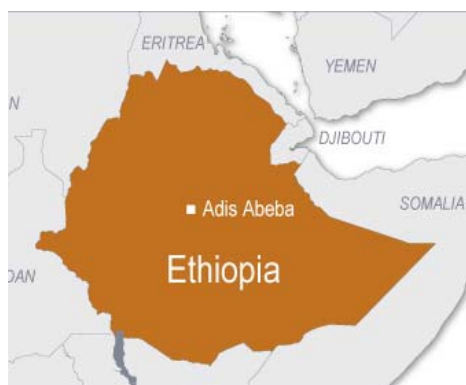


# Ex Post-Evaluation Brief

## ETHIOPIA: Co-financing of PRSC I



Sector	51010 General budget support	
Programme/Client	Co-financing of PRSC I of the World Bank, BMZ no. 2003 66 211*	
Programme executing agency	Ethiopian Ministry of Finance and Economic Development - MoFED	
Year of sample/ex post evaluation report: 2010/2013		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total 2005)	Approx. EUR 120.0 million	Approx. EUR 60.0 million
Counterpart contribution (company)	Not specified	Not specified
Funding, of which budget funds (BMZ)	EUR 4.0 million EUR 4.0 million	EUR 4.0 million EUR 4.0 million

\* random sample 2010

**Short description:** The Poverty Reduction Support Credit (PRSC I and II) co-financed by German Financial Cooperation was part of a three-year overall programme created by the World Bank to support implementation of the Ethiopian poverty reduction strategy (Sustainable Development & Poverty Reduction Program - SDPRP). The donor contributions were transferred directly to the Ethiopian state budget (general budget support). Financing was based on agreed objectives and supplemented by intensive policy dialogue between the Ethiopian government and donors.

**Objectives:** The PRSC programme objective was to improve public budget and finance management, private sector promotion, rural development and food security as well as basic government services (education, health care). These improvements aimed to help reduce poverty in Ethiopia as outlined in the SDPRP (overall objective) under the joint donor programme. Details on the agreed reforms and indicators to measure to what extent objectives were achieved were documented in a joint policy matrix.

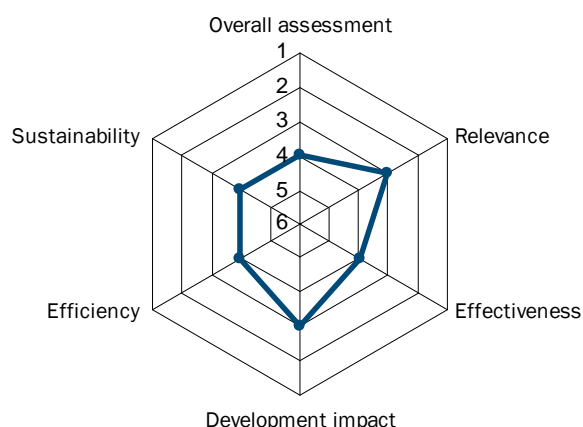
**Target group:** was the entire population of Ethiopia, in particular the poor.

### Overall rating: Note 4

The programme's relevance and intervention logic was rated as good through the end of 2004. In 2005, fundamental differences arose between the Ethiopian government and the donors in relation to policy development, which also concerned the relationship between the government and the private sector. In response, the donors switched from the general budget support mode to other forms of support. The intended structural reforms and impacts were not able to be achieved to the extent intended. However, noticeable improvements were made in reaching the overall objective of fighting poverty. Overall, however, the programme is considered no longer satisfactory (level 4).

**Points to note:** The general budget support was suspended by the donors at the end of 2005 due to human rights violations during the Ethiopian parliamentary elections in 2005. For this reason, only one payment for a single fiscal year was made by Germany.

### Rating by DAC criteria



Insufficient comparable projects available

## **SUPPLEMENTARY INFORMATION ON THE PROGRAMME DESCRIPTION**

The general budget support programme that was originally created to encompass three phases each lasting one fiscal year, was coordinated by the World Bank, the European Union (EU), the African Development Bank (AfDB) and initially two bilateral budget support donors. Implementation was headed up by the Ethiopian Ministry of Finance and Economic Development (MoFED).

