Bank performance as satisfactory in 85 percent of projects. Sustainability was judged as likely in 60 percent of projects, though this has increased to 73 percent in the past three fiscal years.

IEG also completed an assessment of IDA's Ethiopia program in 2000, covering the 1990s. It concluded that the Bank's assistance had an overall satisfactory outcome, and that lending and non-lending assistance had been well directed.

A key lesson from IEG reviews has been the need to focus more on development of lasting institutional capacity, including by shifting away from stand-alone project management units, and supporting government in improving staff incentives to retain experienced personnel.

Other internal assessments saluted IDA's responsiveness to government plans and needs, strategic relevance of analytical efforts and lending interventions and coordination with other donors. They highlighted the importance of harmonizing assistance and the need to focus more strongly on private sector development as an engine for sustainable growth.

Further coordinating assistance.

Some of these lessons have already been integrated and are guiding the Bank's current work. The Development Assistance Group (DAG), co-chaired by the Bank, has evolved from being a forum for information sharing towards a donor community speaking with one voice in the partnership with the government of Ethiopia, producing joint statements and policy notes with greater impact.

This aspect of the DAG has proven highly valuable in the context of the events following the May 2005 elections, when DAG members reacted in a closely coordinated manner and decided to protect basic services to the population through block grants to local governments.

Building upon the good governance steps included in Ethiopia's poverty reduction strategy, IDA and other DAG members are

developing a mutual accountability framework whereby measurable progress on governance will be met with higher development assistance. This tradition of collaboration will need to be utilized and continuously reinforced.

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<http://www.worldbank.org/ida>