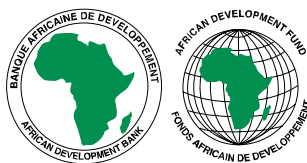


**AFRICAN DEVELOPMENT BANK GROUP**



**ETHIOPIA**

**REVIEW OF BANK GROUP ASSISTANCE TO  
THE AGRICULTURE AND RURAL DEVELOPMENT  
SECTOR**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

**18 April 2008**

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## **ABBREVIATIONS AND ACRONYMS**

AfDB	African Development Bank
ADF	African Development Fund
ADLI	Agricultural Development Led Industrialization
AGGDP	Agricultural Gross Domestic Product
ARD	Agriculture and Rural Development
ASSP	Agricultural Sector Support Project
CIDA	Canadian International Development Agency
CPRR	Country Portfolio Review
CSP	Country Strategy Paper
DAG	Development Assistance Group
DFID	Department for International Development
ESW	Economic and Sector Work
ETCO	Ethiopia Country Office
EU	European Union
FAO	Food and Agricultural Organization
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GOE	Government of Ethiopia
HIPC	Highly Indebted Country
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IFAD	International Fund for Agricultural Development
MDG	Millennium Development Goal
MFI	Microfinance Institution
MOARD	Ministry of Agriculture and Rural Development
MOFED	Ministry of Finance and Economic Development
MOWR	Ministry of Water Resources
NFIA	National Fertilizer Industry Agency
NLDP	National Livestock Development Project
ODA	Overseas Development Assistance
OPEV	Operations Evaluation Department
PADS	Pastoral Areas Development Study
PASDEP	A plan for Accelerated and Sustainable Development to End Poverty
PCDP	Pastoral Community Development Project
PCR	Project Completion Report
PET	Pastoral Extension Team
PRSL	Poverty Reduction Support Loan
PRSP	Poverty Reduction Strategy Paper
RFISP	Rural Finance Intermediation project
ROSCAS	Rotating Savings and Credit Association
RUFIP	Rural Finance Intermediation Program
RUSACCOS	Rural Saving and Credit Cooperatives
SAL	Structural Adjustment Program
SCRC	Study Coordination and review Committee
SDPRP	Sustainable Development and Poverty Reduction Program
SERP	Southeast Rangeland Development Project
SIDA	Swedish International Development Agency
TWGS	Thematic Working Groups
UK	United Kingdoms
UNDP	United Nations Development Program
UNICEF	United Nations
USAID	United States Agency for International Development
WFP	World Food Programme

## EXECUTIVE SUMMARY

1. The thrust of this performance review is on the results of the African Development Bank Group (AfDB)'s assistance to the Agriculture and Rural Development (ARD) Sector in Ethiopia during the period 1993-2004. The objectives are fourfold: establish the record of achievements of the Bank Group assistance to the agriculture and rural development, draw lessons, propose improvements of current and future Bank Group interventions, and provide a benchmark for future assessment of the Bank Group assistance and impacts.

2. A sequenced procedure was followed to implement the performance review. Core questions were developed to guide the review work. This was followed by desk reviews of existing and relevant documents, and data drawn from multiple sources including the AfDB. The desk review was accompanied by discussion with consultations with the Bank Group staff in the Headquarters and Field Office, policymakers and project staff in Ethiopia, and some of the development partners.

3. The standard OPEV evaluation criteria -- relevance, efficacy, efficiency, institutional development and sustainability- are applied for assessing the lending and non-lending operations of the AfDB in the ARDral Development Sector in Ethiopia. The contributors' performance – Bank and Borrower- was also reviewed focusing on quality and timeliness of their services.

4. The AfDB committed, in loans and grants, a total of 188.36 UA million (about U\$264 million) to the ARD sector during the review period in Ethiopia. Project lending is by far the major instrument for delivering the Bank's assistance to the sector. Often, project lending is coupled with grant resources to support studies for project preparation, skill development in project formulation and management, and building rural institutions. The grant resources also extend to PRSP process and activities such as poverty assessment, participatory process and poverty monitoring system. The Bank Group also enters into co-financing arrangements to leverage resources for project financing.

5. The reviewed portfolio of ARD assistance is relevant judged by its rural focus with agriculture emphasis especially the smallholder agriculture. Such strategic focus on smallholder agriculture is consistent with the poverty reduction vision of the Bank Group, its poverty policy, and agriculture sector policy and strategy. It is also aligned to the Government of Ethiopia (GOE)'s agriculture development led industrialization strategy, food security strategy, and poverty reduction strategy. Whilst recognizing the relevance of the chosen projects, however, there is no way of ascertaining the investment in these projects is the most desirable from perspectives of economic optimality and poverty reduction.

6. The performance of both the lending and non-lending assistance is generally satisfactory in terms of meeting or making progress towards their stated objectives. But the project objectives are not achieved cost-effectively due to implementation deficiencies and inadequate quality assurance. Hence, the projects including the studies are rated cost inefficient.

7. The Bank Group support to ARD involves important components of institution building both as integral part in the lending projects as well as in technical assistance (i.e., support studies,

training, development of community-based organizations and institutions, and monitoring and evaluation). The performance of this aspect of Bank assistance so far is unsatisfactory.

8. Despite the relevance and good quality at entry of ARD operations, inadequate implementation performance, modest gain in institutional development and slowness in instituting self-sustaining institutions and legal framework are making it unlikely for the most of the projects to be sustained.

