

# Development Effectiveness Review 2015

ETHIOPIA

Country review



## ACKNOWLEDGEMENTS

This edition of the African Development Bank’s Country Development Effectiveness Review is produced by the Quality Assurance and Results Department of the African Development Bank in collaboration with the Ethiopian field office, which provided valuable inputs and guidance on the report.

Under the overall guidance of Victoria Chisala, Division Manager, Samuel Blazyk and Yeon-Su Kim were the task managers, and Mariem Khelifi and Helmi Hmaidi provided valuable statistical support.

In the Ethiopian field office, under the guidance of Josephine Ngure, the Resident Representative, we would like to recognise the contributions of Abebe Worku, Admit Zerihun, Chidozie Emenuga, Teferi Menkir, Eriso Garbado, Eva Ruganzu, Fasil Asaye, Girma Abiyehoy, Haile Hailemeskel, Harouna Dosso, Iyerusalem Wogayehu, Maria Mdachi, Melaku Tadesse, Mulumebet Merhatsidk, and Mumina Wa-Kyendo. A special thanks to Lamin Barrow (Manager, Office of the President) for his valuable advice and substantial inputs into the report.

We also would like to thank Audrey Rojkoff, Azza Gharbi, Georg Weiers, Kouadio Adom Augustin, Olivier Ntarubibe Shingiro and Richard Schiere for their contributions.

We especially acknowledge the contributions of all consultants: chief writer Marcus Cox (Agulhas Applied Knowledge), graphic designer Nadim Guelbi (Créon Design) and editor Patricia Rogers.

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Cover photo: The 32 km light-rail project in Ethiopia’s capital is sub-Saharan Africa’s first light-rail system. The train is expected to carry 15 000 people per hour in each direction. Credit: Photo by AfDB, september 2015.

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Printed in Côte d’Ivoire.

African Development Bank Group  
Country Development Effectiveness Review 2015 - Ethiopia

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# The Ethiopia Country Review in 7 numbers

**10%** is Ethiopia's average economic growth over the past decade

Ethiopia invests **33% of GDP** in its ambitious national development programmes

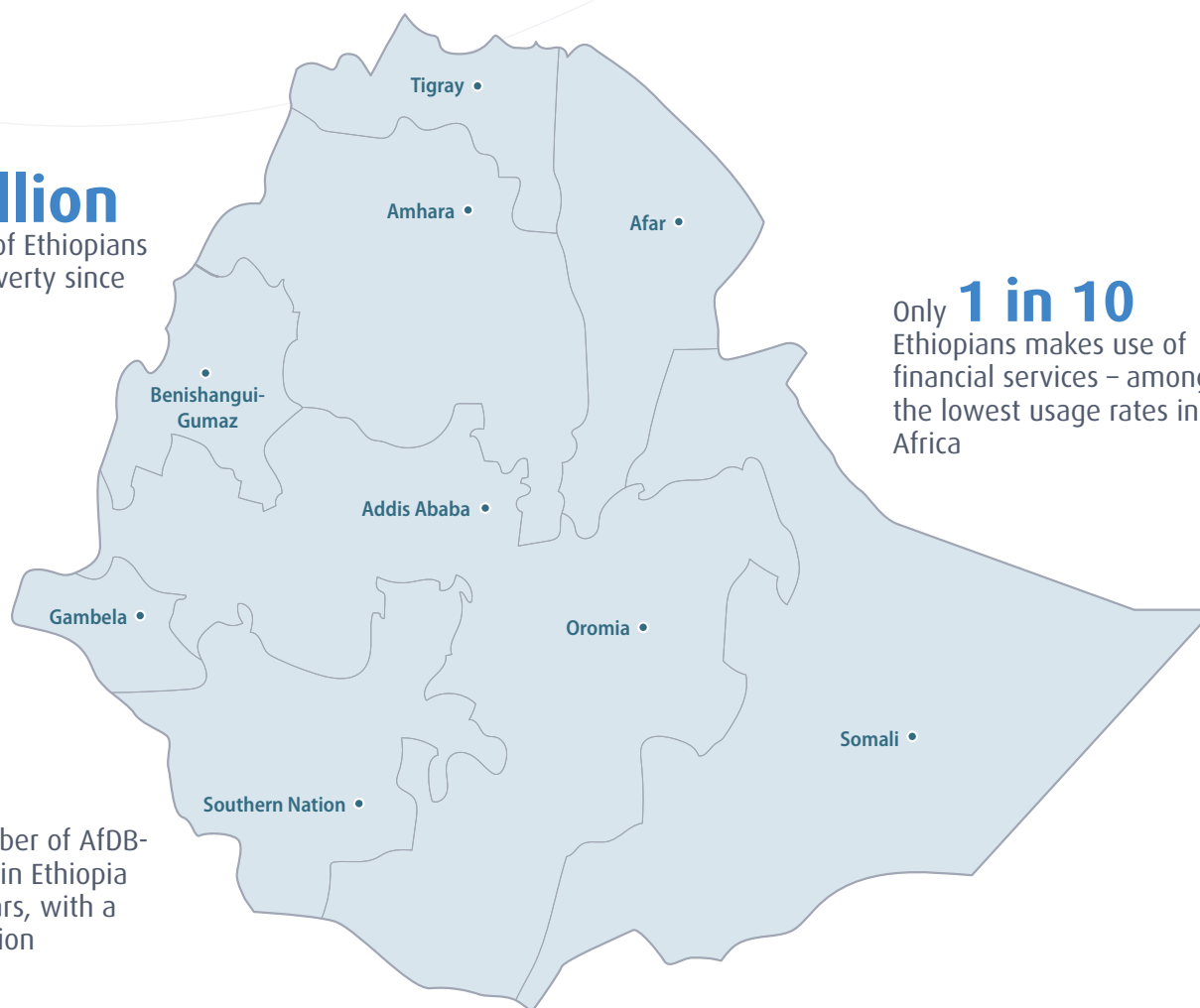
**2.5 million** is the number of Ethiopians lifted out of poverty since 2005

Only **1 in 10** Ethiopians makes use of financial services – among the lowest usage rates in Africa

**118** is the number of AfDB-financed operations in Ethiopia over the past 40 years, with a total value of \$4 billion

Electricity generation capacity tripled from **791 MW** to **2177 MW** in 8 years.

**7.7 million** Ethiopians have benefited from AfDB transport projects since 2005





### Engaging with the rural population

The Promoting Basic Services program brings support to farmers to increase agricultural production and diversify incomes.

# Foreword

**A**s Africa enjoys its most dynamic period of economic growth, Ethiopia is indisputably one of its rising stars. It has achieved outstanding growth rates for over a decade, making significant inroads into poverty. With a highly motivated administration and a clear national development vision, the country is making major efforts to overcome its development challenges and achieve its vision of reaching middle-income status by 2025.

The African Development Bank has been a staunch partner of Ethiopia for half a century. Ethiopia is one of the largest recipients of African Development Fund resources, with an active portfolio of \$1.7 billion at the end of 2014. Ethiopia's strong economic growth provides an excellent platform for tackling the country's many development challenges. Its ambitious public investment programme is equal to one-third of its GDP, well above the regional average. Pro-poor budgets and investments have helped to ensure that growth is inclusive: 2.5 million Ethiopians have been lifted out of poverty over the past eight years. Ethiopia has also done well in creating employment. A rapidly growing middle class offers an increasingly attractive market for goods and services, bringing further growth prospects.

However, as one of Africa's largest and most populous countries, Ethiopia faces some daunting challenges. Agriculture provides nearly half of its economic output, yet most of it is rain-fed and vulnerable to recurrent droughts. In the Growth and Transformation Plan 2010–2015, Ethiopia recognised the importance of structural transformation and the need to accelerate the transition to modern agricultural practices. Shifting more of the workforce into agro-processing and other light manufacturing is key to linking Ethiopia into global value chains and creating lasting prosperity. In the area of infrastructure, it will be important to continue the high rate of investment, especially to encourage private sector development and provide spatial inclusion to the rural population. And in spite of the strong progress of recent years, improving the business enabling environment also remains a challenge.

The Bank is working to support Ethiopia's ambitions. The bulk of our support goes towards developing infrastructure, particularly electricity and transport, with a focus on regional connectivity. We are also working closely with the Government and other development partners to promote inclusive growth by boosting the accessibility and quality of local services, creating a supportive environment for the private sector and promoting the sustainable management of the country's ecosystems.

We look forward to continuing our close partnership with Ethiopia.

A handwritten signature in dark ink, appearing to read 'Janvier Litse'.

**Janvier Litse**

Acting Vice-President of Operations, in charge of Country and Regional Programs  
African Development Bank



### Access to water for all

Ethiopia has made considerable progress in improving access to water. Every year, 1.9 million more Ethiopians are gaining access to improved water.

# Executive summary

As Africa enjoys its longest period of sustained economic growth ever, Ethiopia stands out as one of the continent's strongest performers. A clear national development vision, combined with strongly pro-poor budgets and investments, has helped Ethiopia make major inroads into poverty. At the same time, as one of Africa's largest and most populous countries, it continues to face some development challenges: its infrastructure needs are vast, and it faces persistent problems with food security.

The African Development Bank (AfDB, or the Bank) has been a significant contributor to Ethiopia's national development. With an active portfolio at the end of 2014 of \$1.7 billion, Ethiopia has one of the largest allocations of African Development Fund resources. This Development Effectiveness Review (DER) explores the AfDB's contribution to Ethiopia's national development. It examines the progress Ethiopia has made on inclusive growth and poverty reduction and explores some of the country's challenges. It tracks the performance of the Bank's Ethiopia portfolio against the goals and targets set out in our Results Measurement Framework, with some illustrations of our operations at work. It reviews our management of the portfolio and our efforts to strengthen our own capacity as a development partner. Like other reports in the DER series, it is written in an accessible manner, to provide stakeholders in Ethiopia and elsewhere a clear view of the Bank and its operations.

## Development in Ethiopia

**Impressive growth performance** – Ethiopia is one of the fastest-growing economies in the world, averaging 10% growth over the past decade. Even with high population growth, the country's per capita income has tripled over the last eight years. This strong economic performance has provided the Ethiopian Government with a platform for pursuing its ambitious national development agenda. Under its national development plans, including the current Growth and Transformation Plan 2010–2015, the country's public investments were equivalent to one-third of GDP in 2013, compared to just 22% across other low-income African countries. Ethiopia's investment has a strong pro-poor focus, emphasising infrastructure and agriculture. This has helped to ensure that growth is inclusive, benefiting both urban and rural communities. As a result, over the past eight years 2.5 million people have been lifted out of poverty, and the proportion of Ethiopians living below the poverty line has fallen below 30%. In addition, Ethiopia reduced unemployment to just 4.5% in 2013, helping to create a vibrant middle class that is an increasingly attractive market for goods and services.

These achievements are all the more remarkable, given Ethiopia's many development challenges. Ethiopia lacks the mineral resources that have driven growth in many other African countries. It remains heavily dependent on rain-fed agriculture, and adverse weather still brings serious problems of food insecurity. The Government has prioritised helping farmers move from subsistence to commercial farming through a wide range of measures, as part of its goal of achieving middle-income country status by 2025.

**Improving infrastructure** – One of Ethiopia's central priorities is infrastructure development, with investment rates equivalent to 3% of GDP. The road density has doubled over the past eight years, improving connections across the country and in the region. While the trunk road network is in relatively good condition, the coverage and quality of rural roads remain poor; only a tenth of the population lives within 2 km of an all-weather road. Renewable energy is an important driver of growth. Almost all of Ethiopia's electricity comes from hydropower, and its generation capacity has tripled since 2005. This has translated into dramatic benefits for the population, with 53.5% now enjoying access to electricity, compared to just 16% eight years ago. Access to clean water is also higher than the regional average, thanks to ambitious Government programmes.

**Expanding access to services** – In the social field, there have been major efforts to improve the coverage of health services across the country. Infant mortality is steadily declining, and life expectancy is on the rise. Maternal and neonatal mortality has been a harder problem to address, however. Devoting an impressive 28% of its public expenditure to education, Ethiopia has succeeded in raising the primary completion rate from 34% to 53% over the past eight years. It has made progress in promoting the education of girls, although literacy rates for women still lag behind those of men. The Government is working hard to raise the quality of teaching and learning. With nearly three-quarters of Ethiopians under 30 years of age, youth unemployment remains a very serious challenge. The Government is increasing its investment in technical and vocational training, to help prepare young people for work.

**Continuing challenges with food security** – As droughts become more frequent and severe, Ethiopia faces challenges with food security. Poor agricultural productivity drives high food prices. While Ethiopia has made progress in tackling malnutrition, its figures on stunted and underweight children remain alarming. In 2013 2.7 million people were dependent on emergency food aid and another 7 million were chronically food-insecure.

## Summary performance scorecard



For Level 1, Ethiopia's relative performance is measured by comparing its progress with progress in peer ADF countries; for Level 2, the Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed; and for Levels 3 and 4, progress is measured against the targets set out in our Results Measurement Framework.

- **Made progress:** more than half of the indicators in the group improved over baselines or reference groups.
- **Little progress:** results are mixed, with equal numbers of indicators showing improvement or little/no progress.
- **Progress stalled or regressed:** more than half of indicators in the group stalled or regressed over two or more review periods.
- **Progress could not be measured.**

**Mixed performance on governance** – In the governance arena, Ethiopia has benefited from rising political stability over the past decade, with credible elections and a peaceful transition following the death of the former Prime Minister, Meles Zenawi. Economic policies remain prudent, with a steady increase in economic governance capacity. The Government has done particularly well on revenue mobilisation, doubling its tax base since 2008/09. The national budget is realistic and transparent, and control of corruption is ahead of the regional average. At the same time, in the Mo Ibrahim Index on African Governance, Ethiopia still has relatively low rankings for political participation and the rule of law.

**Continuing challenges with competitiveness** – The Government has ambitious plans to promote the structural transformation of the economy through increased food processing and manufacturing. It has developed some promising niches. For example, rose production now employs 50 000 people and earns over \$200 million in exports. However, Ethiopia still faces challenges in creating a healthy business environment. For example, while the country is beginning to close the gap on access to finance, it still lags well behind the rest of the region; barely one in 10 Ethiopians makes use of financial services.

## The AfDB's contribution

Over the past 40 years, the AfDB has been a leading provider of development finance in support of Ethiopia's national development agenda, with 118 projects at a total value of \$4 billion. The lion's share of our support goes into infrastructure, particularly electricity supply, water and sanitation and transport, including regional connections. We also have projects in the agriculture sector and in governance, as well as a number of multisector interventions. Our support is closely aligned with Ethiopia's national development strategies.

**Transport** – AfDB investments have made a substantial contribution to expanding Ethiopia's road infrastructure. Over the past eight years, the Bank has built or rehabilitated 389 km of roads, while helping to create the institutional capacity to maintain them. Major investments included the Wach-Maji road upgrade and improvements to the road between Butajira and Sodo. Our investments have provided farmers and businesses with year-round access to inputs and markets, bringing more economic activity into rural Ethiopia. The Bank is also contributing to constructing or rehabilitating 345 km of cross-border roads, helping to improve Ethiopia's connections to regional markets and to the port at Mombasa. Overall, we helped to provide over 7.5 million people with improved access to transport.

**Energy** – We have made a substantial contribution to Ethiopia's impressive results on electrification. Our finance has provided nearly 40 000 people with electricity connections. Another 140 000 people are expected to benefit in the coming years from our ongoing energy projects. We have supported the development of the East Africa regional power pool, which enables the countries of the region to trade power and achieve substantial cost savings. We financed a 283 km high-voltage transmission line between Ethiopia and Djibouti, providing Djibouti with cheaper, renewable electricity and

generating revenues for Ethiopia's electrification programme. We also invested in a 1045 km transmission line between Ethiopia and Kenya, with substantial economic benefit to both countries.

**Water and sanitation** – Our support for national water and sanitation programmes has made a major contribution to health outcomes, while reducing the heavy burden on rural communities – especially women – of fetching water. Since 2005, we have achieved our target of providing improved water and sanitation to 250 000 people in Ethiopia. We have built piped water systems for Harar and four neighbouring towns and helped to build the institutional capacity required to operate and maintain them. In rural areas, we have rehabilitated water supply, built latrines for schools and health centres and promoted better hygiene practices. We have made a particular effort to engage Ethiopian women in the management of community water supply, which helps to promote sustainability. Over the next three years, we expect to provide 1.9 million people with access to improved water supply services.

**Basic services** – The AfDB has contributed budget support to Ethiopia's ambitious decentralised service programme, helping to meet the salary costs of teachers, health workers and other front-line service providers. The programme has a strong pro-poor focus and has been a major contributor to Ethiopia's impressive progress on the Millennium Development Goals. It has also contributed to better budgetary management at the local level, including increasing transparency and giving citizens greater say in local services.

**Private sector development** – We have supported successful private sector projects in Ethiopia. A strategic investment in the cement industry helped to lower costs for the construction sector, promoting more foreign and domestic investment; and our investment in Ethiopian Airlines helped it to sustain its strong performance and become one of Africa's top three international carriers. We also provided financial services to the many Ethiopians who run small and micro businesses. Our microfinance, which is supported by training in skills and business management, has benefited nearly 2 million people.