The German contribution to co-financing, originally intended for the first phase of PRSC I, amounted to EUR 4 million and was earmarked for one fiscal year. It was paid in August 2005 because the negotiating mandate for this programme was granted in January 2005 and the financing agreement concluded in June 2005. At this point in time, the first fiscal year of the budget support programme (PRSC I) had already been completed and PRSC II was in the implementation phase, meaning that the funds from the German Financial Cooperation were spent in the second fiscal year. There were major overlaps in the content of PRSC I and PRSC II, although PRSC II focused slightly more on governance and reforms in the public sector: However, the overall objective was still poverty reduction – as was the case in the first phase (for more information, see Relevance). The PRSC I and PRSC II objectives were defined by the donors of the PRSC series with the Ethiopian government in a jointly agreed matrix and indicators assigned (Results Framework Analysis RFA).

### **Objective system**

According to the programme appraisal report, the overall objective was to help reduce poverty in Ethiopia using the instrument of general budget support and consistent with the priorities set in the 2002 Ethiopian poverty reduction strategy (SDPRP). PRSC I (and PRSC II) were designed to support the strategic priorities of the poverty reduction strategy that were defined as follows:

- a) Improving overall economic conditions
- b) Strengthening good governance, transparency and participation of civil society
- c) Improving basic public services and increasing the effectiveness of public institutions
- d) Increasing opportunities to generate income for the poor

The programme objectives of the overall PRSC programme (I and II) were: More effective public institutions, improved overall conditions for rural development and food security, private sector promotion, improved social indicators in education and health care.

In light of the advanced discussion on the evaluation of budget support, the following cross-sector objectives of the instrument of budget support were also included in the ex post evaluation (induced outputs):

- Improving the predictability of development funds and reducing the administrative workload for the Ethiopian government
- Strengthening the government's accountability to its citizens

- Increasing the capacities of the government bodies in planning, implementation, monitoring and evaluation of their programmes
- Encouraging ownership and effective implementation of the SDPRP

Including the programme – as formulated in the programme appraisal report – "in the general efforts to improve governance and reduce poverty" meant that its starting point is one of the country's main developmental bottlenecks. The ambitious and all-encompassing target system is still considered appropriate from today's point of view. At the same time, this kind of far-reaching target system realistically goes hand-in-hand with expectations of gradual progress which is consistent with the budget support programme that was (originally) structured to have several phases.

In assessing whether objectives have been achieved, it is particularly important to note that the original plan of carrying out three PRSC components over a three-year period was not possible due to political events in Ethiopia (see Bergthaller & Küblböck 2009). While approx. USD 60 million in general budget support was transferred by the bilateral donors (incl. the EU) in 2005, this figure was only approx. USD 450,000 in 2006 and only a marginal amount of USD 5,000 in 2007 (see Bergthaller & Küblböck 2009).

## **EVALUATION SUMMARY**

The overall rating of the German co-financing of the PRSC I and PRSC II (because the funds were only paid under PRSC II) programme is ambivalent. The programme can only be assessed taking into account the originally planned series of budget support tranches and – after budget support was suspended – the follow-up programmes that were actually implemented to promote basic services (Protection of Basic Services (PBS), BMZ nos. 2006 65 570, 2007 65 651).

It can generally be said that the Ethiopian government accepted a high level of ownership for the socio-economic components of the national poverty reduction strategy (SDPRP), its successor Plan for Accelerated and Sustained Development to End Poverty (PASDEP) from 2005 as well as the instrument of budget support. In addition, the Ethiopian Ministry of Finance and Economic Development was particularly interested in implementing reforms in public financial management (PFM). Successfully fighting poverty and creating functioning government structures was seen as the key to establishing the legitimacy of the ruling party (Ethiopian People's Revolutionary Democratic Front – EPRDF) and securing its position.

Overall, the Ethiopian budget focused more on poverty between 2004 and 2008. Various analyses – mainly the Public Expenditure and Financial Accountability (PEFA) analyses from 2007 and 2010 – also verified the improvement in most public financial management (PFM) areas during the period under review but found no improvement in parliamentary monitoring of the budget process (see Hedger/de Renzio 2008). Overall, the Ethiopian government's capacity for action has improved. Even though the poverty level – particularly in rural regions

– continues to be high and government capacities are still characterised by major weaknesses in implementation, Ethiopia has undergone above-average development in fighting poverty compared to many other countries in the region.