9. There are important pro-poor elements in the projects: focus on smallholder agriculture, emphasis on addressing key constraints to growth (e.g., genetic improvement, disease control, improved agricultural inputs such as chemical fertilizers, access to credit and building irrigation), and reducing downside vulnerability to poverty and food insecurity (e.g., irrigation and water harvesting). However, the Bank Group ARD assistance has not made marked effect on poverty reduction at the margin since only a part of it has been delivered.

10. Ethiopia continues to experience degradation of its natural resource base: frequent occurrence of droughts and increased aridity, desertification and loss of rangelands, degradation of arable land, water degradation, and deforestation. The degradation of these resources has a profound impact particularly on the livelihoods of the rural populace as they depend largely on natural resources. Hence, protecting the environment and natural resources, and to mainstream environment and natural resource management into development processes are critical for sustenance of rural livelihoods. But most of the projects, particularly those approved in the pre-1999 period, have not systematically integrated environmental concerns in their design and implementation plans.

11. There are marked improvements in relevance and quality at entry of ARD assistance to Ethiopia. The implementation performance of the Bank Group has also improved over time. However, the Bank Group is notably weaker in its implementation performance as compared to its relevance and quality at entry. Whilst the frequency of supervision has increased, there are issues on the quality of supervision and the timeliness of resolving outstanding issues. None of the projects operate on their implementation schedule, which is partly related to inflexible procurement and disbursement requirements, slow authoritative response to outstanding problems, insufficient requisite understanding and knowledge of the complexity of projects, and inadequacy in utilization of the Bank's Field Office (ETFO) staff for providing technical and administrative support. The experience of SERP also highlights the retarding effect of poor project governance on operational effectiveness (i.e. political interference in project management, non-transparency and accountability in financial management, and non-compliance with the agreed rules and procedures) and the risk of project supervision in an environment of political uncertainty, and disputes, conflicts and war.

12. The contribution of GOE is significant particularly in setting the broad policy framework for ARD, supporting studies that form the bases for project identification, pro-actively engaging with development partners in aid coordination and project identification. The GOE's compliance with conditions for quality at entry of the Bank-assisted projects is generally satisfactory albeit notable delays on average between loan agreement signature and entry in to force. However, there are areas of concerns and inadequacies: non-transparency in decisions related to investment

choice, geographic placement of projects and choice of targeted population, non-matching of project size to implementation capacity particularly in the regions, inadequacy in timeliness and completeness of financial reporting, slowness in enacting legal covenants necessary for implementation performance and sustenance of projects, weak project monitoring and reporting, and poor institutional memory of past projects.

13. Both the Bank Group and GOE have made significant progress on improving the design of projects (identification, preparation and appraisal). But their performance on project implementation, institutional development and sustainability performance has not been satisfactory. More works need to be done on improving cost-effectiveness, institutional building and strengthening, and reducing risks that diminish viability and sustainability of benefits streams from scarce invested resources. Special safeguards are necessary for projects subject to exogenous factors that have detrimental effects on project performance.

### **Lessons Learned**

14. There are important processes contributing to the relevance of the ARD assistance: the Bank Group learning and improved knowledge of the country's agricultural development potentials and constraints through investing in studies, compliance with the Bank Group vision of poverty reduction and its agriculture policy, GOE managed donor coordination process as a vehicle for project identification, and consultations with in-country stakeholders. The reliance on the GOE for project identification is consistent with the principle of country ownership provided the Bank Group undertakes its own independent appraisal consistent with its own guiding principles and comparative advantage, and engages proactively in dialogue to ensure necessary policy reforms are implemented.

15. The quality of studies commissioned for project identification tends to be high in studies that have a long history of academic research and/or strong GOE support. On the other hand, the quality of studies tends to be weak where the Bank Group has initiated without strong link to the research community. Anchoring on existing empirical knowledge, pooling and tapping on existing expertise, and flexibility in managing studies are essential elements for improving the project quality at design.

16. Several factors have hampered the implementation performance of the Bank Group: inadequate specification or understanding of rules and procedures, imbalance between project size and complexity and implementation capacity, delay in responding to emerging operational problems and taking remedial measures particularly in early phase of implementation, weakness in quality assurance of performance, unfamiliarity in complexity of issues, and inadequate utilization (or, capacity building) of the ETCO staff for providing technical and administrative support.

17. Underlying factors in cost inefficiency in projects, which manifest in delays in procurements, disbursements of funds and retention of skilled manpower, are the inadequacy in project conception, inflexibility in project implementation, failure to align project size to implementation capacity (or, sequencing capacity building), poor project governance (political

influence in project management decisions), inadequacy in incentive (lack of reward system for proven performance), and laxity in GOE commitment to necessary legal covenants.

18. Institutional development tends to be weak in an environment where technical support is inadequate (e.g., developing monitorable indicators for effective M&E), existing organizational arrangement is not suited to project requisites, incentive structure is weak, policy and/or legal ambiguity prevails (e.g., undefined property rights governing land and water), and community mobilization and participation is limited.

19. Sustainability of project benefit stream at affordable cost is a function of operational efficiency as determined by financial and economic viability (efficacy and efficiency), institutional development, capacity to withstand external factors, and government commitment especially policy and legal support. Sustainability is assured where financial viability is strong, organizational arrangement is effective, institutions governing behavior permit adequate incentive and risk taking, contingency plans exist to pool risks, and policy and legal uncertainty is diminished. The unsatisfactory rating of most of the ARD projects is rooted in absence of most of these essential conditions.