**Agriculture** – Finally, with 80% of Ethiopia's workforce engaged in agriculture, mostly rain-fed, we have focused our agricultural development support on improving water-harvesting techniques, small-scale irrigation and the management of local ecosystems. Though our achievements fell somewhat short of our targets, we promoted improved water management on over 10 000 hectares of land and replanted or reforested another 155 000. In a joint initiative with the African Union Commission to boost livestock production, we have developed programmes to eliminate tsetse fly from areas in six African countries, including Ethiopia.

## How we manage our portfolio

The AfDB's Ethiopia portfolio is in robust shape. In recent years, we have consolidated the portfolio into fewer, larger operations. By end-December 2014, we had 16 operations — 12 projects in the public sector through grants and loans, 2 private sector loans, 1 Climate Investment Fund operation, and 1 Africa Water Facility operation —

for an active portfolio of \$1.7 billion. The average size of our public sector operations is \$140 million, three times the average across Africa. By focusing our portfolio and exercising selectivity, we are in a better position to address implementation challenges and achieve higher levels of impact. We have worked closely with the Ethiopian Government to increase efficiency and effectiveness. We have introduced robust quality-at-entry checks and regular supervision arrangements, resulting in steady improvement in our quality ratings. In recent years, we have worked to ensure that our operations promote gender equality and contribute to Ethiopia's commitments to moving towards a green economy.

In line with our commitments on aid effectiveness, we have improved our use of country systems and the predictability of our funding. We have also worked hard to strengthen our role as a trusted partner of the Government. A strong in-country team enables us to provide policy and technical advice, particularly on infrastructure development and regional integration. The Bank has served as cochair of the Donor Assistance Group in Ethiopia and has participated actively in a large number of sector working groups.

### **Our own organisational efficiency in Ethiopia**

The Bank's policy of decentralisation has made a major contribution to our Ethiopian operations. Our field office is one of the largest in Africa, able to lead on most operational roles and engage actively in policy dialogue and donor coordination. It also plays a key role in outreach and advocacy at the African and international levels. Addis Ababa, home to the African Union and the United Nations Economic Commission for Africa, frequently serves as a hub for high-level conferences and events. In 2011, we established a Joint Secretariat

Support Office to support the activities of all three organisations. The Country Office works closely with the Joint Secretariat Support Office to improve our effectiveness on the ground.

As a major field office, we have access to outstanding staff, with an excellent retention rate and a growing proportion of female professionals. We also have a high-quality communications infrastructure that enables us to operate as One Bank. Our staff hold regular training sessions for their counterparts in the Ethiopian Government, to strengthen their project management capacity.

### **The way forward**

Our work in Ethiopia over the past few years has given us a strong foundation on which to build in the coming years. We will continue to work closely with the Government in support of its Growth and Transformation Plan. Our priority continues to be helping Ethiopia to close its infrastructure gap and pursue regional integration. We will also continue to support agriculture, basic services and the business environment.

We will also work with the Ethiopian Government and other development partners to ensure that our support is well aligned and coordinated, that our projects are implemented efficiently and that our development impact is maximised. While Ethiopia's development performance has been outstanding in many areas, the country still has to overcome some major challenges to achieve the structural transformation required for deep and lasting inroads into poverty. We stand ready to help Ethiopia promote this transformation and achieve its vision of middle-income country status by 2025. ■





## Education for all

Education indicators have substantially improved between 2005 and 2013 in Ethiopia. In 2013, nearly 86% of the children were enrolled in primary education.

# Introduction

Ethiopia is one of the leading countries in Africa today in building prosperity and tackling poverty through inclusive growth. It is also one of the largest recipients of African Development Fund resources, with an active portfolio of \$1.7 billion at the end of 2014. This Development Effectiveness Review (DER) explores the contribution of the African Development Bank (AfDB, or the Bank) to Ethiopia's national development. It is one of a series of DERs that the Bank produces each year to present its assistance and its results to a broad audience.

The DER draws on the Bank's Results Measurement Framework for Ethiopia (see Figure 0), which measures Ethiopia's development results and the contribution made by the Bank's assistance. With the Results Measurement Framework, we track our performance through 85 indicators, capturing the results of our operations over the past decade and our efforts to strengthen our portfolio and our own organisation. Each result is presented with a simple traffic-light indicator, showing how well we have performed against our targets. The DER discusses the significance of these results, providing illustrative examples of our operations and our efforts to promote improved development policy through analytical work and policy dialogue.

The DER is organised according to the four levels of the Results Measurement Framework. Chapter 1 presents Ethiopia's successes in recent years in promoting national development. It examines the drivers of growth and discusses how the Government has promoted inclusion through exceptionally high rates of public investment in infrastructure and human capital development and through sustained improvements in decentralised service delivery. It also examines some of the challenges that Ethiopia still faces in creating an environment conducive to private-sector-led growth.

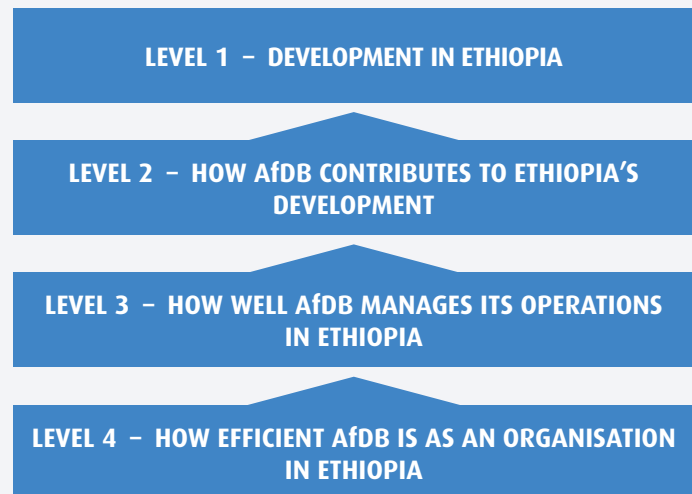
Chapter 2 presents the aggregate results of Bank operations that have reached completion over the past decade, showing our

contribution to Ethiopia's national development efforts. Results are presented according to our main sectors of engagement—infrastructure (including regional integration), private sector development, agriculture, and health and education services.

Chapter 3 reports on the health of the Bank's portfolio in Ethiopia and the efforts we have made to strengthen our business processes and increase the efficiency and effectiveness of our operations. Chapter 4 looks at our own efficiency as an organisation, including our progress in building an effective country team.

The final chapter looks at some of the challenges Ethiopia will face in the coming years and discusses how the Bank proposes to assist in addressing them. It also underlines the way forward both for the country and the Bank, in light of the important and rapid transformation that is taking place in Ethiopia. ■

**Figure 0 The Bank's Results Measurement Framework**





Addis Ababa exemplifies the construction boom in the country. In recent years, massive infrastructure investments have transformed the capital city.

# Level 1: Development in Ethiopia

**E**thiopia is without question one of Africa's high achievers, with a rapidly growing economy and falling poverty rates. It also faces some serious national development challenges. As one of Africa's largest and most populous countries, it has vast infrastructure needs. Continued dependence on rain-fed agriculture, in the face of increasingly variable rainfall, creates persistent problems of food security. The Government has a clear national development vision and a strongly pro-poor orientation to its national budgets and investments, but it still has some way to go to create an environment conducive to private-sector-led development.

This chapter takes stock of Ethiopia's recent achievements in national development and its efforts to address the outstanding challenges. The chapter is organised according to the five areas the AfDB identifies in its Strategy 2013–2022 as essential to inclusive growth: social, economic, spatial, and political inclusion, and building a competitive economy. Each of these areas is explored through indicators of progress, with a "traffic light" score showing Ethiopia's progress as compared to other recipients of African Development Fund (ADF) resources.

## Economic inclusion

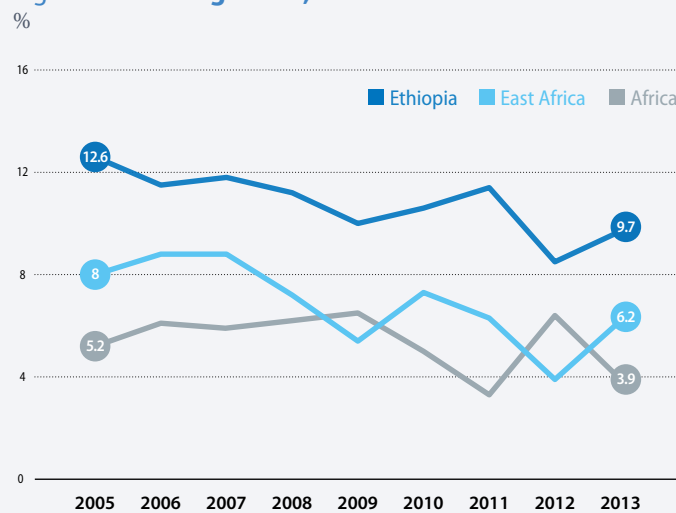
Ethiopia has one of the fastest-growing economies in the world. Its 2013 ● **GDP growth**<sup>1</sup> rate of 9.7% – and its average rate of 10% for the past decade – compares very favourably with the 6.2% average of the comparator countries<sup>2</sup> (see Figure 1.1). Despite high population growth, Ethiopia's ● **GDP per capita** has more than tripled over the last eight years, from \$171 in 2005 to \$550 in 2013.

This strong economic performance has given Ethiopia an excellent platform from which to pursue its national development agenda. Ethiopia's national development plans, including the current Growth and Transformation Plan 2010–2015 (GTP), have focused on delivering broad-based development, reducing poverty and achieving the Millennium Development Goals (MDGs) (see Box 1.1). The main driver of growth over the last decade has been large-scale public sector investment. From 2010 to 2013, total spending on the growth-oriented pro-poor sectors of education, agriculture and food security, water and sanitation, health and roads amounted to \$12.7 billion. In 2012/13 alone, the spending on these sectors accounted for over 70% of the general government spending. This allocation and spending pattern demonstrates the country's commitment to eradicate poverty in all its dimensions.

By 2013, ● **total investment** by the public sector reached 33% of GDP, as compared to 22.4% in 2005. Across low-income countries in sub-Saharan Africa, the public investment rate is just 22.8% of GDP. Some

70% of Ethiopia's public investment has had a pro-poor focus, with particular emphasis on infrastructure and commercial agriculture.

**Figure 1.1 GDP growth, 2005 to 2013**



Source: MoFED, African Economic Outlook.

This high rate of pro-poor investment has helped to ensure that Ethiopia's growth has been inclusive in nature, spanning different

1 A green bullet indicates that progress is strong and better than that of peers, a yellow bullet indicates that progress is positive but less than that of peers; and a red bullet indicates regression against the baseline.

2 Comparator countries are here defined as low-income countries in sub-Saharan Africa receiving support from the Bank.

Table 1: **Development in Ethiopia (Level 1)**

Table 1 summarises Ethiopia's development progress between 2005 and 2013. The indicators of the One Bank Results Measurement Framework have been complemented by country-specific indicators to capture areas in which AfDB provides support and advice. For each indicator, we compare Ethiopia's progress with that of its peer group of low-income countries in Africa, as follows:

- Progress is strong and better than that of peers
- Progress is positive but less than that of peers
- Regression against the baseline
- Data are not available to measure progress

INDICATOR	ETHIOPIA		LOW-INCOME AFRICAN COUNTRIES (ADF)	
	2005	2013	2005	2013
<b>ECONOMIC INCLUSION: ACHIEVING THE TRANSFORMATION OF THE ECONOMY THROUGH ROBUST ECONOMIC GROWTH</b>				
● Real gross domestic product (GDP) growth (%)	12.6	9.7	5.1	6.2
● GDP per capita (current \$)	171	550	417	818
● Total investment (% of GDP)	22.4	33.0	20.2	22.8
● Unemployment (%)	5.0	4.5	5.4	9.0
● Population living below the poverty line (%)	38.7	29.6	49.1	46.3
● Income inequality (Gini index)	30.0	30.4	42.0	42.5
● Agriculture, value added (% of GDP)	46.7	48.8	29.2	28.7
<b>SPATIAL INCLUSION: INVESTING IN INFRASTRUCTURE AND SERVICES TO BOOST TRANSFORMATION</b>				
● Road density (km/1000 km <sup>2</sup> )	33	78	52	72
● Paved roads (% of total roads)	13.4	15.7	14.0	17.0
● Access to improved water source (% population)	38.1	68.5	57.0	62.0
● Access to improved sanitation facilities (% population)	8.0	76.0	24.1	25.1
● Access to electricity (% population)	16.0	53.5	25.9	32.0
● Internet users (per 1000 people)	2	48	19	85
● Mobile cellular subscribers (per 1000 people)	6	276	78	509
<b>SOCIAL INCLUSION: IMPROVING HUMAN DEVELOPMENT</b>				
● Life expectancy (years)	56.6	63.0	53.2	58.2
● Infant mortality rate (per 1000 live births)	77.0	59.0	80.4	65.2
● Maternal mortality (per 100 000 live births)	871	676	675	515
● Enrolment in primary education (% net)	74.9	85.7	72.9	78.6
● Primary completion rate (%)	34.0	52.8	57.0	67.3
● Girls/boys ratio in primary education	84.0	94.0	84.8	91.0
● Women in national parliament	21.4	27.8	14.6	20.8
● Global Hunger Index	31.0	25.7	22.4	20.0
<b>POLITICAL INCLUSION: SECURING BROAD-BASED REPRESENTATION</b>				
● Mo Ibrahim Index of African Governance (index)	45.2	47.6	44.8	48.0
● Tax revenues (% of GDP)	11.6	12.5	12.2	15
● Corruption perception score (1-10)	2.2	3.3	2.5	2.7
● CPIA Country Policy and Institutional Assessment (1=low to 6=high)	3.5	4	3.2	3.5

INDICATOR	ETHIOPIA		LOW-INCOME AFRICAN COUNTRIES (ADF)	
	2005	2013	2005	2013
<b>SUSTAINING GROWTH: BUILDING A COMPETITIVE ECONOMY BY FACILITATING THE BUSINESS CLIMATE</b>				
● Cost of trading across borders (\$) <sup>..</sup>	2037	2180	1656	2174
● Time to export (days)	47.0	44.0	40.7	31.8
● Global competitiveness (index)	3.3	3.5	3.1	3.5
● Time required for business start-up (days)	34	15	57	25
● Cost of business start-up (% of income per capita)	64.9	100.1	208	76.6
● Commercial bank branches per 100 000 adults	0.9	2.9	2.2	5
● Logistic performance index (0-5)	2.3	2.6	2.3	2.4

.. = data not available; ADF = African Development Fund; GDP = gross domestic product; \$ = United States dollars.

Notes: Where data are not available for 2013, the latest available values are used.

Source: African Development Bank, Ministry of Finance and Economic Development (MoFED), Central Statistical Agency, the World Bank Group, International Food Policy Research Institute, Transparency International, Inter-Parliamentary Union, International Monetary Fund, and the Ibrahim Index of African Governance.

economic sectors and benefiting both urban and rural communities. The massive boom in construction activity—from the major infrastructure works of new roads, railways and hydroelectric plants to major housing and commercial developments—and a huge expansion in public sector employment have provided many jobs, particularly in Addis Ababa and the country's major towns.<sup>3</sup> At the same time, programmes to improve agricultural productivity and support small and medium-sized businesses have increased incomes more broadly. According to the Government, since 2011 the GTP has created about 1.6 million jobs through small and medium-scale enterprises.

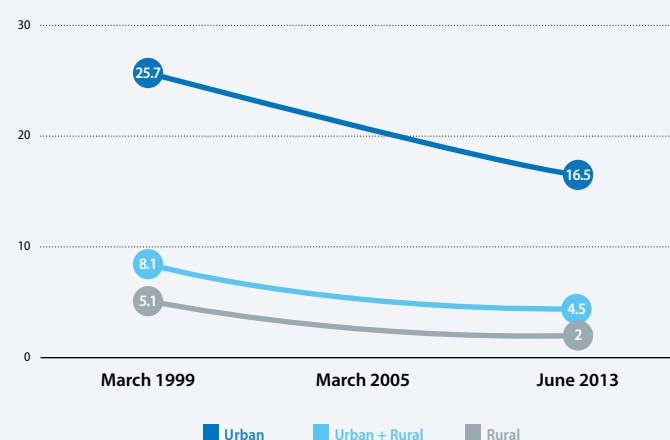
As a result, Ethiopia has reduced ● **unemployment** from 5% in 2005 to 4.5% in 2013 (see Figure 1.2)—a remarkable result, considering that in comparable countries unemployment increased from 5.4% to 9% over the same period. Ethiopia's middle class has expanded, increasing domestic demand for goods and services and helping to drive continued growth (see Box 1.2). It is expected that Ethiopia's middle class will be one of the most important in Africa by 2030.