In view of the objectives and intervention logic of the budget support provided, it must be assumed that implementation of PRSC I and II in 2004 and 2005 contributed to this development. The World Bank rated the level achieved by the concrete target indicators of PRSC I and PRSC II as satisfactory. Furthermore, the budget support and the related harmonisation efforts of the donors as well as the strong degree of ownership assumed by the Ethiopian government until 2005 helped strengthen the efficiency of the support provided.

This overall satisfactory rating, however, must be seen in contrast to the negative political development and the problems in promoting the private sector and establishing free-market structures in key industries (e.g. telecommunications). The level of corruption continues to be very high. Standard indicators such as those of the World Bank or Transparency International show no improvement or only marginal improvement since 2003. Democratic participation and democratic accountability have undergone negative development since 2005. A World Bank evaluation verifies the low level of ownership assumed by the government for improving opportunities for the participation of civil society, criticised the authoritarian forces impeding the decentralisation process and took a critical view of the melding of the government and ruling party (World Bank 2008).

The regime of the dominant national party, EPRDF, is classified as authoritarian according to standard indicators of the Bertelsmann Transformation Index (BTI) and Freedom House: there are no free and fair elections, freedom of expression and the right to organise in civil society have been further restricted since 2005. This development is not consistent with the objectives of the SDPRP or an important goal of (German) budget support, namely encouraging free participation of society in political decision-making processes and increasing the government's accountability to its citizens.

Due to the particularly prominent fungibility problems of budget support and its successor instrument, the PBS, the possibility cannot be ruled out that both PRSC I and PRSC II have helped stabilise existing structures in Ethiopia. In the period 2005–2006, the political dialogue between donors and the Ethiopian government did not spur the government to behave more democratically in any discernible way (see World Bank 2008).

Taking into account the accomplishments in poverty reduction and in the PFM area, coupled with the discontinuation of the original long-term programme due to a change for the worse in basic governance reforms, the German contribution to the programme was found to be no longer satisfactory.

Overall rating: 4

## Relevance

The intervention logic of general budget support shifted over time, which also affected the Ethiopian budget support programme. At the beginning of the last decade, budget support was initially created mainly as a financing programme for countries that had adopted a convincing poverty reduction strategy and demonstrated a minimum of governance quality and could therefore be entrusted to implement this kind of poverty strategy over the long run. Over the course of the last decade and, in particular, with more and more involvement from bilateral donors, budget support objectives shifted. In addition to supporting poverty reduction, the instrument also started being used to promote good governance<sup>1</sup>. On the one hand, this shift seemed justified in light of the policy dialogue that accompanied the instrument of budget support; on the other hand, the focus on good governance and the associated demand for gradual but clear political reforms can, particularly in more authoritarian countries, cause ownership on the part of the partner country's government to suffer when instead, ownership should actually be a fundamental pillar of the intervention logic of budget support.

The shift in the target system described here is also reflected in Ethiopia's budget support programme. The starting point of the PRSC I programme was the Ethiopian poverty reduction strategy and its explicit reference to poverty reduction and the MDGs. Owing to the strategy's focus on agriculture, basic services, free-market reforms and PFM, the programme revolved around the main problems of socio-economic development in Ethiopia. The Ethiopian government's ownership and the donors' alignment were also rated satisfactory as a result of the alignment with the national strategy for poverty reduction, the partner country's process and the Ethiopian government's preference for the instrument of budget support. The scope of the indicator matrix of PRSC I and PRSC II, each with 16 indicators, had an adequate focus even though the sum of the individual measures assigned to the indicators amounted to approx. 25 each. As a country heavily dependent on external aid with weak governing capacities, the absorptive capacity was a particular challenge. But here as well, general budget support can still be considered a suitable instrument keeping in mind that large aid payments from different donors for individual projects place a heavy strain on the administrative structures of the partner country.