### **Recommendations to the Bank Group**

20. Given the relevance of Bank assistance to the ARD, the Bank should continue the current focus on promoting smallholder agriculture with poverty and food security emphasis. The application of compliance, alignment and confirmation rules is commendable to ensure relevance. The Bank should also improve its transparency in choosing projects guided by core principles and comparative advantage, establish sound economic justification for locating projects, and use analytical and financial leverage in influencing policy and institutional change to enhance project effectiveness.

21. The practice of “formulating new projects based on studies of pre-existing conditions” is an important progress and essential tool for the Bank to be pro-active in investment choice, and hence needs to be sustained with greater effort on improving the analytical content and quality assurance. Include in these studies careful analysis of past experiences, distill essential lessons to develop coherent project, assess existing institutional and implementation capacity, and understand potential sources of risk affecting project performance.

22. As long as the Bank continues its current project approach, it is instructive to follow holistic approach to maximize project effectiveness through ensuring essential project components are implemented simultaneously. This review reiterates the recommendation stated in the agriculture sector identification mission of late 2002, which called for a shift from a project approach to integrate all projects into a well defined and closely linked rural based agriculture sector support program.

23. Align project size and complexity to operational capacity: It is necessary to either align project scope to implementation capacity or follow a phased approach where project size expands as implementation and institutional capacity develops.



24. Negotiate carefully implementation terms with minimum ambiguity, build in margin for flexibility to adjust as conditions change in the implementation phase, and delegate more authority and responsibility to the country office to exercise within the permissible margin.

25. Adequately assess implementation capacity, instituting monitoring and evaluation system, and effectively respond to changing conditions to ensure projects are executed in line with agreed objectives, timelines, and implementation plans. Improved communication, adequate supervision, and flexible but correct timely response to problems are necessary to ensure implementation of a project is on track.

26. Donors meet regularly with the GOE to ensure harmonization and coordination. The forum provides the Bank Group to engage pro-actively in setting priority intervention areas. Given the financial leverage of the Bank and the presence of the Field Office in the country, it needs to enhance its effectiveness in influencing policy change and mobilization of resources for growth financing in partnership with the donor community. Beefing up the analytical capacity of AfDB/ETFO supported by the research and policy units of the Bank Group would contribute to enhance the profile and effectiveness of the Bank.

27. The Bank Group at times needs to differentiate projects in terms of their potential contribution to best practice with lessons transferable to other African countries. The RUFIP is one project with such potential. For such type of project, the emphasis should not only be whether the project meets their operational requirements, but also to integrate baseline study, adequately specified monitoring performance, and impact evaluation on development outcome. The output of such project includes “lessons that are replicable or that can be scaled up” in other countries.

### **Recommendations to the Borrower Country**

28. The record of GOE shows improved policy framework for broad based rural and agricultural development, and project formulation. The GOE’s weakness lies in project implementation, institutional building including monitoring and evaluation, and sustainability. Hence, the recommendations specified for the Bank Group are also applicable to the GOE.

29. **Complete missing policies:** Important agricultural policies are in place that address main growth constraints. But there are missing or incomplete policies: property rights in general and land in particular, input and financial market reforms and sequencing, private sector development, and population mobility and settlement.

30. **Develop sector-wide program that guides efficient resource allocation:** Greater efforts are necessary to jump start and speed agricultural growth and transformation. This calls for developing sector-wide investment program guides investment allocation, placement of projects and resource commitments.

31. **Invest in developing appropriate knowledge:** The returns to informed investment decisions warrant that the GOE continues to invest in studies that enable it to identify agricultural projects and programs with high payoffs in terms of growth and poverty reduction.

32. **Build and enhance project implementation capacity at local level:** Progress on civil service reform and human capacity building at local level needs to continue. More work is necessary to improve project governance. The drive towards establishing community-based organizations promises to broaden and deepen private sector development as problems associated with governance diminish and GOE overcomes its ambivalence towards private sector development.

33. **Enhance depository of lessons learned and replicating best practices:** A key component of institutional building is strengthening monitoring and impact evaluation systems. Combining monitoring with selective impact evaluation enable to draw lessons and transfer gained knowledge into improving design of future projects (or, interventions).

## **I. BACKGROUND**

1. Ethiopia, the second most populous country in Sub-Saharan Africa, is the major recipient of development assistance in Sub-Saharan Africa expressed in percentage of its national income. In years 2000 and 2001, for example, the official Development Assistance (ODA) to Ethiopia was 15.5 and 18.9 percent respectively, as compared to 6.2 and 7.2 percent for Sub-Saharan Africa (UNDP, 2003). However, the ODA per capita in real US\$ was less as compared to the rest of Sub-Saharan Africa; US\$ 14.5 in 2000 and US\$ 16.1 in 2001 as compared to US\$ 19.4 and US\$ 206 for both years respectively for Sub-Saharan region. All the ODA was not strictly for developmental purpose but as much as 31 percent over the 1997-2000 period was for financing relief activities.

2 The African Development Bank Group (hereafter the Bank Group or the Bank or AfDB) has been one of the major multilateral financiers of agriculture and rural development since the mid-1970s in Ethiopia. Over the period between 1975 and 2004, the Bank Group committed UA 1.2 billion (about US\$1.68 billion) net of cancellations. This was equivalent to 11 percent of the total ODA assistance to Ethiopia.