Ethiopia has also continued to be a more egalitarian country than most in Africa. ● **Income inequality**, as measured by the Gini coefficient, has risen from 30.0 in 2005 to 30.4, yet it still compares favourably to the average of 42.5 in the low-income countries in Africa.

Overall, inclusive growth in Ethiopia has had a dramatic impact on poverty levels. From 2005 to 2013, despite strong population growth, the proportion of the ● **population living below the poverty line** fell

from 38.7% to 29.6%. This equates to lifting 2.5 million people out of poverty. By comparison, the poverty headcount figures for low-income countries in sub-Saharan Africa as a group fell much more slowly, from 49.1% in 2005 to 46.3% by 2013. Poverty remains higher in Ethiopia's rural areas than in urban centres, but, according to the last GTP report, the gap has narrowed considerably over the last decade.

Figure 1.2 Unemployment rate by place of residence, 1999 to 2013



Source: CSA, National Labour Force Survey (2013).

3 GTP Annual Progress Report for FY 2012/13.

These achievements are all the more outstanding given Ethiopia's many development challenges as a landlocked country and the second most populous country in Africa. Much of the population is still dependent on rain-fed agriculture. Food insecurity remains high, and serious droughts led to famine in 2011/12. Ethiopia does not have oil, which has been the engine of growth in many other African countries. However, gold is one of the country's important products, with record exports worth \$602 million in 2011/12.

### Box 1.1 From PASDEP to GTP: Ethiopia's planning strategies

Ethiopia's overriding policy agenda has been to fight and eradicate poverty. The five-year Plan for Accelerated Development to End Poverty 2005–2010 ( PASDEP ) was the main vehicle to scale up resources to tackle poverty and achieve the MDGs. It focused on infrastructure development, agricultural transformation and governance and promoted decentralisation to direct resources towards the poorest. It also embodied some bold new directions, including a major focus on commercialising agriculture and developing the private sector. Building on the PASDEP, the Growth and Transformation Plan 2010–15 places economic transformation and economic inclusion firmly at the centre of Ethiopian development policy. The GTP is an ambitious five-year growth plan to achieve GDP growth of 11–15% per year from 2010 through 2015. Its total cost is estimated at \$75–79 billion over five years.

### Box 1.2 Ethiopia's burgeoning middle class

Over the last decade Ethiopia has increased the ranks of its middle class—those earning between \$2 and \$20 day. Africa has the fastest-growing middle class in the world, and the expansion in Ethiopia's middle class matches that of Nigeria and South Africa. This is creating a vital structural change within the country, with internal demand becoming a source of growth in its own right and providing an increasingly attractive consumer market for domestic and foreign investors.

Source: The Middle of the Pyramid: Dynamics of the Middle Class in Africa, AfDB, 2011.


Agriculture is the largest sector of the economy, providing jobs for four-fifths of the workforce and earning 70% of export revenue. Rural areas have been a major beneficiary of public sector investment, much of which has been in infrastructure to enable farmers to access inputs and markets. Last year, the agriculture sector as a whole grew by 7.1%. Since 2005 the **value added from agriculture** has increased from 46.7% to 48.8% of GDP (see Box 1.3).

However, Ethiopia's agricultural productivity is still among the lowest in sub-Saharan Africa. Helping farmers move from subsistence agriculture to commercial farming is an urgent priority. This calls for more transport and marketing infrastructure, along with a raft of measures to raise productivity. Scaling up the use of modern farming practices, reducing

the cost of inputs, encouraging micro-irrigation schemes, providing access to credit and supporting farmers in producing high-value crops for export are all key priorities for the Government. Increased research into and dissemination of improved seed varieties, breeds and farming practices would also help to increase yields. Continued efforts need to be exerted to consolidate plots and encourage farmers to use improved technologies and farming methods to enhance land productivity. At the same time, given the alarming trend of increasing rural population density, more effort is also needed to open up alternative livelihood options for rural unemployed youths.

### Diversification of the economy

Looking ahead, the Ethiopian Government will continue to promote the structural transformation of the economy, as set out in the GTP. By facilitating the shift of workers from low- to higher-productivity activities, including processed agricultural products and light manufacturing, Ethiopia is laying the foundation to achieve its aim of middle-income country status by 2025. The economy is increasingly linking in to global value chains and expanding its industrial sector — which currently represents 12.4% of GDP — by exporting textile and leather products and diversifying into new products for European markets (see Figure 1.3). Private sector investment remains low in Ethiopia compared to other countries in East Africa, and the financial sector is relatively undeveloped as yet, with the most strategic sectors remaining in public ownership. However, given the country's competitive production costs, including labour, the private sector could contribute much more in the future. Foreign direct investment into the country has been increasing, from \$150 million in 2005 to \$1.2 billion in 2012.

 *Agriculture is the largest sector of the Ethiopian economy, providing jobs for 80% of the workforce*

The Ethiopian Government has been very proactive in promoting green growth at both the country and the global levels. Ethiopia's 2011 Climate Resilient Green Economy Strategy sets out a comprehensive approach to mitigating the impacts of climate change on the country's development. The Strategy has been a valuable guide to other countries pursuing similar aims. It is closely linked to the GTP and provides compelling evidence on the value of investing in greener growth paths. Ethiopia focuses on reducing carbon emissions in agriculture by improving crop and livestock production, protecting and re-establishing forests, promoting renewable energy generation and leapfrogging to modern and energy-efficient technologies in infrastructure development.

### Spatial inclusion

Infrastructure connections are key to ensuring that the benefits of growth are shared across Ethiopia's vast territory. The country has made major progress in expanding its road network, enabling the rural population to access inputs and markets and make use of health and education services. With more than 80% of Ethiopians living in rural areas, road development has been an important driver of poverty

reduction. Since 2005, infrastructure investment rates equivalent to 3% of GDP have more than doubled the **road density**, from 33.2 km to 78.2 km per 1000 km<sup>2</sup>.

As a result, Ethiopia now has basic national and regional connectivity. Addis Ababa is linked to regional capitals, the ports in Djibouti and Kenya and international border crossings. Ethiopia is developing a major railway to the Djibouti port for passengers and freight, which will open the landlocked country to international markets. In addition, the substantial investment in the transport corridor connecting Addis Ababa and Nairobi will dramatically increase trade with Kenya by reducing transit costs, as well as making it cost-effective for Ethiopian businesses to use the Mombasa port—another way for the country to access international markets. (Box 1.4 discusses Ethiopia's increasing air linkages to the rest of the world, and Box 1.5 discusses Ethiopia's economic integration with East Africa.)



*Ethiopia's abundant hydropower resources are providing energy both for national development and for export*

The quality of Ethiopia's trunk road network is good, with 73% of asphalt road and 57% of gravel roads in good condition, reflecting appropriate attention to maintenance. Yet given the vast size of the country, the coverage and quality of rural roads remain poor, with only one-tenth of the rural population living within 2 km of an all-weather road. The share of **paved roads** has grown to 15.7%, but many communities remain isolated during the rainy season. There continues to be a strong focus on developing rural access roads under the Universal Road Access programme, which has built 35 000 km of roads since its launch in 2010.

### Energy as a driver of growth

Renewable energy is a key driver of growth and poverty reduction in Ethiopia. Access to electricity transforms lives by enabling people to start businesses or gain access to health and education services. The country has an abundance of hydro resources, and although almost all of Ethiopia's electricity comes from hydropower, much of those resources remain untapped. Generation capacity has almost tripled since 2005. This has led to dramatic benefits for the population, with 53.5% now enjoying **access to electricity** (see Figure 1.4), compared to just 16% eight years ago and to the average of 32% in low-income countries in sub-Saharan Africa. However, even if the efforts in the energy sector have been important, they still do not meet the needs of the cities and the industries; the country's electrification (household connection) rate is still low.

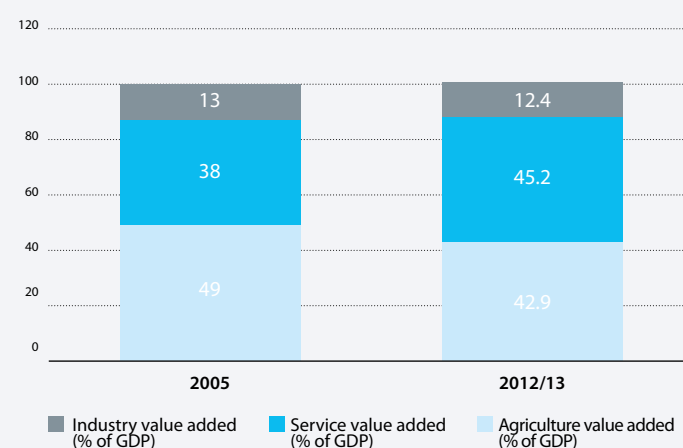
The Ethiopian Government is now constructing the largest hydropower plant in Africa, the Grand Renaissance Dam. It will have an installed capacity of 6000 MW, providing energy not just for national use but also for export to neighbouring countries. In addition, the Government has recently completed a restructuring of the power sector, creating two holding companies for generation and transmission and allowing for

multiple distribution companies. This will open up the power sector to private investors, increasing efficiency and reducing the costs of energy supply. (Box 1.6 discusses Ethiopia's efforts in renewable energy.)

### Improving access to water and sanitation

Ethiopia has made considerable progress in improving access to water and sanitation facilities. The Government has been implementing an ambitious "Universal Access Plan" that seeks to provide 98.5% of the population access to safe water by 2015. As a result of determined efforts, the proportion of the population with **access to improved water sources** has increased from 38.1% in 2005, which was well below the average in low-income countries in sub-Saharan Africa, to 68.5%, which is now ahead of the comparator countries. Access in rural areas stands at 66.5%, while in urban areas it has reached 81.3%. At the current rate of investment, nearly 1.9 million Ethiopians gain access to

Figure 1.3 The evolving composition of the GDP



Ethiopia has traditionally relied heavily on agricultural production but has been diversifying its economy. In recent years the part of agriculture has decreased as the shares of services and industry have increased. In particular, the contribution of industry to the gross national product grew by 18.6% in 2013; under the GTP, industry's share should increase to 18.8% by 2015.

### Box 1.3 The diversification of agriculture: the example of the roses

In recent years Ethiopia has developed a profitable export market in roses, following Kenya's successes in this area. Ethiopia's dry climate and high altitudes are well suited to flower cultivation, and the sector has grown rapidly. The Government has supported the industry by making thousands of hectares of suitable land available for foreign investors. In 2013, Ethiopia exported more than 2 billion stems of flowers at a value of \$212 million, making it the fourth-largest rose producer in the world. For Valentine's Day 2014, 70% of the roses sold in France came from Ethiopia. In recent years, rose production has created 50 000 jobs, of which 70% were for women.

improved water every year. However, the costs are increasing as Ethiopia deals with the challenge of variable rainfall and recurrent drought. To maintain its progress, it will need more investment and stronger delivery capacity.

Hygiene promotion efforts have been central to promoting better sanitation. The “Universal Access Plan” adopted the challenging target of access to better sanitation facilities for 100% of the population. Households have invested in traditional latrines on a huge scale, and this has achieved remarkable results. In 2005, the proportion of the population with ● **access to improved sanitation facilities** was just 8%, compared to an average of 24.1% across low-income countries in sub-Saharan Africa. By 2013, this had increased to 76% of the population, compared to 25% in comparator countries. Together with greater access

to clean water, this is making a huge difference to people’s health and their ability to work and contribute to economic development.

### Boosting ICT development

Ethiopia has seen major expansion in information and communication technology (ICT) over the last few years. However, the use of mobile phones and the Internet is not yet as widespread in Ethiopia as in other comparable countries. In Ethiopia, 276 people per 1000 are ● **mobile cellular subscribers**, compared to just 5.6 in 2005. Fewer than a million people subscribe to landlines, as Ethiopia leapfrogs straight to mobile networks. Access to the Internet is low in most of the country, although it has increased considerably since 2005. Only 5% of the population are ● **Internet users**, compared to 8.5% in comparator countries. The 2013 Web Index, which scores levels of access and freedom and the relevance of content of the Internet, rates Ethiopia very low in the international ranking (80<sup>th</sup> out of 81 countries).

### Box 1.4 Addis Ababa, future hub of East Africa?

Ethiopian Airlines has risen quickly to become one of Africa’s top three international carriers, known for its international safety record and extensive network across the world. The airport at Addis Ababa has become one of the three main international hubs in sub-Saharan Africa, with the number of transit passengers reaching 5 million in 2013. In addition, Ethiopian Airlines has recently expanded its domestic network, bringing the number of local destinations to 20. This not only contributes to tourism development, but also makes better connections with more isolated parts of the country, allowing easier trade and communication.

The Ethiopian Government has recognised the transformative potential of ICT as a gateway to the financial system, government services and of course the wider world. It is expanding its rate of investment and, through initiatives such as the 200 hectare Ethio-ICT-Village, is trying to attract major interest from communication companies. At the same time, it is promoting and modernising the institutional and regulatory framework. These crucial efforts should facilitate ICT uptake across the country and help introduce competition to the ICT sector—Ethiopia’s central challenge in this area.

### Box 1.5 Ethiopia’s integration with East Africa

Regional economic integration is key to inclusion, allowing the benefits of growth in East Africa’s rapidly growing urban centres to be shared more broadly across the region.

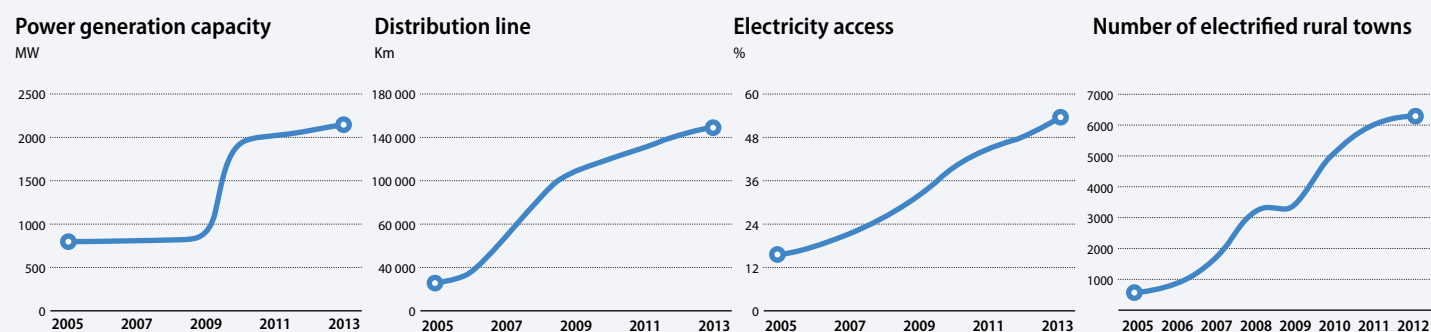
Ethiopia is a member of several regional economic communities and intergovernmental bodies. In 2008, the East African Community and the Common Market for Eastern and Southern Africa (COMESA) joined with the Southern African Development Community (SADC) to establish a Tripartite Arrangement, with a view to working towards an eventual single regional economic community.

Ethiopia is also one of the member states of the Inter-Governmental Authority on Development (IGAD), one of the regional integration arrangements in Eastern Africa. Political instability and conflicts remain the major constraints to bringing member states together for their mutual benefit. These challenges are exacerbated by periodic drought and poor economic and physical infrastructure. Following the severe drought in 2011, the Bank is the leading institution supporting IGAD and its member states with a long-term investment in a drought resilience and sustainable livelihoods programme. As part of this programme, the Bank provided resources to build the capacity of the IGAD Secretariat to coordinate all drought-resilience initiatives in the region.

Most member states, including Ethiopia, are also benefiting from Bank-financed initiatives. These projects are strongly aligned with the IGAD framework for collective engagement, with strong regional dimensions in the areas of cross-border rangeland management, livestock trade, trans-boundary water resources and livestock disease control and knowledge sharing.

There are a number of substantial challenges to effective economic integration across East Africa. First, transport infrastructure is underdeveloped and often in poor condition, leading to long transit times and to freight costs that are twice those in the USA or Europe. For landlocked countries like Ethiopia, transport costs can account for 75% of the price of exports. Energy is another major challenge: power shortages are a significant brake on productivity and competitiveness. When fully operational, the East African power pool will allow trading of electricity across national boundaries, making a major contribution to affordable and reliable energy. The region also has extensive shared water resources, including Lake Victoria and the Nile Basin. Intergovernmental cooperation is essential to managing these resources effectively.

Figure 1.4 Investment in electricity, 2005 to 2013



Source: GTP report 2012/2013.

## Social inclusion

Ethiopia has made tremendous progress in reducing extreme poverty and is on track to achieve five of its MDGs—those covering poverty reduction; universal primary education; reduction in child mortality; combating HIV/AIDs, malaria and other diseases; and developing a global partnership for development (see Figure 1.5). In spite of the important efforts over the past decade, however, the country is still ranked at just 173 out of 186 countries on the Human Development Index 2014, reflecting the persistence of poverty and malnutrition, inadequate health and education services and a lack of opportunities for advancement. The Government has made improving human development central to its development strategies and has achieved some major breakthroughs in recent years.