The instrument of general budget support, which was relatively new at the beginning of the programme, can therefore be considered a suitable mode in its impact logic at least up to the critical parliamentary elections on 15 May 2005, especially because the Ethiopian government had pledged to also initiate measures for political liberalisation at that time. With the

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<sup>1</sup> The impact logic of budget support assumes that the effectiveness of the budgetary funds is heavily dependent on a) the quality of policy content, b) the administrative capacities for implementation and c) the willingness of the government to make institutional reforms. To ensure that these three factors are adequately present and further encouraged, the budget support donors supplement their financial contributions with various non-financial components. Intensive policy dialogue between a government and donors is intended to improve the government systems. By imposing conditions on the payments of contributions, the donors create incentives for the recipient countries to implement reforms or demonstrate that violating minimum standards can lead to a (temporary) suspension of budget support payments. Additional capacity building measures strengthen the government in resource management and the implementation of reforms.

events at the parliamentary elections and therefore in phase II of the PRSC, it became apparent that no basic political reforms would be made. Accordingly, more importance was attached to the objective of good governance and the declining expectations of the donors to be able to achieve far-reaching progress – a development that ended in most donors deciding not to continue the support mode of general budget support.

The direct cause of this shift fell right in the middle of the period between programme appraisal and payment of German co-financing. Like many other donors, Germany paid its contribution to budget support in 2005. The funds in this support mode had nearly run out by 2006. The relevance of the German contribution is rated good in light of the original impact logic and the conditions until May 2005; after May 2005, however, it is only considered barely satisfactory with the stronger focus on good governance and the changed situation.

### **Sub-Rating: 3**

#### Effectiveness:

Given the formulated priorities of the SDPRP, the programme objectives and the indicators formulated in the policy matrix, the programme did not completely meet the high expectations.

On a positive note, the achievement of objectives for the PRSC I (and II) indicators that were defined together with the Ethiopian government were found to be satisfactory based on the World Bank's Implementation Completion and Results Report (ICRR). Particularly the success in improving basic services for Ethiopia's population contributed to this assessment. Furthermore, PRSC I and PRSC II have contributed to improving the PFM and to fiscal decentralisation. A system of comprehensive budget planning was set up and improvements made in accounting and information management at national and regional levels. Shortcomings were still found primarily in parliamentary participation and monitoring in the budget process (see PEFA 2007 & 2010). In the area of fiscal decentralisation, an intergovernmental transfer system was developed and implemented and the fiscal powers of the sub-national regional bodies strengthened. Overall, it can be said that the government's administrative capacities for implementing government programmes were strengthened.

Although indicator achievement for PRSC I was initially rated as satisfactory by the World Bank, serious weaknesses are still evident: the predictability of development aid was not strengthened through PRSC I (and PRSC II) because the donors suspended payment of "general budget support" already at the end of 2005 as a result of the changed overall conditions. The cause was political events for which the donors were not responsible. The reduction in the Ethiopian government's administrative workload through the programme is rated as satisfactory but only for a short time, due to the suspension of budget support. If, however, the PBS that came after PRSC I and PRSC II is also seen as a type of budget support to help the sub-national regional bodies, PRSC I, PRSC II and PBS together have contributed to stronger use of partner systems and reducing administrative workloads.

The programme did not structurally strengthen the government's accountability to its citizens nor did it substantially strengthen free-market reforms or reduce corruption. An independent evaluation of World Bank activities for the period 1998 – 2006 arrived at the following conclusion: *"Meaningful participation by civil society organizations in national decision-making processes and in exercising checks and balances on government policy-making and service delivery remains elusive."* (World Bank 2008)

The rating is also similar with a view to private sector promotion and free-market reforms. Promotion of the private sector, which was less effective measured in terms of the agreed reform steps, as well as the slow pace of privatisation and deregulation show that there were major differences in the opinions of the PRSC donors and the Ethiopian government on how to structure the economy. There were fundamentally different views on the relationship between government and the private sector: the Ethiopian government wanted to pursue a very heavily state-centred development model which severely curtailed the promotion of free market reforms preferred by the donors.