3. What has been the performance of the Bank Group assistance particularly to the agriculture and rural development (ARD) is the question that drives this review of performance. The Operations Evaluation Department (OPEV) commissioned this review. The objectives and scope of the performance review are stated below followed by a brief discussion of the approach adopted. The country setting is then profiled including a brief introduction to the country geographical land mass and population, economic structure, socioeconomic performance, and policy environment.

### **1.1. Objective and Scope of the Review**

1.1.1 The thrust of this review is on the results of the AfDB assistance to the agriculture sector. The objectives of the review are to assess performance outcomes of the AfDB assistance to the agriculture sector in order to establish its record of achievements, and draw lessons and propose improvements on current and future Bank Group interventions. This review is also meant to provide a basis for future assessment of the performance and impact of the AfDB assistance to the ARD sector.

1.1.2 The review covers the lending and non-lending interventions in the sector since 1993<sup>1</sup>. The policy context within which these projects have operated is first described. The standard evaluation criteria of the Bank Group are then applied separately for lending and non-lending activities to assess the outcome (relevance, efficacy and efficiency), institutional development and sustainability (see annex A4). To the extent that the available evidence permits, the review attempts to show the contribution of the Bank Group and that of the GOE to the performance outcome. Finally, the review draws lessons learned and provides recommendations for enhancing the development effectiveness of the AfDB intervention in Ethiopian agriculture.

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<sup>1</sup> *In effect, the review covers Bank assistance to the ARD sector approved in 1993-2004, comprising four programming cycles; 1993-95, 1996-98, 1999-2001 and 2002-04 .*

1.1.3 The specific questions of interest for this review are: Has the Bank Group been relevant in its intervention in the sector (i.e., addressing strategic policy priorities)? Has it been doing it right and effectively as measured in its efficacy and efficiency? What has been its contribution to institution building and sustainability? Has its performance improved over time and why? Are lessons drawn from the past incorporated in the recent approved projects? What additional lessons can be drawn to improve development effectiveness in agriculture sector and consequently its portfolio performance, and the country assistance strategy in future?

1.1.4 These guiding questions are addressed with a reference to the Bank assisted operations approved in the period 1993 - 2004<sup>2</sup>. A total of 13 operations were signed during this period -- with four of them are the Bank supported studies for project identification and preparation. The majority of the projects are on-going with the exception of the two national fertilizer projects and one study (Amibara Drainage Study). To the extent data permits, old projects that started in pre-1993 period but completed in the 1993-2004 period will be part of this review to capture a large set for drawing lessons (see table A1 in the annex).

## **1.2. Approach of the study**

1.2.1 A sequenced procedure was followed for the performance review. The existing literature was reviewed to establish in brief the agriculture sector policies and priorities of the Government of Ethiopia, the Bank Group agriculture sector assistance, and the interventions of the development partners in agriculture (who is doing what and what is the extent of aid coordination).

1.2.2 For each of the Bank reviewed projects and studies, a uniform set of questions were followed to develop a project profile that captures information on project origin and rationale, project objectives and components, geographical spread, target population and project costs, relevance, institutional arrangement, quality at entry, implementation performance (compliance with Bank conditions, procurement, reporting on performance and finance, adherence to implementation schedule, and quality of supervision), project outcome (efficacy, efficiency), institutional development, sustainability, and attribution.

1.2.3 Multiple data sources were consulted but primarily the documents from the Bank (e.g., project appraisal, supervision mission reports, project completion reports (PCRs), country portfolio review reports (CPRRs), country strategy papers (CSPs) and economic and sector works (ESWs)), and official GOE reports. The desk reviews were accompanied by discussions with selected stakeholders (i.e. the Bank Group staff in the Headquarters and Country Office, policymakers and project staff in Ethiopia, and some of the development partners).

1.2.4 Information gathered from these sources was combined for the purpose of the ordinal ratings of the project outcome, institutional development and sustainability. The relevance rating is primarily a measure of extent of adherence to the country's agricultural policies and priorities. The efficacy criterion distinguishes the primary objectives, which are often not specific and easily monitorable, from intermediate objectives, and assesses progress and extent of

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<sup>2</sup> As most of the operations are ongoing in 1993-2004, the review took into account their results up to the end of 2005.

achievement to the stated objectives. The efficiency test is preferably based on financial and economic returns. In absence of these measures of operational efficiency, proxy measures related to timeliness of project implementation, cost-overruns or under-runs, and quality of output are assessed.

1.2.5 Assessment of institutional development focuses on improvement in skill development of project staff, institution and performance of monitoring and evaluation, support to beneficiary-based organizations and institutions, and enactment and implementation of legal covenants necessary for project sustenance. The assessment of the sustainability of the projects partly depends on these elements of the institutional development plus indications of policy commitment, cost-recovery and self-financing scheme, and conditions favorable for collective action.

1.2.6 The OPEV standard evaluation framework is applied (see annex A4). The framework comprises six key evaluation criteria and a four-scale ordinal rating system. The rating is based primarily on the earlier Bank Group assessments as reported in the operations supervision mission reports and country portfolio reviews. The base ratings were modified in accordance to qualitative counter-factual analyses based on views and judgments of relevant government officials especially project staff in the field. To the extent these sources (or, methods) converge and produce consistent ratings, the base ratings are maintained. In the case of divergence, base ratings are modified with some explanations.

1.2.7 Not all the projects covered in this report are subjected uniformly to the same array of evaluation criteria since they are in different points in their project cycle. Among projects approved since 1993, only two projects reached the completion point (the national fertilizer project I and the national fertilizer project II). As it is shown in Table A1, several projects that were approved before 1992 were completed since 1993 but only two are covered here for lack of sufficient information (Wush Wush tea project II and the southeast rangelands development project). These completed projects are subjected to complete evaluation covering performance outcome, institutional development and sustainability.