From 2005 to 2013, more than 2.5 million Ethiopians have been lifted out of poverty, as Ethiopia has adopted policies to promote inclusive growth through agriculture and other labour-intensive sectors. There have been major efforts to improve the coverage of health services across the country: the number of health posts more than tripled between 2005 and 2013, while the number of health centres increased more than fivefold and the number of public hospitals increased by 40%. These measures have contributed to steady

*The government's ambitious investment programme has lifted 2.5 million Ethiopians out of poverty over the past eight years*

progress on a range of health indicators.

### Impressive progress in the social sectors

Most notably, **life expectancy** has increased from 56.6 years in 2005 to 63 years in 2013, exceeding the average life expectancy of 58.2 in low-income countries in sub-Saharan Africa. There have been successes in reducing the prevalence of infectious diseases—of

malaria through the widespread use of insecticide-treated bed nets, and of tuberculosis through treatment. Over the same period, the **infant mortality rate** has fallen from 77 to 59 deaths per 1000 live births, and there has been a steady decline in maternal mortality, from 871 to 676 deaths per 100 000 live births; however, **maternal health** still lags behind comparator countries. Neonatal mortality has remained at constant levels since 2005. Thus, despite some good progress, too many mothers and infants are still dying.

### Box 1.6 Leading the development of renewable energy

Ethiopia aims to become the region's leading producer of renewable energy.

The country has huge potential for generating wind power; it has recently opened its largest wind farm (costing \$290 million) and plans further investment in this area. The current capacity of Ashegoda Wind Farm is 120 MW, but there are plans to increase it by 40 MW. In addition, the Adama-I wind plant has a capacity of 51 MW, and construction is under way on Adama-II, with a capacity of 153 MW. Wind energy will be used to complement the country's hydropower resources and help stabilise the national grid during the dry seasons, when low water reservoirs can limit hydro generation and wind speeds are high. Increased use of wind power gives opportunities for economies of scale, reducing unit costs and achieving greater efficiency.

Renewable energy technologies such as mini-grids and home systems allow people in remote and dispersed locations to use electricity. Solar and geothermal projects are also in preparation for the future in Ethiopia. For instance, with private sector involvement, Ethiopia is actively developing its geothermal resources through the Corbetti Power Project, which is expected to add 1 GW of capacity over the next decade.

These initiatives all help Ethiopia continue its drive to expand access to electricity across the country to benefit households and promote private sector activity.

Figure 1.5 Progress towards the Millennium Development Goals in Ethiopia

Goals	Ethiopia
 <b>Goal 1:</b> Eradicate extreme poverty and hunger	●
 <b>Goal 2:</b> Achieve universal primary education	●
 <b>Goal 3:</b> Promote gender equality and empower women	●
 <b>Goal 4:</b> Reduce child mortality	●
 <b>Goal 5:</b> Improve maternal health	●
 <b>Goal 6:</b> Combat HIV/AIDS, malaria and other diseases	●
 <b>Goal 7:</b> Ensure environmental sustainability	●
 <b>Goal 8:</b> Develop a global partnership for development	●

● On track  
● Likely to be on track

Source: <http://www.et.one.un.org/>

### Box 1.7 Gender equality in Ethiopia

In mid-2015, the African Development Bank launched the first-ever Gender Equality Index for 52 African countries. The index measures gender gaps across three dimensions: economic opportunity, social development, and laws and institutions. Countries are scored in each of the three dimensions and overall, on a scale from 0 to 100, with 100 representing perfect gender equality.

Ethiopia is ranked 31<sup>st</sup>, with an overall performance of 51.0: 67.7 for economic opportunity, 33.1 for human development and 52.1 for laws and institutions. Women play a major role in the agricultural economy. They make up two-thirds of the agricultural labour force and produce the majority of Ethiopia’s food. In terms of social development, the expansion of social development services has led to many improvements in health care for Ethiopian women. Legal reforms in Ethiopia boosted women’s productivity fairly rapidly. In 2000 the country introduced a package of reforms to its Family Law, raising the minimum marital age for women, removing the husband’s ability to deny the wife permission to work outside the home, and requiring the consent of both spouses to manage marital property. While the reform is now applied across the country, it was first introduced in three of Ethiopia’s nine regions. A study five years later found that those three regions were well ahead in terms of women’s labour participation and level of vocational skills.

By devoting 28% of its public expenditure to the education sector, Ethiopia has achieved major improvements in the coverage and quality of services. ● **Net enrolment in primary education** increased from 75% of all children in 2005 to 85.7% in 2013, and the ● **primary completion rate** increased from 34% to 52.8% over the same period, although many pupils still repeat years or drop out of education. The Government is working closely with regional authorities to improve the quality of education by targeting support to teaching and learning.

*By allocating 28% of its public expenditure to education, Ethiopia improved the primary education completion rate by about 20% in eight years*

Nearly three-quarters of Ethiopians are under 30 years of age. Young adults are more likely to be unemployed than older adults, and one-fifth of unemployed youth are uneducated and unskilled. The rate of youth unemployment declined from 11.1% in March 1999 to 6.8% overall (but 21.6% in the urban areas) by June 2013. Because lack of education is a major barrier to securing jobs and livelihoods, the Government is expanding technical and vocational training and higher education to help create competent and self-reliant citizens and transfer technological abilities that will contribute to the country’s economic and social development. This investment will ultimately contribute to improving the livelihoods of Ethiopians and to reducing poverty.

Ethiopia has made considerable effort to improve girls’ access to education. The ● **girls/boys ratio in primary education** has improved from 84% in 2005 to 94% in 2013. At secondary level, the ratio of girls to boys reached 82% in 2013. This progress is key to promoting gender equality across Ethiopia (see Box 1.7).

One illustration of the gender disparity is that women’s literacy levels are just 47%, compared to men’s 63%. Women are less involved in public life, including in business and decision-making roles. Unemployment is also more common among women, particularly younger women based in towns, where 23% are unemployed. Women are, however, slowly becoming more involved at the political level: ● **women’s representation in national parliament** has risen to 27.8% in 2013, from 21.4% in 2005. As a result, Ethiopia ranks 40<sup>th</sup> out of 188 countries in the Inter-Parliamentary Union international ranking.

Women’s participation in the economy has also increased during recent years. For instance, the proportion of Women Land Certificate Holders (joint with husbands and sole) increased from 19.4% in 2000 to 60% in 2011—a very important change, considering the importance of access to land in a predominantly agrarian society like Ethiopia. In terms of access to finance, nearly half of the clients (48%) of the 28 registered microfinance institutions in the country are women. In the meantime, in 2013 6.9 million women benefited from savings and credit services.

At present, Ethiopia's gender performance indicators remain low by sub-Saharan African standards, with Ethiopia ranked 118 out of 136 countries.

### Ensuring food security for all

Food security remains a critical problem in Ethiopia. Many of Ethiopia's 12.7 million smallholder farmers continue to be vulnerable to changing rainfall patterns and land degradation, exacerbated by climate change. With the growing population and land fragmentation, low yields, and poor seed production, recent cereal deficits have been 600 000 tonnes a year. This causes scarcity of food and high cereal prices, contributing to widespread hunger and malnutrition in affected areas (in both the sedentary mixed crop-livestock areas of the highlands and the mostly pastoralist lowlands).



*Ethiopian farmers remain vulnerable to variable rainfall, which continues to threaten food security*

There have been some important achievements in reducing hunger and malnourishment in Ethiopia. The **Global Hunger Index**, which gives equal weight to malnourishment, proportion of underweight children and child mortality, declined from 31 in 2005 to 25.7 in 2013, compared to an index of 20 across the comparable countries. In addition, the number of stunted children under the age of five declined from 57.8% in 2000/01 to 40% in 2013, and the number of underweight children decreased from 41% to 25% over the same period. Nevertheless, in 2013/14, 2.7 million people were dependent on emergency food aid and another 7 million were chronically food-insecure. Modernising and investing in the agriculture sector, developing the road network to enable better access to inputs and food aid, and improving access to water and irrigation are all key elements in tackling the continuing food insecurity many Ethiopians face.

### Political inclusion

Ethiopia has seen a steady increase in political stability since the crisis around the 2005 elections. National elections in 2010 were peaceful, and a smooth transition followed the death of the former Prime Minister, Meles Zenawi, in 2012. Achieving the peaceful transfer of power through the ballot box is evidence of democratic consolidation in Ethiopia.



*Ethiopia has doubled its tax revenues in recent years, providing more resources for public services*

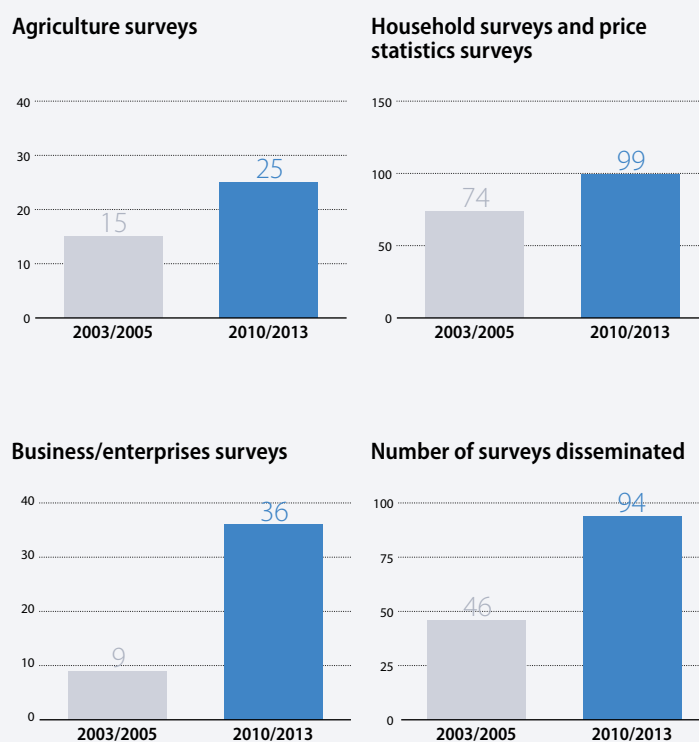
Alongside Ethiopia's success in promoting inclusive growth, there has been good progress in improving economic governance. The Government has pursued prudent macroeconomic policies,

ensuring that high-priority infrastructure spending for poverty reduction was protected whilst a tighter fiscal stance and careful monetary policy tackled the high levels of inflation caused by droughts and high cereal prices in 2011 and 2012. Ethiopia has steadily improved its score on the AfDB's **Country Policy and Institutional Assessment**, from 3.46 in 2005 to 4.01 in 2013 (on a scale of 1 to 6), which puts it on par with the average in the low-income countries in Africa.

In particular, the Government has taken measures to improve its tax administration, almost doubling its tax revenues since 2008/9.

**Tax revenues** as a proportion of GDP rose from 11.6 % in 2005 to 12.5% in 2013. Further efforts are planned, including strengthening the enforcement of tax laws, widening the tax base, reducing exemptions, and improving tax collection capacity, especially at regional level.

Figure 1.6 Improving the policy-making process through statistics



Source: Central Statistical Agency (CSA).

### Reinforcing transparency and fighting corruption

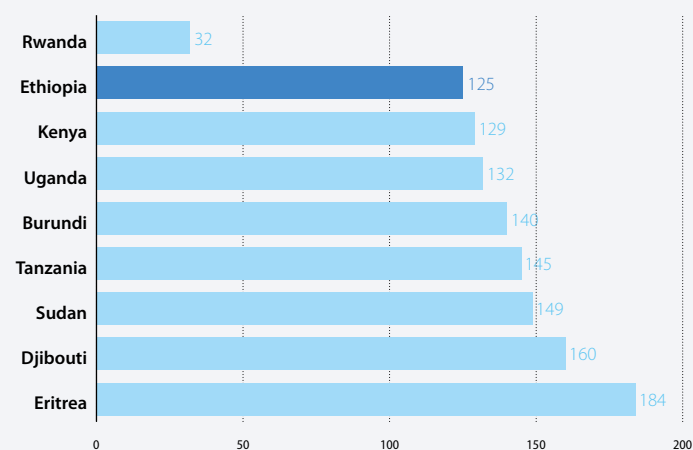
On public expenditure, the Ethiopian Government is tackling concerns about a lack of transparency by publishing more information about its spending at the national and regional levels. New legislation in 2008 gave citizens the right to access expenditure plans, and budget data are now regularly published on Government websites. District budgets

are disseminated through local newspapers and in such public places as markets, government offices, and community meetings.

Ethiopia is making progress in tackling corruption, performing better than the average low-income sub-Saharan country. The ● **corruption perception score** has improved from 2.2 in 2005 to 3.3 on a scale of 1-10, whilst comparator countries average 2.7. A commission was established in 2001 to raise awareness of corruption and to take action to prevent and investigate corrupt practices. Since then a number of senior government officials and private businesses have been successfully prosecuted. According to a recent report of the commission, petty corruption remains widespread across various government institutions, with the power, tax, investment and transport sectors having the highest corruption levels.

Overall, progress on governance in Ethiopia has been mixed. The country's ranking on the ● **Mo Ibrahim index of African Governance** rose from 45.2 in 2005 to 47.6, with Ethiopia at 33 out of 52 African countries. This recognises the Government's considerable success in promoting economic opportunity and human development. However, the index continues to show very low scores in other areas. The indicators on safety and rule of law are also low, although there has been some slight improvement over the past three years.

**Figure 1.7 Doing business in the East Africa region (ranking 2013–2014)**



Source: The World Economic Forum.

Another area where Ethiopia has done very well is in generating reliable and timely statistics that help improve the policy-making process and the dialogue with civil society. The National Strategy for the Development of Statistics has led to increases in the number of agricultural, business and household surveys over the last few years (see Figure 1.6). To promote transparency, the micro data from these surveys are available to the public, with mapping and data visualisation tools to provide a friendlier user interface. The Central Statistical Agency is leading on this work and is setting up branch offices in the regions to bring statisticians and data closer to the users.

## Building a competitive economy

To sustain the remarkable growth of the last decade, Ethiopia's GTP sets out the Government's strategy for the structural transformation of the economy. The plan has as its central focus expanding the manufacturing and processing sectors, to facilitate more private sector activity and improve efficiency so that products can be competitive in local, regional and international markets.

In 2013, Ethiopia's manufacturing sector grew by 18.5%. There is a strong potential for Ethiopia to rapidly transform its economy, link into global value chains and become the African manufacturer of the future. Because of the opportunities to expand into large-scale cotton production—an estimated 3 million hectares are available for cotton farming in Ethiopia—a particular area for potential development is the textiles and garment industries. Ethiopia could be very competitive in this area: wages are considerably lower than those of qualified Chinese manufacturers, and geographically the country is well positioned—it is estimated that shipping from Ethiopia takes about one-third the time required to ship from far Eastern destinations. The leather industry is also very promising, as the country has the largest cattle population in Africa; this would be an attractive sector for foreign investors, especially shoemakers. The furniture industry, drawing on sound forestry management, has a big potential; and Ethiopia's land and lakes also provide resources for a significant increase in agro-processing activities.

An improved business environment will enable more people to become entrepreneurs, to start up and grow their businesses. This will create a more dynamic and thriving private sector in which products are traded and jobs are created. Some improvements to the business context have been made. In particular, the ● **time required for business start-up** fell by more than half, from 34 days in 2005 to 15 days in 2013, compared to an average of 25 days for the comparator countries. However, the ● **cost of business start-up** has increased from 65% of income per capita in 2005 to 100%. Overall, in 2014 the Doing Business survey ranks Ethiopia as 125<sup>th</sup> out of 189 countries, a deterioration from its ranking of 102<sup>nd</sup> of 178 in 2008 (see Figure 1.7).



*In 2013, Ethiopia's manufacturing sector grew by 18.5%*

Barriers to international trade increase operational costs and reduce competitiveness, thus discouraging entrepreneurship and private sector investment. The ● **cost of trading across borders** has increased somewhat to \$2180 in 2013 from \$2037 in 2005, although this is a lower increase than the average in comparable countries. The ● **time to export** has been reduced from 47 days in 2005 to 44 days, but this remains well behind the 31.8-day average across comparable countries. On the positive side, there has been an improvement in the ● **logistic performance index** from 2.3 in 2005 to 2.6, on a 5-point scale. These factors are critical to the competitiveness of business.

Overall, Ethiopia has seen an increase in competitiveness, with its position on the **global competitive index** rising from 3.3 in 2005 to 3.5. The specific indices for the quality of institutions, size of market and labour market efficiency have improved, whilst those for technological readiness, education and training, and financial market development have fallen back and remain very poor. Overall, Ethiopia's score on the index is higher on health and primary education and the macroeconomic environment than on the effectiveness of institutions and infrastructure. Tackling the three challenges of access to finance, bureaucracy and inflation will be important to facilitate business development in Ethiopia.

Access to affordable finance is critical to enable entrepreneurs to invest and grow their businesses. In Ethiopia, access to finance is primarily through the banking system and to a lesser extent through microfinance institutions, which serve 2.6 million borrowers. From 0.9 **commercial bank branches per 100 000 adults** in 2005, the coverage has now reached 2.9 in 2013, compared to an average of 5 in low-income countries in Africa. Nonetheless, barely one in 10 Ethiopians makes use of financial services. Capital markets and a stock exchange have yet to be developed, so companies and entrepreneurs access finance primarily through the banking system. Last year, just one-fifth of bank credit went to the private sector.