The budget support programme in Ethiopia is almost completely consistent with the overall outcomes of budget support evaluations in other countries: budget support has proven to be an effective instrument in reaching the objectives and reforms that both the partner government and the budget support donors stand behind. Fundamental reforms that donors want, on the other hand, where different opinions exist, cannot be achieved through budget support and the associated policy dialogue. In this case, it does not just include politically sensitive areas of good governance (democratisation, anti-corruption, etc.) but also the promotion of private sector reforms which are key to fighting poverty. With this in mind, the effectiveness of the German contribution to the programme is considered no longer satisfactory.

#### **Sub-Rating: 4**

##### Efficiency

Despite some success, the potential of PRSC I (and PRSC II) was not completely realised. This was due to sector-specific incongruities in the respective interests of budget support donors and the partner government in the short term and due to (initial) problems in donor harmonisation and alignment. Most importantly, however, the conflicts between ownership with regard to addressing poverty and a lack of emphasis on good governance came to light which, in Ethiopia's case, took on the dimension of a dilemma with the events in 2005.

General budget support with its financial and non-financial components can be considered a suitable instrument to combat the structural causes of poverty and weak governing capacities as long as the government has adequate ownership for comprehensive poverty reduction and governance reforms and the donors and government agree on which strategies and reforms are necessary to successfully fight poverty. The prerequisites to achieve this appeared relatively good until May 2005.

The Ethiopian government did not just have a pronounced interest in the instrument of budget support. With the SDPRP, a poverty reduction strategy existed that was also generally appropriate for the existing government capacities and the socio-economic development level. In addition, the Ministry of Finance and Economic Development and the "Ministry of Capacity Building" had a high level of ownership for strengthening government administration. In 2003 and 2004 (PRSC1), there was a clear willingness to encourage and coordinate the alignment of the budget support donors despite the limited capacity of the Ethiopian government. The formation of a Development Assistance Group (2000) to support the PRSP process was also followed by strong coordination and agreement between the general budget support donors. In 2004, an instrument - the Joint Budget Support and Aid Review - was introduced to analyse the poverty focus of the Ethiopian budget.

Still, efficiency was lost due to existing shortcomings in the harmonisation and alignment of the donors as well as the limited capacities of the Ethiopian government to manage a complex donor landscape. Incongruities, for example, appeared between the national PRSP and budget calendar as well as the donor missions and decisions because the latter were not properly aligned with the former (Schmidt 2006). However, these shortcomings must be put into perspective given the limited experience with the instrument of budget support at the time. An increasing number of donors recognised the potential to make a structural contribution to poverty reduction through general budget support (or PRSC I) – in a developing country heavily dependent on external aid. However, the development of Ethiopian government revenues and the tax rate were volatile between 2001–2010, even in comparison to other African countries, and experienced a negative trend between 2004 and 2008. There is no evidence, however, of a causal relationship with budget support.

The budget support donors felt that the risk assessment was still reasonable given the (supposed) willingness to reform with a view to political governance, free-market reforms and private sector promotion which was expressed in, among other things, the EPRDF. The government had promised to introduce steps for political liberalisation and democratisation by May 2005. With the political events in 2005, however, the government's low level of willingness to introduce reforms in these areas became apparent. If PRSC I is assessed as a phase of a programme planned for several years, the unrealised potential of the programme can be primarily attributed to the Ethiopian government which did not implement the originally envisaged governance reforms. The donors were therefore confronted with the challenge of risking serious macroeconomic and/or socio-economic distortions by suspending aid payments.

The efficiency of the programme until 2004 is considered quite satisfactory for the reasons above. From a medium or longer-term perspective relating to the efficiency of the instrument with its long-term structural objectives, the rating, however, must be lower. Efficiency is thus given an overall rating of unsatisfactory.

**Sub-Rating: 4**



## Impact

This ex post evaluation was carried out 8 years after the German payment was made for PRSC I/II. Because the evaluation criterion "overall developmental impact" was created at the time of the ex post evaluation, there is so much overlap with the evaluation criterion "sustainability" that both can initially be considered together but separately.

During the time between programme implementation and evaluation, poverty in Ethiopia has improved considerably. According to the World Bank (World Development Indicators), the percentage of Ethiopians living in poverty fell from 38.9% in 2004 to 29.6% in 2011. Life expectancy during this same period increased from 54 to 59 years. The enrolment rate at primary schools increased during this time from 69% to 100% and access to drinking water rose among the rural population from under 30% to 34%.