1.2.8 Since ultimately the success of development assistance is judged by how much it makes difference in wellbeing of households and individuals, it is essential to include in such report some measures of development effectiveness (outcome or impact indicators) such as improvement in food security and poverty reduction. But assessing impact requires carefully identified counterfactuals (i.e. what would have happened if the project had not been taken) to determine the contribution of a specific development intervention (for example, through matched comparisons or reflexive comparison). None of the reviewed projects have built in such counterfactual control in design and implementation phases. Hence, this review only assesses the poverty-focus of the Bank-assisted projects.

1.2.9 The organization of the report begins with a background to the report establishing the rationale and scope of the review work, the methodology followed and the country setting. The second chapter dwells on a brief discussion on characteristics and long-term performance of the agricultural sector, the evolution of agricultural policies and priorities in the 1990s, the development of food security and poverty reduction policies and strategies and their implications

to the agricultural sector. This chapter establishes the policy context for assessing the performance of the Bank Group ARD assistance. The subsequent three chapters are strictly specific to the four-point ordinal rating of the Bank Group assistance instruments (project lending and non-lending) individually (chapters 3 and 4) and in aggregate (chapter 5). Chapter Six assesses the contribution of the Bank group and the GOE to the performance of the projects. The final chapter presents the main conclusions, lessons learned and recommendation for future assistance.

### **1.3. Country Setting and the Macro Economy**

1.3.1 Ethiopia occupies a land area of 1.13 million square km with diverse agro-ecological environments. Some 55 percent of the total land area constitutes moisture-stressed arid, semi-arid and sub-moist areas with less than 120 days of crop growing period. These drier areas are commonly low in rainfall and inherent soil fertility, and high in rainfall variability, evapotranspiration rates and drought risk. Areas with a longer and dependable period with at least 120 crop growing days are found in the remaining 45 percent of the total land area, particularly in the highlands.

1.3.2 Its population of 72.4 million (in 2004) is young and predominantly rural. Typical of the African highlands, population concentration is highest in the highlands above 1500 meters above sea level, which account for about 45 percent of the country's total landmass but home for nearly 90 percent of the population. Within the highlands, there are very densely populated pockets, which, for example, in some localities in Southern highlands the densities are close to 500 persons per square kilometer (considerably higher in terms of persons per arable land). Given the continuing high rate of population growth, strong population momentum and slow demographic transition, the over dependency of the growing population on deteriorating natural resource base and meager economic growth poses major developmental challenges.

1.3.3 The economy is mainly agrarian with the agriculture sector alone accounting for nearly half percent of the Gross Domestic Product and over 80 percent of the employment and export earnings. The diverse agroecological setting permits diverse farming and livelihood systems that range from settled intensive mixed farming systems in the highlands to extensive mobile pastoral systems in the lowlands. The economic structure has not changed appreciably over time, with the agriculture and services accounting the major share with small industrial base.

1.3.4 The history of economic growth shows a marked downward trend in the period between 1973 and 1991. Growth decelerated fast in the 1974-78 period, which averaged 0.4 percent growth. It briefly recovered in the 1979-83 averaging annual growth rate of 4.2%, but the long-term decline continued afterwards. Because of rapidly growing population relative to real GDP growth, growth in real income per capita declined in most of the years of the downtrend in economic growth (1974-91). The economy showed notable recovery in the 1990s as in most Sub-Saharan African countries with increase in the average per capita level. However, the growth in per capita income was not sufficient to improve the real income per capita to the level that was attained in the late 1960s. Level of real income is the lowest in Sub-Saharan Africa.

1.3.5 Income-based poverty incidence is widespread with no notable decline in the 1990s. Prevalence of underfed population as well as prevalence of underweight children exceeds 40 percent, which is even higher to the averages for low-income Sub-Saharan Africa. The country also underperforms compared to the average of the low-income Sub-Saharan Africa in disease burden from communicable diseases (it is increasing too), under-five child and maternal mortality rates, HIV/AIDS prevalence rate (it is among the top five Sub-Saharan Africa in absolute numbers), health infrastructure and access to safe water sources, adult literacy rate, and primary completion rate. Life expectancy is low and it has been shortened by a high incidence of HIV/AIDS. According to the UNDP Human Development Index, Ethiopia stands among the lowest five ranked countries. Those in rural areas are particularly in high risk, especially the poor who are particularly vulnerable because of limited access to adequate food, health facility and educational establishments.

## **II. GOVERNMENT AND STRATEGY AND BANK GROUP STRATEGY**

### **2.1. Agriculture in the Ethiopian Economy**

2.1.1 Agriculture is pivotal to the Ethiopian economy. It is the major sector of the economy contributing on average 46 percent of the real GDP in the 1990s. Its share of the total GDP has declined over time; for example, from 53% in 1973-74 to about 45% in early 2000 at about less than half percentage point per year. The decline has not occurred because of its rapid growth, which is desirable and consistent with the stylized evidence, but mainly because of rapid economic growth occurring in the non-agriculture, mainly the service sectors.

2.1.2 Growth in agriculture is pivotal to the overall economic growth because of the large share of agriculture in the economy. This is evident from the co-variation of real GDP and AGGDP growth. In eighteen of the twenty two years over the period of 1981-2003, for example, there was co-variation in similar direction in both growth series. Positive growth occurred in both the overall GDP and agricultural GDP in nine years. Negative growth in GDP and agricultural GDP occurred for eleven years.