Private credit represents only 15.9% of Ethiopia's GDP, compared to 30% across sub-Saharan Africa. The 2014 Doing Business report underlines a range of constraints on the business environment: poor access to credit and foreign exchange, poor telecommunications services, frequent power outages, and the absence of competition in such major sectors as telecommunications and banking.

Foreign direct investment is another key element in a dynamic private sector. Ethiopia is making significant efforts to attract foreign direct investment, which has grown to \$1.2 billion each year over the last three years, compared to just \$150 million in 2005. Ethiopia is now the third-largest recipient of foreign direct investment and has attracted resources into a range of manufacturing areas—leather shoes and products, textiles and garments, coffee, and horticulture. A mix of industries are investing in Ethiopia's industrial zone development, with investors from the USA, China and India as well as the European Union and the Middle East. The growing domestic market, competitive labour prices and proactive industrial policies to attract investment make Ethiopia an increasingly attractive place for investors (see Figure 1.8). A significant amount of new investment now in the pipeline will contribute to further employment creation, expansion into global value chains and Ethiopia's economic transformation.

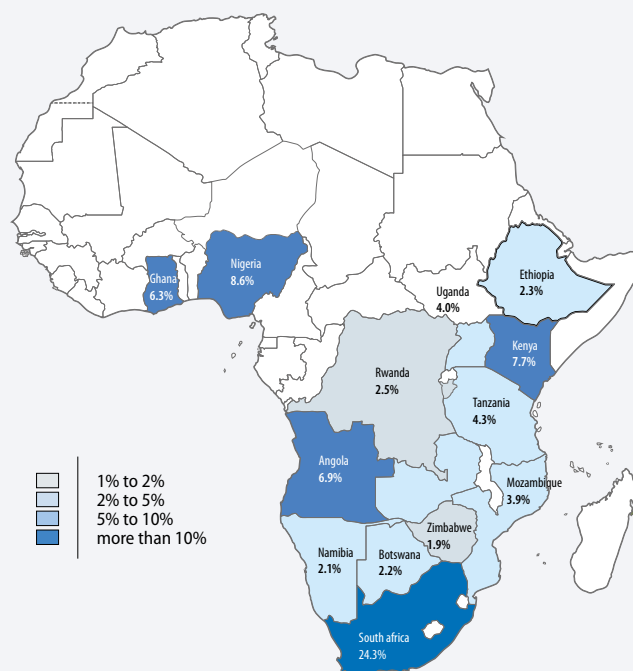
## Conclusion

Ethiopia has achieved some outstanding successes in recent years. Its impressive growth rates, sustained over a decade, have been achieved without the oil and other mineral resources that have driven growth in some other countries. High growth has

led to declining unemployment and a steady fall in the poverty headcount. This growth has been supported by extremely high rates of investment in infrastructure and public services, with a strongly pro-poor focus. In recent years, the road density has more than doubled, and access to electricity and clean water has increased dramatically. In the social sectors, life expectancy is well above the African average and infant mortality has fallen, although maternal health still lags behind comparator countries. Access to basic education has increased, although quality and gender equality remain a concern.

**Figure 1.8 Sub-Saharan Africa's most attractive countries for foreign investment**

Top countries by share of FDI projects in SSA region (2007–13)



Source: EY's 2014 Africa attractiveness survey (total respondents: 503), FDI Intelligence.

Despite these successes, Ethiopia remains a poor country with some serious challenges to meet. Food security remains a challenge, particularly with the variable rainfall created by climate change, and agricultural productivity has also remained at a relatively low level because of the lack of investment and the need to modernise farming practices. While there have been some improvements to the business-enabling environment and prospects for developing a dynamic industrial country are high, Ethiopia needs to undertake additional measures to create many of the conditions for a competitive private sector.

In the next chapter, we turn to what the AfDB is doing to help Ethiopia address these challenges. ■



The Koga Irrigation and Watershed Management Project has eased the irrigation of 7000 hectares and contributed to important additional production of maize, potatoes, onions and wheat. As a result, the annual average household earnings in the region have risen from \$135 to \$260.

# Level 2: How the AfDB contributes to Ethiopia's development

**T**his chapter looks at how well the African Development Bank has helped Ethiopia achieve its national development goals. The bulk of our investment has been focused on infrastructure development, to provide people across the country with roads, energy, water and sanitation. In addition, the Bank has contributed to the agriculture sector, which provides livelihoods and food security for the majority of Ethiopians. The Bank has also provided assistance with health and education services and private sector development.

In this chapter we discuss the performance of current and recent Bank operations, reviewing them against the indicators set out in our Results Measurement Framework for Ethiopia. We also describe some of our projects, to demonstrate some of the more innovative aspects of our work.

## Measuring the Bank's contribution to development in Ethiopia

Ethiopia's Government has led the national development agenda to implement its ambitious economic growth plan, and has been supported by a wide range of donors, international agencies and nongovernmental organisations. Ethiopian companies, small enterprises and households have played a critical part in shaping Ethiopia's development, while wider trends in the regional and global economies have also had an important influence on development outcomes. Among the international agencies, the Bank has been providing assistance to Ethiopia since 1975, supporting the Ethiopian Government in achieving its development goals.

To assess the Bank's contribution, we build up our results from the project level. Level 2 of our Results Measurement Framework for Ethiopia has 22 indicators capturing the aggregate outputs and outcomes of Bank projects that closed between 2005 and 2013 and for which we have a Project Completion Report. Although this does not allow us to firmly attribute overall development results to our own efforts, it gives a picture of our contribution to Ethiopia's recent development.

## The Bank's strategy in Ethiopia

Over 40 years, the AfDB has financed 118 operations in Ethiopia for a total value of \$4 billion. The Bank continues to be an important source of development finance for Ethiopia, with a current portfolio of 16 projects that make up 9% of all ADF lending.

The Bank's strategy has been closely aligned with Ethiopia's national development plans, supporting Ethiopia's ambition to accelerate economic growth and poverty reduction. From 2006–09, the focus was on infrastructure development, agricultural transformation and governance, in line with Ethiopia's Plan for Accelerated Progress and Sustained Development to End Poverty 2005–2010.

The current Country Strategy Paper, for 2011–15, organises our support in accordance with the two pillars of Ethiopia's Growth and Transformation Plan, which aims to achieve the MDG targets and propel Ethiopia to middle-income-country status by 2025. Under the first pillar, we commit to continuing our support for improved infrastructure, such as transport connections, energy and clean water provision across the country. Under the second pillar we commit to enhancing access to and improving accountability in basic services, and to supporting improvements in the country's business climate.

In addition, the Bank's Eastern Africa Regional Integration Strategy supports Africa's vision of regional integration, connecting countries, markets and people to enable the transformation of East African economies. This effort includes investing in transport corridors between Ethiopia and neighbouring countries as well as linking energy generation and transmission across the region.

## Transport

The Bank's investments have contributed to a significant expansion in Ethiopia's road infrastructure over recent years (see Figure 2.1). Newly constructed and better maintained roads have provided many farmers

Table 2: How the AfDB contributes to Ethiopia's development (Level 2)

This table presents the contributions the Bank is making through its operations in Ethiopia. The Bank's performance is measured by comparing expected and actual achievements for all operations completed between 2005 and 2013.

- Bank operations achieved 95% or more of their targets
- Bank operations achieved 60–94% of their targets
- Bank operations achieved less than 60% of their targets
- Data are not available to measure progress

INDICATOR	2005–2013		2014–2016	
	Expected	Delivered	Expected	
<b>INFRASTRUCTURE DEVELOPMENT</b>				
● Transport — Roads constructed, rehabilitated or maintained (km)	389	389	100%	677
— of which cross-border roads constructed or rehabilitated (km)	..	..	..	345
● Transport — People with improved access to transport	8 016 800	7 665 500	96%	79 887
● Transport — Staff trained/recruited for road maintenance	..	..	..	126
● Transport — People educated in road safety, STIs, and HIV/AIDS	..	..	..	1915
● Energy — Cross-border transmission lines constructed (km)	283	283	100%	118
● Energy — Staff trained/recruited in energy maintenance	1524	1533	101%	..
● Energy — People with new or improved electricity connections	38 400	38 500	100%	139 752
● Water — Drinking water capacity created (m <sup>3</sup> /day)	6000	6000	100%	..
● Water — Staff trained in water maintenance	..	..	..	5623
● Water — People with improved access to water and sanitation	250 000	250 000	100%	1 900 000
<b>PRIVATE SECTOR DEVELOPMENT</b>				
● Microcredits granted (number)	143 900	141 750	99%	..
● Microfinance clients trained in business management	9835	9363	95%	13 527
● Jobs created	..	420	..	2218
● People benefiting from investee projects and microfinance	1 937 000	1 937 000	100%	14 597
— of which women	..	..	..	3211
● Land with improved water management (ha)	22 000	10 340	47%	..
● Land whose use has been improved: replanted, reforested (ha)	436 550	155 630	36%	6313
● Rural population with improved technology	58 700	81 000	138%	43 930
● People benefiting from improvements in agriculture	4 818 600	5 552 500	115%	432 571
<b>SKILLS AND TECHNOLOGY</b>				
● Classrooms and educational support facilities constructed	521	364	70%	..
● Primary, secondary and tertiary health centres	149	166	111%	..
● Health workers trained	78	64	83%	..
● People with access to better health services	723 900	723 900	100%	..

.. = data not available; ha = hectares; km = kilometres; m<sup>3</sup> = cubic metres; STI = sexually transmitted infection.

**Note:** UA figures from material converted at 1 UA= \$1.53.

These figures are based on the Bank's financial contribution.

**Source:** African Development Bank.

and entrepreneurs with year-round access to inputs and markets. Transport costs have been drastically reduced, resulting in more competitive prices and increased trade. Businesses have diversified into new supply areas, connecting into global value chains and creating jobs. These developments have in turn boosted production, raised incomes and improved the daily lives of producers, traders and consumers. In addition, access to transport services has given Ethiopians in remote areas better access to schools and health services.



*The Wacha-Maji road project has dramatically reduced transport costs, providing higher returns to farmers for their maize and fruit*

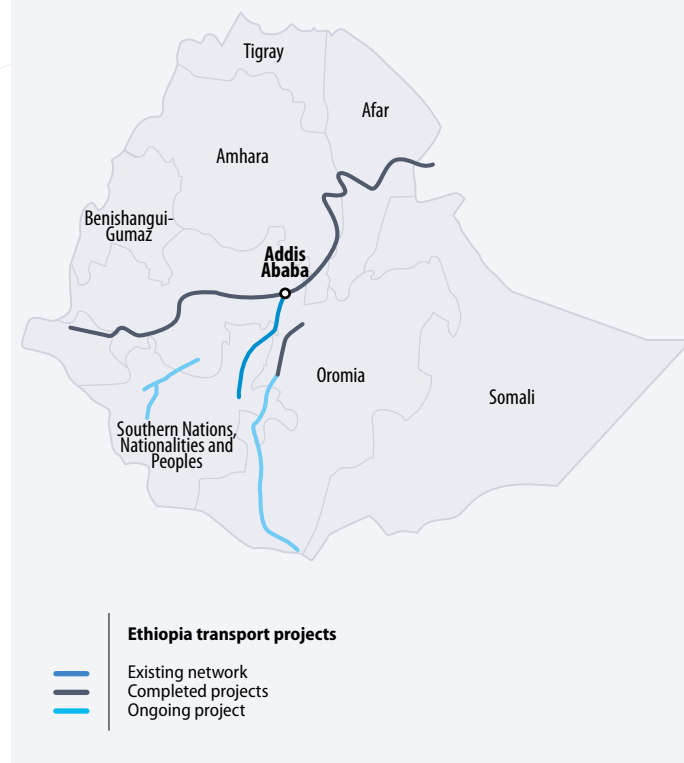
The Bank's investments in transport in Ethiopia include the 175 km Wacha-Maji road upgrade. This road serves a mountainous region where many communities could reach town only by foot or mule, and many were cut off during bad weather. The road has dramatically reduced transport costs to the town of Maji from around \$96 to \$5 for a single journey, enabling higher returns to farmers for maize, fruits and other produce, and tripling the returns from coffee, Ethiopia's main export. At the supply end, greater access to fertiliser and other inputs, together with increased extension support, has increased agricultural productivity. New markets have been established in villages, prompting greater economic activity and reducing the migration of young people to larger towns. There has also been an acceleration in larger-scale investment to develop the rich agricultural land and create jobs.

The Bank also upgraded 189 km of the road between Butajira and Sodo, which is providing better and cheaper transport services for people and businesses. A key result will be to enhance industrial development, creating more jobs, especially for those living near the road.

These investments in road infrastructure create jobs, improve livelihoods and provide opportunities for people to lift themselves out of poverty. Truckers and transport operators play an important role in facilitating these benefits. Further investment will be required to improve the provision of intermediate means of transport, to enable rural women – many of whom still carry heavy items by foot – to benefit from better road connections. Overall, through constructing the two roads mentioned above and the Alemgena-Butajira road, the Bank has contributed to constructing, rehabilitating or maintaining 389 km of roads, achieving 98% of our target. As a result, 7.7 million **people have benefited from improved access to transport**<sup>1</sup> over the period. Over the next three years, we expect to deliver another 677 km of road infrastructure across Ethiopia, including 345 km of cross-border roads with neighbouring countries.

Along with funding for road construction, the Bank has supported a range of measures to maximise and sustain the benefits of road infrastructure: using environmentally sustainable construction technologies, training staff, ensuring proper maintenance practices and training the public in road safety. Over the next three years, the Bank's investments are expected to result in 126 staff trained or recruited for road maintenance and 1915 people educated in road safety, sexually transmitted infections, and HIV/AIDS.

Figure 2.1 The Bank's road infrastructure projects



### Box 2.1 One-stop border posts to facilitate trade

In Africa, the cost of trading across national borders is the highest in the world. At road borders across the continent, traders face complex customs and regulatory processes that can cause lengthy delays. This reduces economic integration, at the cost of a more competitive African economy. To address this issue, the Bank has developed a successful model for “one-stop border posts” for the Mombasa-Nairobi-Addis Ababa road corridor project. Along with improved facilities, these facilities offer a single window for accessing services from the government agencies of both countries, reducing both time and cost.

<sup>1</sup> A green bullet indicates that Bank operations achieved 95% or more of their targets, a yellow bullet that they achieved 60-94% of their targets, and a red bullet that they achieved less than 60% of their targets.

Investing in cross-border road infrastructure also helps Ethiopia achieve its development goals by promoting regional economic integration across East Africa. Our investment in transport corridors is helping to connect Ethiopia to global and regional markets, while benefiting communities along the route. One of the Bank's major regional road investments in Africa has been the Mombasa-Nairobi-Addis Ababa road corridor, which is expected to achieve a fivefold increase in trade between Kenya and Ethiopia. It will provide Ethiopian businesses with easier and cost-effective access to international markets through the port at Mombasa. Ethiopia's exports through the port should reach 900 000 tonnes, a fifth of its current total sea freight. In this integrated regional project, the Bank played a key role in facilitating agreement between the two countries, including establishment of a one-stop border post. The innovative border post provides a single window for accessing the services of the two Governments' agencies, contributing to shorter transit times and lower costs for exports to the regions and overseas, and therefore increasing efficiency and reducing transit costs (see Box 2.1). In addition, for people along the route, this transport corridor facilitates local trade and gives them better access to social services. In a region marked by localised conflict, promoting trade also helps improve security.

### Box 2.2 Power Africa Initiative and Ethiopia

Ethiopia is one of six priority countries in Power Africa Initiative, a multi-stakeholder partnership led by the US Government and launched in June 2013. The AfDB is a key partner in this initiative, along with the World Bank and private sector players. The initiative aims at supporting economic growth and development by increasing access to reliable, affordable and sustainable power in Africa; it is allocating \$3 billion over the next 5 years for six priority countries. With resources mobilised through this initiative, Ethiopia is expected to expand its power projects and accelerate access to power.

### Box 2.3 Regional Integration Strategy Paper for Eastern Africa and Ethiopia

The AfDB's Regional Integration Strategy Paper 2011-15 for Eastern Africa, approved in September 2011, is built around two pillars: developing environmentally friendly and climate-resilient regional infrastructure, including transport, energy, ICT and shared water resources; and building the capacity of regional institutions, strategies and processes. The Bank has contributed to implementing the strategy through its operations in Ethiopia, such as linking Ethiopia with Kenya through the highway (transport) and transmission lines (energy), and connecting the transmission lines between Djibouti and Ethiopia.

## Energy

The Bank's investments in energy have made a substantial contribution to Ethiopia's impressive electrification results. The Bank has invested in transmissions and substations and in building capacity

for maintenance. As a result, the Bank has helped households and businesses in rural areas in Ethiopia as well as in neighbouring countries to access electricity, helping to promote inclusive growth. In particular, affordable and reliable electricity has enabled many micro, small and medium agro-processing enterprises to start up and grow, creating jobs and increasing incomes. It has also allowed schools and health facilities to provide better services.