This success can be explained by an increased focus on poverty by the Ethiopian government as well as relatively high overall economic growth rates in this period, although they declined slightly over the last few years (growth rate of the gross domestic product (GDP) between 11%/2004 and 5.2%/2011). This positive development can also be seen in the development of the Human Development Index that increased from 0.275 in 2000 to 0.316 (2005) and then again to 0.392 in 2010. This means that Ethiopia still falls in the below-average range in the region of sub-Saharan Africa but has come much closer to reaching this average (from 68% in 2000 to 83% 2011).

The situation of the rural population in many parts of the country is still very precarious. Even though there haven't been any humanitarian catastrophes over the last few years and productivity in the agricultural sector and food security have increased, considerable improvements in general institutional conditions are necessary in agricultural policy and at the local government level to sustainably improve the persistently challenging overall conditions. A high percentage of the rural population is still dependent on food aid (total of approx. 10% of the population). Malnourishment continues to be a challenge and difficult environmental conditions adversely affect planning certainty in the agricultural production process.

From a macroeconomic perspective, the situation in Ethiopia has also moderately improved, external debt is much lower and debt management has made the country less vulnerable to external economic shocks according to analyses conducted by the IMF and the World Bank (IMF/World Bank 2010; IMF 2012). With a view to price stability, however, a positive trend is not evident, the annual inflation rate fluctuates between figures under 10% up to 44% in 2008.

Institutional development is much more critical. In the period 2005–2011, most World Bank CPIA indicators<sup>2</sup> on the institutional quality of socio-economic management stayed the same

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<sup>2</sup> The World Bank's CPIA (Country Policy and Institutional Assessment) annually assesses policy fields and institutional quality in core governance areas but not explicit political governance characteristics such as democracy level or human rights.

or showed only marginal improvement still at a very low level. Political stability improved slightly while political governance in the same period, however, worsened. As the ruling party pushed to cement its claim to power at national level in 2005, a similar trend occurred at the level of the sub-national regional bodies in the years that followed. In addition to securing the position of the governing party at national level, activities in civil society were further restricted through different legislative initiatives. This threatens to undermine the legitimacy of the government over the long term and conflicts with the repeated pledge to introduce political liberalisation measures at least when the economic is showing positive signs of development.

It is difficult to assess to what extent the PRSC I programme or the combination of PRSC I and II had an impact on these medium-term trends because the general budget support was already suspended after two phases. It must be assumed that, in particular, the political dialogue and the co-financing of the Ethiopian poverty reduction strategy had a moderately positive effect on macroeconomic management, the poverty focus of the Ethiopian budget and certain PFM reforms at least in the short term. If, however, it is assumed that budget support is a long-term instrument on the basis of its intervention logic, the PRSC cannot be expected to have a long-term effect. This is especially true because political dialogue about sector-specific and cross-sector reforms did not carry nearly the same weight in the PBS programme that came after the budget support programme. The measure did not therefore increase administrative capacity over the long run while simultaneously benefiting participatory and democratic structures.

The contribution of the programme to the developmental objective of poverty reduction can thus still be considered satisfactory despite the fact that the accomplishments in governance were rated unsatisfactory.

**Sub-Rating: 3**

Sustainability

Even now that the general budget support mode has been discontinued, Ethiopian government policy still focuses on poverty and progress continues to be made in poverty reduction. This cannot, however, be attributed to the effects of general budget support because the programme only ran for a short time and not over several years as planned. There were thus no long-term structural impacts especially because the political dialogue brought about by general budget support which could have potentially been strengthened by reforms after 2005 did not continue. As a result, the sustainability of the measure is found to be unsatisfactory overall.

**Sub-Rating: 4**

## Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

- |   |   |
|---|---|
| 1 | Very good result that clearly exceeds expectations  |
| 2 | Good result, fully in line with expectations and without any significant shortcomings   |
| 3 | Satisfactory result – project falls short of expectations but the positive results dominate                                     |
| 4 | Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results |
| 5 | Clearly inadequate result – despite some positive partial results, the negative results clearly dominate                        |
| 6 | The project has no impact or the situation has actually deteriorated  |

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

### **Sustainability is evaluated according to the following four-point scale:**

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).