2.1.3 There is also close correspondence in growth instability as measured by year-to-year variability in growth rates between the overall economy and agricultural growth. With the exception of 1984-85, for example, the period since the early 1980 has been marked by large variability in agricultural growth pronounced on the downside variability as compared to the upside variability<sup>3</sup>. And, more importantly, such large variability has been marked by increase in overall growth instability as evident from increased variability in annual real GDP per capita growth rates.

2.1.4 The agriculture sector absorbs at least three-fourths of the active labor force albeit at subsistence margin. This is considerably high even compared to most of the Sub-Saharan African countries where the share of agriculture in total labor force has declined from 70s in 1980s to

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<sup>3</sup> Given the rain-fed nature of Agriculture in Ethiopia, the variability of agriculture growth is partly due to the frequent droughts.

lower 60s in 1990s. And the trend in share of labor force in Ethiopian agriculture shows no appreciable decline.

2.1.5 The recent evidence on labor productivity in agriculture shows no appreciable improvement. Over the period between 1993 and 2002, for example, agricultural production increased at annual rate of 2.8% whilst agricultural labor force averaged annual growth rate of 2.2 percent (both based on semi-log growth fit) suggesting a slight improvement in agricultural labor productivity. Although yield growth averaged 2.1 percent per annum over the same period, it was not strong enough to offset the neutralizing effect of declining agricultural land per labor, which averaged 1.9%.

2.1.6 Such aggregate evidence is consistent with the evidence from Sub-Saharan Africa (SSA) at large where yield growth is not sufficient to compensate for the decline in land per labor and appreciably raise labor productivity. For the SSA countries in general and Ethiopia in particular, strong growth in land productivity has to occur to compensate for the declining arable land per labor. But such opportunity was missed in the 1990s when these countries were showing reversal from long-term downward reversal of agricultural growth.

2.1.7 Food production accounts for at least 70 percent of the total food availability. And variability in total food availability is closely correlated with variability in food production, which suggests the compensatory role of other sources of food supply (i.e., commercial import and domestic food stock) is not sufficient to stabilize food supply. Given the undeveloped rural infrastructure and markets, large non-tradability of staple crops and low import financing capacity of the country, accelerating food production remains the major food security challenge for the country.

2.1.8 Agriculture is the major source of financing growth. And, given the majority of the population is dependent on the agriculture as source of income, it provides the major source of home market. Without agricultural growth, growth rate in non-agriculture has to occur at higher rate than agriculture to bring about comparable growth in GDP. But this is not attainable in early stage of economic growth since there are not sufficient surplus resources in agriculture to support high rate of growth in non-agriculture and growth stimulus to demand-constrained non-farm sector. This calls for efficient utilization of scarce investment resources now to maximize agricultural growth whilst enhancing the coverage of poor households to meet the twin objectives of agricultural growth (and its stimulus effect consequently) and poverty reduction.

2.1.9 The Ethiopian agriculture is characterized by (1) varied ecology and dependency on climate and natural resources as source of growth; (2) undercapitalization of infrastructure and indigenous capacity to generate technical change on continuous basis; (3) high transaction costs and low market transactions, particularly in areas remote and sparsely populated; (4) prevalence of major agricultural commodities with wide potential national market but remain largely non-tradable; (5) considerable risk arising from its dependency on rainfall, high transaction costs and price risks; and (6) rising population burden due to population momentum and declining adult population in total population due to epidemic diseases.



2.1.10 These characteristics of the agriculture sector and the constraints suggest a growth strategy focusing on conservation of scarce resources (natural resource base –soil, water), enhancing efficiency of scarce inputs (e.g., natural resources and seasonal labor scarcity aggravated by HIV/AIDS epidemic), improving productivity of scarce factors through technological change (typical of countries in early stage of agricultural technology development, the contribution of technological change to agricultural growth) and investing in good nutrition and health (e.g., disease control), promoting financial return to agriculture (reduce marketing and transaction costs through innovative institutions and investing in physical infrastructure), and minimizing the downside variability in agricultural production and income (e.g., through investing in irrigation infrastructure, development of crop and livestock cultivars suitable for moisture-stressed areas, and agricultural diversification).

## **2.2. Agricultural Policy and Strategy: 1992-Present**

2.2.1 Government has important role in addressing these growth constraints (and opportunities) and getting agriculture moving and transforming through enhancing capitalization of agriculture (natural, physical and human capital); strengthening functioning agrarian institutions –rural markets, property rights and financial intermediation; promoting technological change and transfer; and improving informed policies and governance (enabling environment).

2.2.2 The current overarching policies of poverty reduction, as spelled out in the pioneer Sustainable Development and Poverty Reduction Program (SDPRP) and its successor “ A Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), the Food Security Strategy (2002), the Agriculture Development Led Industrialization (ADLI), and enabling macroeconomic policies form the core policy framework for agriculture and rural development.

2.2.3 The SDPRP and PASDEP seek sustainable rapid equitable economic growth and human resources development within a decentralized federal administrative structure to reduce poverty in its income and non-income dimensions. Since the thrust is on poverty reduction with food security focus, the food security strategy seeks food security at household level especially in areas with history of chronic food insecurity and high vulnerability with emphasis on food production, non-farm employment and income generation, nutrition and health intervention, resettlement of population from the densely population highlands to the lowlands, and emergency response capacities.