*The AfDB's investment in cross-border transmission lines is helping to make Ethiopia into a major energy exporter*

Over 2005–2013, the Bank's operations have provided 38 500 ● **people with new or improved electricity connections**, exceeding the target. Over the next three years, nearly 140 000 more people are expected to benefit from the energy investments made by the Bank. The Bank also achieved the target of 1533 ● **staff trained or recruited** in energy maintenance.

An important thrust of the Bank's strategy for power generation and transmission is the development of the East Africa regional power pool to promote regional power connections, in line with the objectives of the New Partnership for Africa's Development (NEPAD). The Bank's support to Ethiopia's power sector and cross-border transmission lines contributes to NEPAD's regional plans, under which Ethiopia will become a lead energy exporter to neighbouring countries. (Box 2.2 describes Ethiopia's involvement in another regional effort, the Power Africa Initiative).

In particular, the Bank contributed to 283 km of ● **cross-border transmission lines constructed** between Ethiopia and Djibouti. This enables Ethiopia to export cheaper, renewable electricity and to use the export revenues to finance its own universal electrification programme. At the same time, it provides Djibouti with cheaper, cleaner energy to meet its power deficit. Interconnection enables the two electricity systems to support each other during any power shortfalls or times of high demand, resulting in greater efficiency and reduced costs. The project also provided 12 border towns with electricity.



*The Mombasa-Nairobi-Addis Ababa road corridor is expected to achieve a fivefold increase in trade between Kenya and Ethiopia*

In addition, the Bank is investing in a 1045 km cross-border transmission line between Ethiopia and Kenya, which will generate substantial export revenue for Ethiopia and provide real economic and environmental benefits to both countries. (Box 2.3 links this work with the AfDB's Regional Integration Strategy Paper). By linking up with Ethiopia's massive hydroelectric potential, Kenya will gain lower-cost, clean energy, reducing its dependence on fossil fuels and enabling it to support more of the national demand. The electricity highway is part of

the plan to link power pools across Africa, with widespread economic and environmental benefits. Furthermore, this project is the first cross-border electricity transmission project applying the Clean Development Mechanism. It is expected to reduce over 7 million tonnes of CO<sub>2</sub> emissions per year, the largest reductions achieved among the Clean Development Mechanism projects in Africa.

The Bank is also developing clean energy initiatives, using resources from the Climate Investment Fund to finance renewable energy projects under Ethiopia's Scaling Up Renewable Energy Programme. Under this programme, the Bank is assessing the feasibility of the Assela Wind Farm.

## Water and sanitation

Investments in water and sanitation have had a major impact on health outcomes and have reduced rural communities' heavy burden of fetching water, which falls particularly on women and children. The Bank has contributed to a remarkable increase in the number of Ethiopians with access to clean water and better sanitation facilities. Over the period, we achieved our targets of delivering 6000 m<sup>3</sup> of ● **drinking water capacity** and providing 250 000 ● **people with improved access to water and sanitation**; we expect to reach 1.9 million more people over the next three years. Our water and sanitation investments are in both rural and urban areas, in line with national priorities.

To contribute to improving urban water supply, the Bank has constructed piped water systems, trained technicians and built institutional capacity to oversee and manage water facilities, including through the introduction of monthly billing and revenue collection. Our investment in piped water in the city of Harar, a World Heritage Site, and four nearby towns has addressed inadequate supply and poor water quality, which had been a threat to both public health and economic development. This is the first booster pump station in the country to lift water to an elevation of 1000 meters. The project also included constructing a 72 km transmission pipeline and a 92 km distribution network. Complementary sanitation facilities and hygiene activities have helped improve public health. We have made a particular point of engaging Ethiopian women in managing community water points, which promotes sustainability.

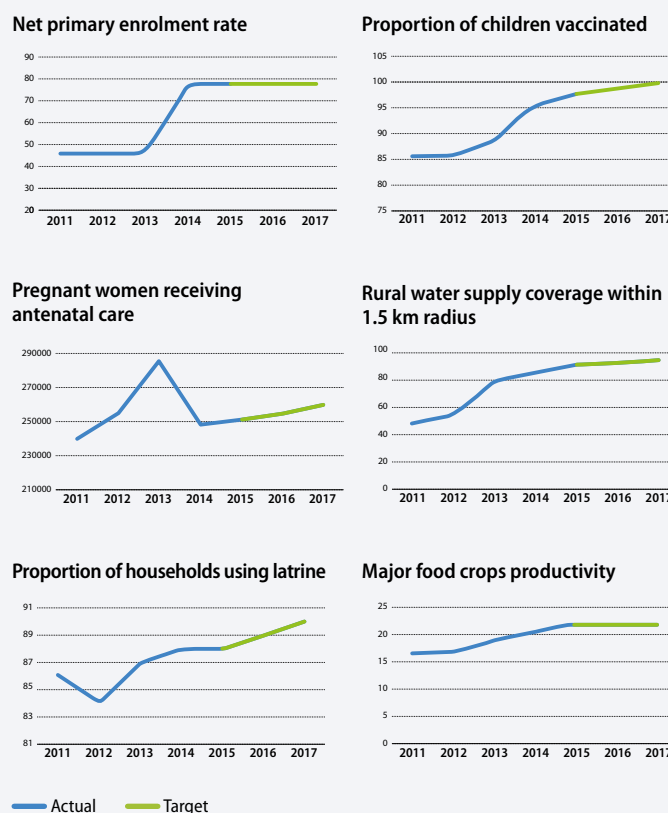
In rural areas, our Rural Water Supply and Sanitation Programme financed both new and rehabilitated water facilities for many communities, trained workers in maintenance and worked with local support groups. For the sustainability of all the water schemes constructed, water committees are established to manage the system. Among the members of each water committee, about 50% are women. The Bank provided latrines for schools, health centres and crowded settlement areas, and other complementary activities to improve hygiene practices and public health awareness. In addition, we strengthened capacity at regional and national levels to deliver better services through providing training to more than 5600 government staff. The programme benefits 1.9 million people in the rural areas in 125 woredas (districts) of the country.

Currently, the Bank is implementing the One WaSH National Program in close cooperation with such development partners as the World Bank, UK Department for International Development, and the United Nations Children's Fund. This programme will cover about 28% of the country's need to meet the GTP plan.

## Enhanced access to and accountability in basic services

The Bank has helped the Government improve the lives of many Ethiopians living in rural areas by giving them greater access to key services. Our contributions to Ethiopia's ambitious decentralised service programme, Promoting/Protecting Basic Services, have helped to meet the salary costs of teachers, health workers, agricultural extension workers and those responsible for local services such as water, sanitation and rural roads. This decentralised budget support was specifically designed, in partnership with a range of other development partners, to reach poor communities across Ethiopia. It has proved to be a major contributor to Ethiopia's impressive progress on its MDGs. For example, the programme promoted access to improved school and hospital services. It has also enabled a major increase in agricultural extension services, encouraging the adoption of new and improved farming methods and increases in agricultural production, thereby improving food security.

Figure 2.2 Expected outcomes from the Promoting Basic Services Programme



Source: www.et.one.un.org

Ethiopia's decentralised approach to service delivery has proved to be highly effective in targeting poverty. Nearly 60% of health and education spending is directed towards the poorest 40% of the population. One particular focus has been on the provision of health workers for poor communities, which has achieved remarkable results: Ethiopia has demonstrated that a \$1 per capita increase on health spending at the local level can increase contraceptive use by 6.4% and access to skilled birth attendants by 11.3%.

Overall, access to basic health services such as antenatal care, contraception, vaccinations and midwives has improved substantially, driving down mortality and morbidity. Net enrolments in primary schools have also climbed steadily. The Bank's contribution to the programme (see Figure 2.2) has enabled the construction of 364 ● **classrooms and educational support facilities**, 70% of our target. It also financed 166 ● **primary, secondary and tertiary health centres**, which was 11% over our target, and 64 ● **health workers trained**. In all, the Bank provided 723 900 ● **people with access to better health services**.

Our support to this programme has also strengthened local management of budgets. By rolling out financial management software and providing technical training and support, we helped improve financial controls and audit processes. Transparency in the use of funds was also increased by publishing more information about budgets and expenditure in a format accessible to the public. This helped ensure that local decisions on services were responsive to the needs of each locality, and that decision-makers were accountable to local citizens. We supported capacity at the Central Statistical Agency and the Ministries of Health and Education to check and analyse the data. Greater accountability for donor funds at the centre ensured that external support went exclusively to support local services, and that it complemented rather than substituted for national investments (see Box 2.4).

#### Box 2.4 The "Fairness and Additionality Test" – Protection of Basic Services Programme

One of the core principles behind Ethiopia's Basic Services Programme is that donor finance for basic services must be shared fairly across local governments (woredas) and must not replace funds from the national budget. The Ethiopian Government has committed to increasing its federal block grants over time and to ensuring the predictable release of funds. Allocations to regions, and from regions to woredas, must be based on clear and transparent rules.

The Basic Services Programme is working with the Central Statistical Agency to strengthen government systems for monitoring these commitments. The general public also plays a key role in the monitoring process. In towns and villages across the country, woreda budgets are published on public noticeboards. They are accompanied by graphics showing the public the levels of spending on basic services compared to the budget, and illustrating how well the woreda is doing on achieving the required service standards.

## Private sector development

The Bank has financed two successful private sector projects in Ethiopia – Derba Midroc Cement and Ethiopian Airlines. These projects demonstrate how efficient private sector companies make important contributions to the wider economy. Our support to the cement industry is in line with the Government's objective to privatise downstream industrial subsectors and increase market competition. The industry provides low-cost inputs for all types of construction, from houses to bridges and dams across Ethiopia; therefore, it contributes to developing the country's construction sector. Our support will help to attract private investors into a range of sectors, as well as promoting foreign direct investment in infrastructure development.



*Investment from the Bank's private sector window is helping to make Ethiopian Airlines the fastest growing carrier in Africa*

In addition, the Bank provided financing to Ethiopian Airlines to purchase aircraft and flight simulators, expand the aviation academy and strengthen capacity for maintenance and repairs (see Box 2.5). This investment has helped Ethiopian Airlines sustain its high performance and continue to grow as one of Africa's top three international carriers. This operation will create 7700 skilled jobs by 2018.

The Bank has provided financial services to meet the needs of many Ethiopians who run small and micro businesses in rural areas. Small loans enable farmers and entrepreneurs to grow and diversify, so that they can increase their household incomes. Providing finance through microfinance institutions and cooperatives is an important way of promoting inclusive growth. Over the period, the Bank has reached its target of 141 750 ● **microcredits granted** in Ethiopia. We have also combined microfinance with training and mentoring, to ensure that the funds are used to best effect. Over 9000 ● **microfinance clients were trained in business management**, and over 1.9 million ● **people benefited from investee projects and microfinance**.

For example, the Rural Financial Intermediation Project has strengthened the capacity of rural financial intermediation organisations, enabling rural poor households to access credit; by diversifying their sources of income, they can achieve sustained increases in incomes and build household assets. By the time the project closed in December 2010, credit lines worth \$73 million had been extended to rural households, of which 59% were headed by females. Microfinance institutions trained the households, the professional and technical staff members, and the officers of federal and regional cooperative agencies.

## Agricultural development

The Bank has supported Ethiopia's agriculture sector with the aim of increasing productivity and raising farm incomes. With 80% of the country's workforce employed in farming, much of which is rain-

fed, we have focused on water-harvesting techniques, small-scale irrigation and management of local ecosystems. These practices help to conserve soil moisture, build resilience and enable adaptation to a changing climate. In areas where droughts are frequent, sustainable farming systems are critical to increasing food production and ensuring greater food security. Our projects have also contributed to addressing a range of other local development needs, such as improving the health of rural households, training and employing young people and introducing a range of income-generating activities. We have also strengthened the capacity of local institutions by training staff in extension services and other skills.

We provided 10 340 hectares of **land with improved water management** compared to a target of nearly 22 000, and our total of 155 630 hectares of **land whose use has been improved through replanting or reforestation** was just 36% of our target. The failure to meet our targets can be attributed partly to overly ambitious targets and partly to some procurement delays. However, our projects promoting the uptake of technology achieved 138% of the target, with 81 000 **people in rural areas using improved technology**, and helped more than 5 million **people benefit from improvements in agriculture**. For example, through the Bank-financed Agriculture Sector Support Project, 75 small-scale irrigation schemes have been developed, benefiting 26 000 households. The project also created access to drinking water and provided backyard water harvesting systems, benefiting rural households.

In conjunction with the African Union Commission, we have developed programmes to create tsetse fly-free areas in six African countries, including Ethiopia, to enable increased livestock production. We have supported the training of local government workers and community members to help eradicate trypanosomiasis, the disease carried by tsetse fly. Areas of about 25 000 km<sup>2</sup> are already cleared of the insect, enabling farmers to rear livestock and earn higher incomes.

## Conclusion

In 40 years of engagement in Ethiopia, the Bank's main contribution has been as a leading financier of infrastructure, financing 118 projects for a total value of \$4 billion. In close alignment with national development priorities, we have contributed to a significant expansion of Ethiopia's road infrastructure, helping to ensure that people across Ethiopia's huge territory have the opportunity to access services and participate in the economic life of the country. Our road infrastructure is helping to connect Ethiopian farmers to their markets and new industries to international ports and the wider world.

The Bank has made substantial contributions to national electricity generation capacity and is helping Ethiopia develop its huge potential for clean hydropower. We have provided budget support to help Ethiopia strengthen its decentralised service delivery, to ensure that health and education services are available to the neediest communities. Between 2005 and 2013, we have provided three-quarters of a million people with access to better health services and 250 000 people with improved water and sanitation. We have helped to expand access to financial services and to raise the productivity of rain-fed agriculture through improved land and water management.

### Box 2.5 Linking Africa to the world



The Bank's financing for purchasing aircraft enabled Ethiopian Airlines to expand capacity on long-haul routes in and from Africa, directly linking to other continents. This facilitates African and regional integration, as well as trade and investments with and within Africa. It generates incremental foreign exchange and tax revenues for Ethiopia, as the airline is an important foreign currency earner for the country (about 85-90% of Ethiopian Airlines' revenues are denominated in foreign currency). It also reinforces Addis Ababa as one of the biggest hubs in Africa.

In the next chapter, we turn to the effectiveness with which the Bank manages its operations in Ethiopia. ■



Coffee is Ethiopia's leading export item, accounting for 24.2% of total export receipts.

# Level 3: How well AfDB manages its operations in Ethiopia

**C**hapter 3 examines how well the AfDB is managing its operations in Ethiopia. We assess our progress in strengthening results through the selection, design and supervision of our operations. We review how well we work with the Ethiopian Government and other development partners to increase the effectiveness of our assistance. We also examine how well we draw lessons from past experience, to enable continuous improvement.

We describe how we are embedding inclusiveness into each stage of the project cycle. We also discuss how we ensure that gender equality and climate change resilience are addressed, to achieve more sustainable development impact.

To measure our progress, we use the 16 indicators from Level 3 of our results framework for Ethiopia, together with “stretch targets” for 2016. These data help us check our performance in strengthening results, delivering effective and timely operations and mainstreaming cross-cutting priorities.

## Portfolio performance

Over 2011–13, our country allocation for Ethiopia from ADF funds was \$650 million, making it the largest of our country programmes. Our active portfolio by the end of 2014 amounted to \$1.7 billion and consisted of 16 operations: 12 public sector projects, 2 private sector loans, 1 operation from the Africa Water Facility and 1 operation financed by the Climate Investment Fund.



*Ethiopia is one of the largest clients of the African Development Fund, with an allocation of \$650 million between 2011 and 2013*

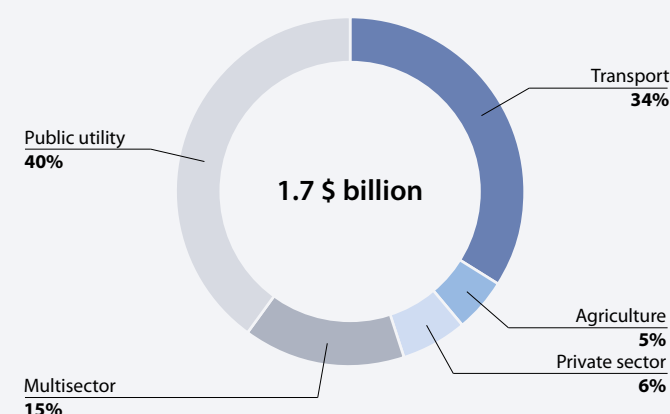
As Figure 3.1 shows, 40% of our portfolio in Ethiopia was invested in public utilities to promote greater access to rural water supply and sanitation facilities and to expand electricity generation and transmission capacity. The Bank also invested over one-third of the portfolio in transport infrastructure, 5% in the agriculture sector and 15% in multisector programmes, and 6% in the private sector.