2.2.4 Since poverty is rural and most of the poor are in smallholder agriculture, the broad growth strategy is rural based centered on smallholder agriculture. As stated in the ADLI, the agriculture sector policy objectives are to improve productivity and commercialization, and diversification of smallholder agriculture targeted for both domestic and export markets. Growth in smallholder agriculture provides a diversified base for rural industrialization driven by expansion of effective demand for non-farm goods and services.

2.2.5 The smallholder-led agricultural growth strategy currently emphasizes on improving production (technical) efficiency through improved farming and agronomic practices, promoting adoption and utilization of existing technologies through participatory demonstrations and training extension system, natural resources conservation (soil, water and forests), building basic

infrastructures (irrigation, rural roads and power), developing rural institutions (e.g., cooperatives), and strengthening human capacities (e.g., expansion of agricultural technical and vocational education training of extension agents –TVET and farmers’ training centers).

2.2.6 Emphasis on these strategic elements varies spatially reflecting differences in agro-ecological conditions (climate, soil and water) and state of socioeconomic development. The ARD policies as currently practiced appear to distinguish geographical areas broadly into dryland settled agriculture (ASAL – arid and semi-arid highlands), dryland lowlands (mainly pastoral population), and moist-humid highlands. The emphasis in the ASAL highlands, for example, includes irrigation and water harvesting, natural resources conservation and rehabilitation, agricultural technology transfer suited to drylands, road infrastructure and market development, and population settlements.

2.2.7 Policies and programs are in place in support of smallholder agriculture-led rural development: soil and water conservation, water sector policy, strategy and program, forestry, rural land use and administrations, participatory demonstration and training extension system, technical and vocational education training of extension agents and farmers’ training centers, rural roads program, agricultural markets liberalization and development, cooperative societies (marketing cooperatives, rural saving and credit cooperatives), education sector development program, health sector program, and national response to HIV/AIDS.

2.2.8 There are important areas of overlap between the Vision, policies and strategies of the Government of Ethiopia and the African Development Bank: poverty reduction as the overarching goal, improved macroeconomic management to enable private sector development, strategic sectoral priorities (smallholder agriculture, human resources development and physical infrastructure), and environmental sustainability and gender as cross cutting issues.

### **2.3. Poverty Focus of ARD**

2.3.1 There are important pro-poor elements in the GOE agriculture and rural development policies and strategies. Given that the majority of the poor are in rural areas, rural based growth strategy is consistent with pro-poor strategy. Focusing on a growth sector where the majority is dependent for their livelihoods is likely to have appreciable effect on poverty reduction. For the majority of the rural poor, this means emphasis on rural based growth strategy with agriculture focus. The ADLI focus on the smallholder agriculture promises a widely shared improvement in living standards both within the agriculture sector and non-agriculture sector.

2.3.2 The Government recognizes income poverty manifests markedly in food insecurity of the large segment of the population, and hence it emphasizes on poverty reduction with food security focus. The food security strategy embraces food production, access (through non-farm employment and income generation), food utilization (nutrition and health interventions) and prevention of acute food deprivation through emergency response mechanisms. The targeting of these interventions (programs) mainly in chronic food-deficit areas with a history of frequent droughts and famines is the GOE political commitment to address the problems of chronic food insecurity and high vulnerability of the population in these areas. There is a great convergence of

interest between the donor community and the GOE as crystallized in the 2003 New Coalition for Food Security (UNDP, 2003).

2.3.3 The extent of poverty responsiveness to agricultural growth is contingent, however, on emphasizing a win-win strategy within the agriculture sector where broad-based growth strategy is accompanied with maximization of the poor into the growth process. Such strategy calls greater focus in areas where growth response is high and concentration of the poor is large, improving low-cost access to agricultural technology, credit and markets. Pursuing such a strategy is politically sensitive. The policy challenge for GOE is addressing the balancing and sequencing of ARD policies and programs to meet these competing needs. A further challenge is to clearly show rural growth can be sustained, as well as the role of the private sector in marketing.

## **2.4 Bank Group Assistance Strategy and its Relevance**

2.4.1 Given the dominance of the rural economy in the lives of the population in Ethiopia, the Bank's assistance strategy is rural focused with emphasis on agriculture, building rural infrastructure (e.g. roads and transport, communication and power), and social sectors. As it is stated in the CSP of 2002-2004, for example, the "overarching goal of the Bank Group assistance in Ethiopia is poverty reduction focusing on three priority sectors: agriculture and rural development, road infrastructure and transportation, and water supply and sanitation." In addition, the Bank Group supports policy reforms, institutional building, and human capacity development.

2.4.2 Agriculture has been the primary sector of choice in all the CSPs since 1993 (1993-1995 CSP covering ADF cycle VI, 1996-1998 CSP covering ADF cycle VII, 1999-2001 CSP under ADF cycle VIII, and 2002-2004 for ADF cycle IX) accounting for 32 percent of the total Bank Group assistance to Ethiopia from 1975 to the end of 2004. Below are shown the focal areas of intervention in agriculture (i.e. investment choice by year of approval) under different CSPs (see, also Table A2 in the annex for details):

- 2002-2004 CSP: Rural financial intermediation (approved in 2003), Awash River Basin study (2003), agriculture support project (2003), and agriculture sector review (2002)
- 1999-2001 CSP: Pastoral area development study (2000), Koga irrigation and watershed management project (2001) and Genale-Dawa master plan study (2001) national fertilizer project II (approved in 2001)
- 1996-1998 CSP: National fertilizer project (1997) and National livestock development project (1998)
- 1993-1995 EPCP: Amibara drainage II study

2.4.3 Currently active projects include the National Livestock Development Project, the Koga Irrigation and Watershed Management Project, the Rural Finance intermediation project and the Agriculture Sector Support Project. Major studies financed by the Bank include the Genale-Dawa Master Plan Study and the Awash Flood Control Study.