In Ethiopia, our priorities are infrastructure, regional integration, governance and private sector development. We identify our new investments through a careful selection process. We ensure that projects are consistent both with our Country Strategy Paper and our East African Regional Integration Strategy, and are aligned to Ethiopian priorities. We are alert to the division of labour amongst international

development partners and ensure that we focus on areas where we hold a comparative advantage, to maximise development impact. As in all the low-income countries in sub-Saharan Africa, we take into account the management for results agenda and seek wherever possible to encourage greater private sector activity.

The average size of our public sector operations in Ethiopia in 2014 is \$140 million, far higher than the \$45 million average project

Figure 3.1 Sectoral distribution of public operations



**Table 3: How well AfDB manages its operations in Ethiopia (Level 3)**

This table presents the Bank's progress in achieving its 2016 targets for portfolio management.

- Good progress has been made, and we are on track to meet our target
- Little progress has been made, and we are at risk not achieving our target
- No progress has been made, or we have moved even further away from our target
- Data are not available to measure progress

INDICATOR	ETHIOPIA			ADF COUNTRIES	
	Baseline 2010	Latest 2014	Target 2016	Baseline 2010	Latest 2014
<b>STRENGTHENING RESULTS AT COUNTRY LEVEL</b>					
<b>Portfolio performance</b>					
● Operation formally supervised twice a year (%)	76	100	100	61	65
● Problem projects (%)	0	0	0	6	5
● Projects at risk (%)	26	11	..	22	12.5
● Commitments at risk (%)	15	3	..	..	..
● Disbursement ratio of ongoing portfolio (%)	25	13	22	18	18
<b>Quality at entry</b>					
● Approval to signing (months)	4	2.8	3	..	..
● Approval to first disbursement (months)	14	8	9	13	10
● New operations rated satisfactory (%)	100	100	100	78	100
<b>DELIVERING EFFECTIVE AND TIMELY OPERATIONS</b>					
<b>Development and aid effectiveness</b>					
● Development resources recorded on budget (%)	23	48	85	57	51
● Predictable disbursements (%)	58	43	80	54	72
● Number of cofinanced projects	1	4	3	..	..
<b>Knowledge management</b>					
● New ESW and related papers (numbers)	3	3	3	52	18
● PCRs rated satisfactory (%)	100	100	100	72	94
● Completed operations with a timely PCR (%)	100	100	100	92	69
<b>GENDER-INFORMED OPERATIONS</b>					
<b>Gender mainstreaming</b>					
● Projects with satisfactory gender-equality outcomes (%)	20	50	71	57	71
● New projects with gender-informed design (%)	100	100	100	61	91

.. = Data not available; AfDB = African Development Bank; ADF = African Development Fund; ESW = economic and sector work; PCR = Project Completion Report.

Source: African Development Bank.

size across Africa. The shape of the Ethiopian portfolio is consistent with our policy to develop fewer, larger projects, putting us in a better position to achieve greater impact and more efficient project implementation.

Our Ethiopian portfolio has been performing very well (see Figure 3.2). We work closely and constructively with the Ethiopian Government and provide careful oversight to project delivery. In 2014, all our **operations were formally supervised twice a year**,<sup>1</sup> compared to 76% in 2010. This is well above the average of 65% across comparable countries. Our portfolio assessment score for Ethiopian projects demonstrates a rising trend in our performance; the score has increased from 2.15 (out of 4) in 2008 to 2.5 in 2010 and 3.1 in 2014.

Close project supervision enables us to identify implementation problems and take action to prevent delays. Our **disbursement ratio** has slipped slightly since 2010 to 13% in 2014, as a result of the launch of some important new projects in the energy and transport areas. We have managed to achieve faster disbursement rates across the portfolio through our choice of disbursement mechanisms: power and road infrastructure operations disburse through direct payments, basic services are funded through a budget support mechanism and the Rural Water Supply and Sanitation Project has been expanded and absorbs finance directly.

We have taken action to ensure a healthy portfolio. We cancelled old and underperforming projects, allocating the balance of funds to new initiatives, and we reduced the number of aged projects. As a result, at the end of 2014 we have no **problem projects** in the portfolio, and our **projects at risk** have decreased from a quarter of the portfolio in 2010 to 11% in 2014. Moreover, our **commitments at risk** have fallen from 15% in 2010 to 3% in 2014.

In addition to our national projects, we have a strong multinational portfolio that is fully aligned to our Regional Integration Strategy Paper for Eastern Africa. In 2014, we had four multinational projects active in Ethiopia—the Drought Resilience and Sustainable Livelihood Project, the Mombasa-Nairobi-Addis Ababa transport corridor, the Ethiopia-Kenya Electric Highway Project, and a fourth that has now reached completion.

## Quality at entry

Quality at entry is extremely important to our overall effectiveness, helping us ensure that our projects are well designed and ready for implementation. Quality at entry covers not only technical soundness, but also genuine country ownership of the project design and objectives. In Ethiopia we have rigorously applied our Readiness Filter to measure the quality of concept notes, appraisal reports and loan and implementation conditions (see Box 3.1), to maximise the development impact of our projects.

Although the last Country Portfolio Improvement Plans for Ethiopia highlighted the quality of the portfolio, some areas in need of improvement have been identified. One in particular is project delays: several projects have been held up by delayed Parliamentary ratification, slow recruitment of experts and the need to secure loan approvals from other financiers. To avoid delays, we ensure that our projects have clear monitoring frameworks and milestones and are subject to regular joint assessments with

Figure 3.2 Portfolio performance

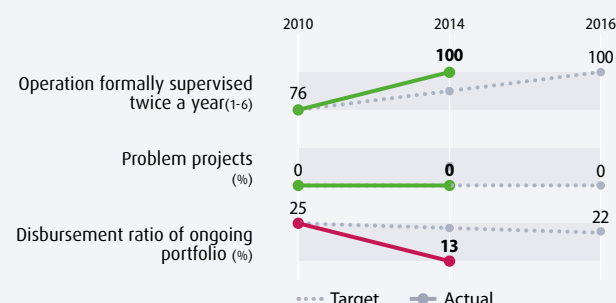


Figure 3.3 Quality at entry



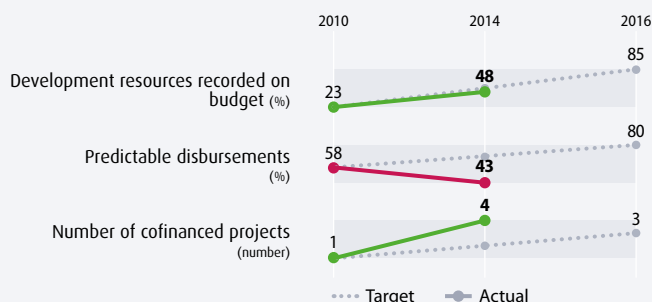
### Box 3.1 Improving quality at entry through the Readiness Filter

The AfDB's Readiness Filter is a tool or checklist used to verify the quality of concept notes and appraisal reports and decide whether projects are ready for implementation. It helps to ensure our compliance with environmental, social and fiduciary requirements. It enables us to check that appropriate staff have been designated, an implementation plan is in place, counterpart funding from the government is available and bidding documents are ready, before we send a project to the Bank's Board for approval. Since its introduction in Ethiopia in 2010, the Readiness Filter has dramatically reduced the time from Board approval to signing project agreements with the Government.

<sup>1</sup> A green bullet indicates good progress has been made, and we are on track to meet our target. A red bullet indicate that no progress has been made, or we have moved even further away from our target.

the executing agencies. By strengthening our project and contract management capacity, we have become more efficient in procuring goods and services, processing requests for payments and ensuring the sound financial management of our projects.

Figure 3.4 Development and aid effectiveness



We use a number of indicators to measure quality at entry. As Figure 3.3 shows, all of our **new operations were rated satisfactory**, reflecting the strong commitment of our country team and their strong relationships with their national counterparts. The time elapsed from **approval to signing** fell from 4 months in 2010 to just 2.8 months in 2014, well ahead of our target of 3 months. In the meantime, the time from approval to first disbursement has decreased from 14 months in 2010 to 8 months in 2014.

### Development and aid effectiveness

Because the Ethiopian Government has strong national systems to manage international donor resources, we have been able to

make good progress against the Paris Declaration indicators on aid effectiveness over the last few years. The share of our **development resources recorded on budget** increased from 23% in 2010 to 48% (see Figure 3.4), largely because of our budget support for the Government's Basic Services Programme. In addition, in 2014 43% of our assistance has **predictable disbursements**, which is slightly below our score in 2010.

*The Bank is an active partner on aid coordination and uses its technical skills to support policy dialogue*

The Bank is also working in a more collaborative way with other development partners. The **number of cofinanced projects** increased from just one project in 2010 to four in 2014. In addition, we are undertaking more joint missions with development partners, up from four in 2011 to six in 2014. These are significant improvements, with the potential to substantially increase the impact of our projects for the intended beneficiaries.

### Partnership and dialogue: a trusted partner

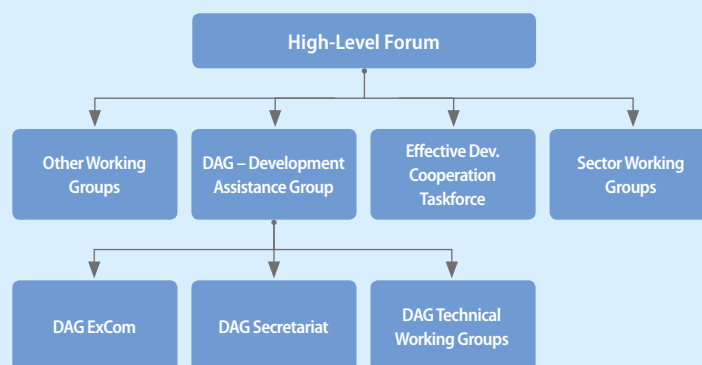
Our presence in Ethiopia has transformed our capacity to engage actively with the Government and other development partners. We are a trusted partner of the Government and the international community. We cochaired the Development Assistance Group of bilateral and multilateral donors in 2011–13 (see Box 3.2), and we participate in eight of its sector working groups: transport, energy, agriculture, water and sanitation, education, social protection, public financial management and private sector development. We are also a member of the Aid Effectiveness Task Force convened by the Government.

#### Box 3.2 Development Assistance Group

Ethiopia has a strong architecture for aid coordination. The annual High Level Forum provides a platform for formal dialogue between Government and development partners on policy issues. In recent months, it has also held discussions on private sector development, the Commune Development Program, civil society, aid effectiveness and resilience. Underneath that is the Effective Development Cooperation Taskforce, chaired by the Ministry of Finance and Economic Development, with a remit to promote improved aid practices.

In 2013 the AfDB co-chaired Ethiopia's Development Assistance Group, a group of 24 development partners meeting together in a range of working groups. The aid coordination architecture in Ethiopia has recently been redesigned to promote greater Government involvement in sector discussions, so that aid can more effectively support Government priorities.

#### Aid coordination architecture in Ethiopia



Source: Development Assistance Group Annual Report 2013/2014.

With our specialist skills and our knowledge of the country and the region, we are able to play an active role in these groups, helping to ensure that all development assistance to Ethiopia is complementary. In particular, we play a leadership role on infrastructure development and regional integration, linking up with key African institutions such as the African Union.



*Through improved land management and local infrastructure, the Bank is helping vulnerable communities adapt to a changing climate*

A good example of coordination is the way we have used our expertise and our convening power to facilitate the design of and agreement on the Mombasa-Nairobi-Addis Ababa transport corridor. We engaged at the Ministerial and Permanent Secretary level with the Ethiopian and Kenyan Governments, undertook a joint mission to support project preparation and established a Corridor Development Commission. These initiatives facilitated agreement between the two Governments on key design and implementation issues, including on the development of an efficient and effective one-stop border crossing.

## Knowledge management

An important element of our support to Ethiopia is the production of high-quality knowledge products that contribute to national development policy. In 2014, we produced 3 **new economic and sector work study**, in line with our target. The studies focused on public-private partnerships and on the areas of transport and energy.

We use Project Completion Reports (PCRs) to capture experiences and lessons from finished projects to inform new programming. In 2014, all PCRs were delivered in a timely way and were rated satisfactory (see Figure 3.5).

## Gender and climate-informed operations

In Ethiopia, in line with the Bank's Strategy 2013–2022, we are increasing the focus on inclusiveness in our programming. Our aim is to enhance the capabilities and opportunities of different groups across society, so that they can become involved in and benefit from our operations. We have produced a checklist to help us promote inclusiveness through all aspects of the project cycle (see Box 3.3).

In particular, we are giving high priority to gender issues, in line with our Gender Strategy. In 2014, half of our **projects had satisfactory gender-equality outcomes**, which compares with just 20% in 2010 (see Figure 3.6). Looking forward, all of our **new projects have a gender-informed design**, which is slightly above the average for comparable countries. For example, for the new phase of our Drought Resilience and Sustainable Livelihoods programme, we have

mainstreamed gender in our business, financial management and leadership training. We are helping women to expand their productive activities and livelihood opportunities.

We are also addressing the root causes of vulnerability to climate change, to help communities become more resilient. Through integrated land management, ecosystem management and local infrastructure, we are helping people adapt to the impacts of climate change and develop sustainable livelihoods. Our new Green Growth Framework provides guidance to our staff on facilitating

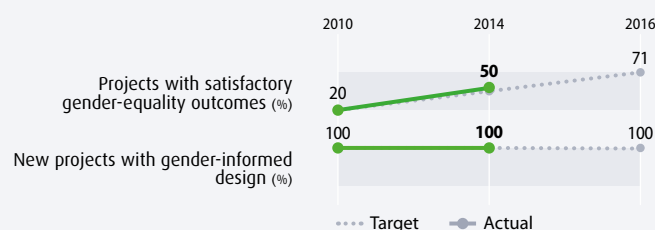
### Box 3.3 The AfDB's Inclusiveness Checklist

AfDB in Ethiopia has developed an Inclusiveness Checklist to ensure that the benefits of our operations are shared as broadly as possible. The idea emerged from our Country Portfolio Performance Review in December 2013, as a way of ensuring that cross-cutting priorities from Ethiopia's GTP and from the Bank's own Strategy 2013–2022 are properly addressed. The checklist stresses the importance of quality engagement with beneficiaries throughout the programme cycle. Our supervision missions now set aside enough time for interaction with beneficiary communities. Staff are encouraged to document the contribution of Bank operations to improving the lives of community members, particularly women and girls. This contribution is captured in the form of "human interest stories," which help to keep the needs and priorities of beneficiaries in clear view as our interventions develop. In the coming period, we will promote increased and better use of the checklist by project implementation units.

Figure 3.5 Knowledge management



Figure 3.6 Gender mainstreaming



Africa's gradual transition to green growth, and we have been fully supportive of the Ethiopian Government's commitments to move to a green economy. One key route for implementation is our work with the Climate Investment Fund, under which planned investments include renewable energy projects such as the wind farm at Asselaor and the Corbetti geothermal project.

## Conclusion

The AfDB's Ethiopia portfolio is in robust shape. Working in close partnership with the Ethiopian Government, in recent years we have implemented a range of measures to increase the efficiency and effectiveness of our operations. To design high-quality projects and maximise development impact, we have developed criteria

to become increasingly selective about our projects. Because our portfolio now has fewer, larger projects, we are able to focus more effort on implementation challenges. Our operations are subject to robust quality-at-entry checks and regular supervision, resulting in fewer implementation bottlenecks and a steady improvement in the quality rating of the portfolio. We have increased our use of country systems and the predictability of our funding, in line with our aid effectiveness commitments. We have also established the Bank as a trusted partner of Government, working closely with other development partners to promote the coherence of international development assistance.

In the next chapter, we look at efforts to build the Bank's own capacity in our Ethiopia office. ■





The Bank's investments have contributed to a significant expansion in Ethiopia's road infrastructure over recent years. From 2005 to 2013, the Bank has contributed to constructing, rehabilitating or maintaining nearly 400 km of roads.

# Level 4: How efficient AfDB is as an organisation in Ethiopia

**T**he final level of our Results Management Framework measures how well we manage our own organisation, using 14 indicators to assess our progress. We look at how successful we have been in decentralising our operations and providing a high-level presence to engage on continent-wide agendas. We also review our record on recruiting and filling staff vacancies and on addressing the gender balance in staffing. We take stock of the efficiency of our business processes and practices, with a particular focus on financial management and audit.

## Moving closer to our clients

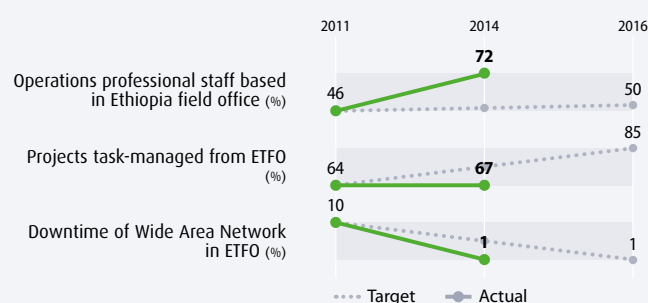
The AfDB's policy of decentralisation has worked very effectively in Ethiopia. The Ethiopia field office, one of the largest in Africa, takes the lead role in our country programming, portfolio management and donor coordination activities. Decentralising staff and functions to the field office has strengthened our partnership with the Ethiopian Government and brought us closer to the people we serve. It increases our visibility and makes us better placed to participate in country-led development processes. The fact that Government ministers and officers, executing agencies and donor representatives now have greater access to our staff strengthens trust and working relationships, makes policy dialogue easier and ensures that we are quickly available to resolve any implementation problems that may arise.

Over the last few years, the Bank has increased the proportion of **operations professional staff**<sup>1</sup> based in our office, from 46% in 2011 to 72% in 2014 (see Figure 4.1). We have also increased the percentage of **projects task-managed from the office** from 64% in 2011 to 67% in 2014. Our Ethiopia office works closely with AfDB offices in neighbouring countries to manage our multinational investments. It also provides staff to help manage other country operations. For example, the office helps manage projects in Djibouti and provides economist and specialist sector advice to project missions in such neighbouring countries as Sudan and South Sudan.

## Supporting Africa-wide policy priorities

Addis Ababa is a hub for high-level conferences and Africa-wide events. We work very closely with the African Union and the United Nations Economic Commission for Africa, which are both based there. In 2011, a joint secretariat to support all three institutions was established (see Box 4.1).

Figure 4.1 Moving closer to our clients



The country office in Ethiopia is therefore also resourced to engage actively on pan-African policy goals, playing an informal role of pan-African ambassador for the Bank. Our staff promote the Bank's strategic objectives at a wide range of international events, and the office often organises major events and facilitates visits by senior Bank officials. The Ethiopia field office is one

<sup>1</sup> A green bullet indicates good progress has been made, and we are on track to meet our target. A yellow bullet indicates little progress has been made, and we are at risk of not achieving our target.

Table 4: **How efficient AfDB is as an organisation in Ethiopia (Level 4)**

This table presents the Bank's progress in achieving its target for organisational performance:

- Good progress has been made, and we are on track to meet our target
- Little progress has been made, and we are at risk of not achieving our target
- No progress has been made, or we have moved even further away from our target
- Data are not available to measure progress

INDICATOR	2011	2014	Target 2016
<b>MOVING CLOSER TO OUR CLIENTS</b>			
● Operations professional staff based in Ethiopia field office (ETFO) (%)	46	72	50
● Projects task-managed from ETFO (%)	64	67	85
● Downtime of Wide Area Network in ETFO (%)	10	1	1
● Connecting to field offices (% successful videoconferences)	100	100	97
<b>ENGAGING AND MOBILISING STAFF</b>			
● Average time to recruit new staff (days)	75	75	75
● Share of staff who are women (%)	38	38	40
● Vacancy rate (%)	0	0	9
<b>IMPROVING BUSINESS PROCESSES AND COST-EFFICIENCY</b>			
● Disbursement request for special account processed and paid within 30 working days (%)	84	100	100
● Disbursement request for direct payment processed and paid within 15 working days (%)	81	88	100
● Percentage of procurement documents rejected (%)	10	3	3
● Time taken to process procurement documents (days)	11	9	9
● Project audits submitted on time (%)	100	100	100
● Percentage of audit reports accepted (%)	100	100	100
● Training to strengthen fiduciary capacity (numbers)	2	1	2

.. = Data not available.

Source: African Development Bank.

#### Box 4.1 A joint secretariat to harmonise efforts and policies

The Joint Secretariat Support Office to the African Union Commission, the African Development Bank and the United Nations Economic Commission for Africa was launched in Addis Ababa in May 2011. The Secretariat helps develop African policy positions for a wide range of international forums. It works to support policy engagement on areas such as mitigating and adapting to climate change and infrastructure investment across the continent.

The Joint Secretariat helps the three institutions achieve greater coherence in their policy advocacy, while providing a consultative and oversight mechanism to monitor initiatives and eliminate duplication. It also works with NEPAD's Planning and Coordinating Agency to achieve greater effectiveness in international support.

of the most visited offices of the Bank; in particular, the AfDB President comes regularly to Addis Ababa to attend international meetings and coordinate with the regional institutions.

#### Efficient information technology

We have invested judiciously in IT infrastructure and systems, to improve connectivity within the country office and with the Bank's headquarters. As a result of these investments, the ● **downtime of the Wide Area Network** in the office has been kept to just 1% in 2014, while ● **connections to the country office by videoconference** have been 100% successful over the period, against a Bankwide target of 97%. This enables the country team to work together more effectively and ensures that staff can participate in wider Bank meetings and initiatives, in line with our One Bank philosophy.

We have strengthened access to the wide range of applications needed to manage our portfolio effectively. We have also purchased new and reliable computers and increased the office's IT security and back-up capability. These improvements enable staff, including those on visiting missions, to work efficiently without IT problems.

## Engaging and mobilising staff

Our Ethiopia country office has a good record on staff retention. The ● **vacancy rate** has remained at zero over the last three years, which is above the Bank's corporate target of 9%. In addition, the ● **share of female staff** is at 38%, exceeding the Bank average of 27% (see Figure 4.2).

At the end of 2014, we had 25 staff in our field office, compared to just 9 in 2003, making Ethiopia the third-largest country office (excluding those with a regional role). There is a good mix of expertise in the country team, ranging from sector specialists to experts in procurement and disbursement, financial management, human resources and IT development. These diverse skills enable us to take on responsibility for managing the portfolio from the office, to provide advice and support to country offices in neighbouring countries, and to provide expertise and experience to sector working groups.

## Improving business processes and cost-efficiency

The country office works closely with the Ethiopian Government to increase the efficiency of our operations. Our staff hold regular training sessions for colleagues from Ethiopian executing agencies, to develop their skills and their understanding of the Bank's requirements. For example, in 2014, we held a one-week workshop to deliver ● **training to strengthen fiduciary capacity** in procurement, financial management and project management. We had held two similar workshops in 2013.



*The Bank works closely with its national counterparts to build their capacity to manage development projects efficiently*

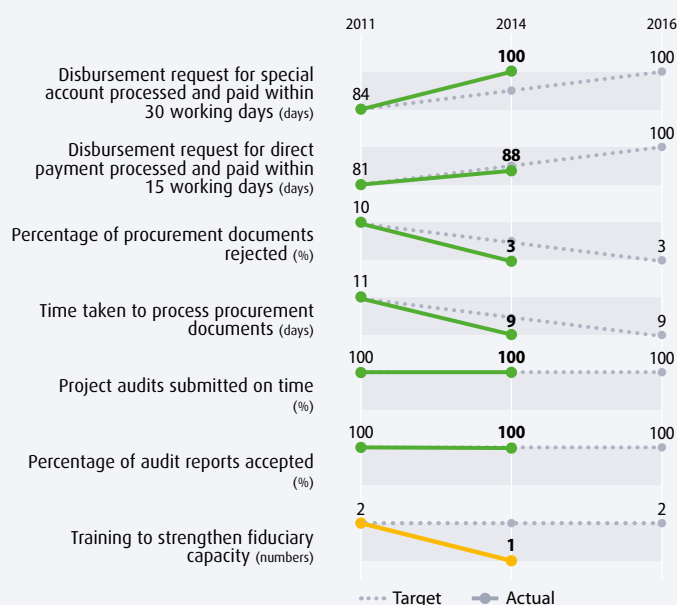
While we have substantially enhanced our business practices, there is still scope for improvement. The main outstanding challenges in the procurement field are around the quality of bidding documents and delays in follow-up. Besides holding the fiduciary clinics, our country office staff have been addressing these issues through quarterly procurement meetings with staff in Government and executing agencies, and providing targeted support to individual procurement officers when needed. These efforts have delivered marked results, with the ● **percentage of procurement documents rejected** falling from 10% in 2011 to just 3% in 2014 and the average ● **time taken to process procurement documents** decreasing from 11 to 9 days (see Figure 4.3).

Our disbursement rates for the Ethiopia portfolio have also improved as a result of the training. The percentage of ● **disbursement requests for special accounts processed and paid within 30 working days** has improved considerably, from 84% in 2011 to 100% in 2014. The proportion of ● **disbursement requests for direct payment processed and paid within 15 working days** has increased from 81% in 2011 to 88% in 2013. The office continues to give diligent attention to timely disbursement, and our 2015 stretch targets are 100% success for both special accounts and direct payments.

Figure 4.2 Engaging and mobilising staff



Figure 4.3 Improving business processes and cost-efficiency



As a development bank, we take our fiduciary responsibilities very seriously. This requires careful attention to project audits. In Ethiopia, 100% of ● **audit reports have been submitted on time** during the three last years. The ● **percentage of audit reports accepted** is also good: 100% of the reports were accepted in 2014 (12 reports), up from 92% in 2011.

Improved financial management is a key priority for the Bank across all sectors, and we work with other donors to promote it. Since 2010, we have provided over \$11 million towards public financial management reform in Ethiopia as part of our support to

decentralised basic services. We also give targeted assistance to project accountants to ensure satisfactory financial management for all our operations.

## **Conclusion**

After 40 years of AfDB support to Ethiopia, the last few years have seen a substantial strengthening of our presence in Ethiopia, in accordance with the Bank's decentralisation policy. The majority of our professional staff who work in Ethiopia are now based

in the country office, handling nearly three-quarters of project management tasks. We have built a skilled and capable team, supported by robust IT and communications systems, to ensure that we continue to operate as One Bank. Our strong country presence enables us to work actively with our country counterparts, providing them with training and support on implementation challenges, and with the other donors in Ethiopia, through coordination groups or dialogue mechanisms. Our presence also enables us to engage actively on Africa-wide policy agendas and in the many international events held in Addis Ababa. ■





The potential for producing energy in Ethiopia is huge, and almost all of Ethiopia's electricity is renewably sourced. In the coming years Ethiopia could become Africa's second-largest exporter of electricity. The Bank is actively engaged in supporting Ethiopia in developing its energy sector.

# Conclusion and outlook

**T**his Development Effectiveness Review of our Ethiopia programme demonstrates the impressive progress that Ethiopia has made in recent years to achieve sustained growth and reduce the numbers of people living in poverty. It also sets out the contribution that the AfDB has made in supporting Ethiopia's national development agenda. These findings provide some useful lessons both for other African countries and for the AfDB as a development bank. They also suggest how we should continue to work with the Ethiopian Government and other development partners to build on our successes.

## Ethiopia's development

Ethiopia has achieved impressive development results in recent years, dramatically improving the lives of many of its citizens. Faced with an array of development challenges, Ethiopia has achieved consistently high growth rates over the last decade, without the assistance of oil or other mineral exports. Furthermore, the Government has made determined efforts to ensure that growth is inclusive and that the benefits are shared widely.

Ethiopia has pursued inclusive growth by investing in the infrastructure and services needed by the poor. This has increased public access to markets, agricultural inputs, education and health services, and clean water and electricity. The innovative programme of decentralised support to basic services, which AfDB and other development partners have supported, has succeeded in channelling investment into local services right across the country. As a result, there has been remarkable reduction in poverty levels and real progress in delivering the MDGs. Life expectancy is above the African average and infant mortality has been reduced, although maternal health still lags behind. Access to basic education has increased, although education quality and gender equality remain a concern.

For all its successes, Ethiopia remains a poor country with serious challenges. The Government is committed to achieving economic transformation, to sustain high rates of growth while remaining both inclusive and environmentally sustainable. Improving agricultural productivity, commercialising agriculture and encouraging private sector investment are key elements in this restructuring process. Although there have been helpful improvements in the business-enabling environment and recent signs of increased private sector investment, Ethiopia still has some way to go to achieve sustained, private-sector-led growth.

## AfDB's contribution

Over 40 years of AfDB's engagement in Ethiopia, our principal contribution has been as a financier of infrastructure. We have financed 118 projects for a total value of \$4 billion, with particular emphasis on

expanding road infrastructure to improve access to markets and services. We have also provided substantial support to energy generation.

We have helped Ethiopia deliver basic services across the country by providing budget support to its decentralised support programme. Over the past eight years, we have provided three-quarters of a million people with access to better health services and achieved our target of providing over 250 000 people with improved water and sanitation. We have also helped to expand access to financial services and to raise the productivity of rain-fed agriculture through improved land and water management.

Through our presence in the country office, we have achieved a close working relationship with the Ethiopian Government. Together, we have developed a high-quality portfolio, selected projects against clear criteria, developed fewer, larger projects to improve efficiency and ensured robust quality at entry. We have improved the supervision and delivery of projects by training executing agencies in financial management and procurement. We have also coordinated actively with other development partners on both policy dialogue and project selection, to ensure that the overall aid effort is more effective.

We have strengthened our country office over the last few years, in line with the Bank's decentralisation policy. Our professional staff based in our office in Addis Ababa handle nearly three-quarters of project management tasks. We have built a skilled and capable team, supported by robust IT and communications systems, to ensure that we continue to operate as One Bank. In addition to working closely with our Ethiopian colleagues, we are able to engage actively on Africa-wide policy agendas and in the many international events held in Addis Ababa.

## The way forward

While Ethiopia has achieved remarkable development results in recent years, there are still many serious challenges ahead. It needs to diversify its economy and develop its manufacturing sector, whilst increasing agricultural productivity

and commercialising agriculture. The Ethiopian Government has recognised that it needs to create the conditions for a profound economic transformation, linking Ethiopian firms into productive value chains integrated into the global economy. Serious investment in the youth population will also be crucial to transform the country into a middle-income and knowledge-based economy by 2025.

Looking ahead, we will continue to support Ethiopia's Growth and Transformation Plan, with which our Country Strategy Paper and

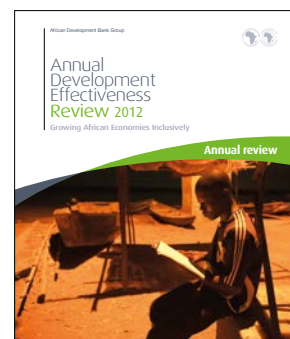
priorities are closely aligned. Our priority is to support Ethiopia's structural transformation to sustain its progress on growth and poverty reduction. We will continue to work closely with the Ethiopian Government and development partners to ensure that our support is well aligned and coordinated and that high standards of quality at entry and project supervision lead to efficiency in implementing projects and delivering development impact.

We stand ready to accompany Ethiopia in its transformation and help it achieve its vision of reaching middle-income status by 2025. ■

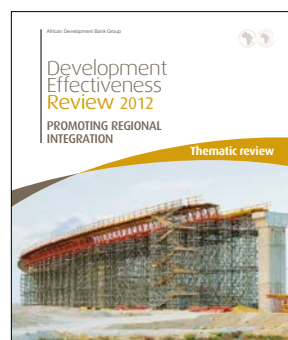
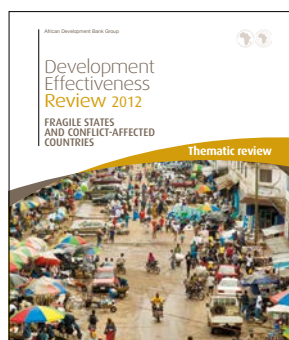
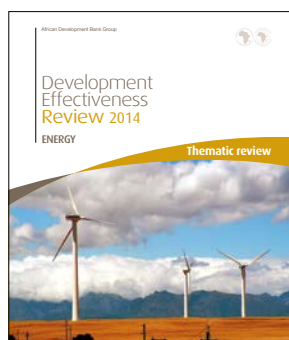


# The Development Effectiveness Review series of the Bank

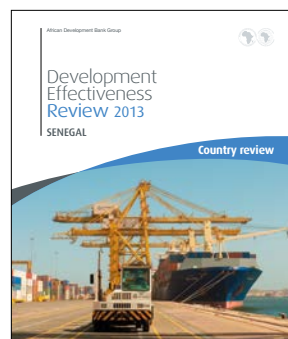
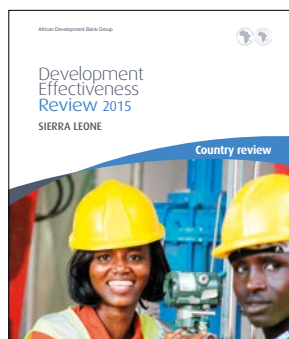
## Annual reviews



## Thematic reviews



## Country reviews







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### About this publication

The Development Effectiveness Review 2015: Ethiopia Country Review is a report on the performance of the African Development Bank's (AfDB) in Ethiopia. It reviews development trends in the country and explores how AfDB's operations have contributed to development results over the past three years. It also looks at how effectively AfDB manages its operations and its own organisation in Ethiopia.

### About the African Development Bank Group

The AfDB Group is a multilateral development bank whose shareholders include 54 African countries and 26 non-African countries. The AfDB Group's primary objective is to contribute to the sustainable economic development and social progress of its regional members, individually and jointly. It does this by financing a broad range of development projects and programmes through public sector loans, including policy-based loans, and through private sector loans and equity investments; by providing technical assistance for institutional support projects and programmes; by making public and private capital investments; by assisting countries with development policies and plans; and by supplying emergency assistance.



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