2.4.4 The thrust of the CSPs has been on smallholder agriculture embracing both the pastoral and settled agricultural populations. The emphasis has been particularly on food production dimensions of the GOE food security strategy. Among the key interventions are projects related to development and management of water resources (irrigation and water harvesting, watershed management, and river basin studies) and agricultural projects targeted to chronic food-deficit regions with high vulnerability (e.g., pastoral area development and the agriculture support project)

2.4.5 The CSPs have been an outcome of a process of alignment with the core ARD policies of GOE (ADLI, food security strategy and poverty reduction programs) and identifying overlapping areas of interventions that are consistent with the priorities of the GOE and the Bank Group. Hence, the ARD strategy and priorities of the Bank Group are in line with the GOE agriculture sector objectives and strategy. However, it cannot be claimed with evidence that the Bank Group has been successful in aligning and harmonizing its interventions with the other development partners.

### **III. BANK GROUP LENDING OPERATIONS**

#### **3.1 Bank Group Assistance to the ARD Sector**

3.1.1 Of the UA 1.2 billion (U\$1.68 billion) net of cancellations that the Bank Group committed to Ethiopia during 1975 and 2004, the part towards agriculture amounted UA 416 million net of cancellations. This cumulative assistance to the agriculture sector represents 32 percent of the total Bank assistance. This percentage share is even higher than the overall resource commitment of the Bank Group to the ADF countries in ADF VIII (23%) and ADF IX (25.2%). As at end of 2004 the cumulative Bank approvals for Ethiopia stood at 37 operations. And for the period 1993-2004, the Bank committed UA188. 36 million (about U\$264 million) to the ARD (see Table A1 for details).

3.1.2 As compared to the period that preceded the 1990s, the Bank Group now utilizes mixed instruments to deliver its assistance to Ethiopia (project lending –project loans and line of credit, policy-based lending, equity participation and debt relief and grant resources). Investment project lending remains the major instrument. Unlike the old projects (pre-1992 projects listed in Table A1) where the emphasis was heavily on project lending, the grant resource component in total resource envelope looms large in the new projects, which indicate the realization of the Bank that the country's capacity to utilize aid resources is considered weak. The grant resources are increasingly used to supporting studies for project identification and preparation, and capacity building including institutions. HIPC resources are also used for financing PRSP priority activities such as supporting poverty assessment, participatory process, and monitoring poverty reduction. The Bank is also increasingly placing emphasis on co-financing to mobilize additional resources and supplement its operations (e.g., financial intermediation program with IFAD)

## 3.2 Relevance and Quality at Entry

3.2.1 Given the agriculture sector policy objectives of the country (i.e. productivity growth, poverty reduction and food security), the question pertaining to relevance of the Bank Group lending operations is how much the loan-financed projects are consistent with these trio objectives, as well as the Bank Group assistance strategy (CSP) for Ethiopia

3.2.2 Nearly all the projects are relevant to the country's agriculture sector development objectives as the cases below demonstrate:

- The objective of the agriculture sector support project (ASSP) is to improve rural livelihoods and food security among the drought-prone and vulnerable food insecure population. The project culminated in response to the request from GOE to assist the country's poverty reduction framework and food security strategy and priorities.
- The primary objective of the rural finance intermediation program (RUFIP) or its derivative RFISP (Rural Finance Intermediation Project) of the Bank Group is to promote provision of demand-driven financial services to the rural poor. RFISP has its roots in recognition that: (1) constrained access to credit is one of the major constraints for agricultural growth, (2) there exist unmet demands for rural credits as evident from the rapid growth of the microfinance institutions (MFIs), and (3) there is a long tradition of community-based ROSCAs (rotating savings and credit associations) and self-help support schemes that provide the basis for promoting and expanding community-based banking framework.
- The specific objective of the Koga irrigation and watershed management project is to improve agricultural production and productivity in the command and catchments of the Koga River Basin in a sustainable manner. The project has evolved from the earlier Bank Group supported the Birr-Koga irrigation study, which came into force in 1992. MOWR recommended pursuant of feasibility study of the Koga River Basin and requested the Bank Group for financing. The Bank Group financed the feasibility study, which eventually culminated in formulation of Koga irrigation and Water Management Project. Given the concerted effort of the GOE to promote irrigated agriculture in Ethiopia, this project is highly relevant especially to test the viability of large-scale irrigation in Ethiopian highlands.
- The objective of the national livestock development project (NLDP) is to enhance livestock productivity and consequently increase household livestock income. NLDP is based on the recognition that Ethiopia has large livestock population and contributes one-third to the AGDP. But productivity is low because of low genetic quality of indigenous breeds, and poor nutrition and health. The national livestock policy and strategy calls for concerted effort to improve productivity and commercialization of livestock sub-sector.
- The national fertilizer sector project aimed at provisioning foreign exchange to finance timely imports of fertilizers. Given that technological change is in its early stage as characterized by low rate of adoption and intensity of chemical fertilizers, the AfDB financing was essential to ensure importation of fertilizers consistent with the goal of increasing agricultural production and productivity.
- The southeast rangeland development project (SERP) culminated from the previous rangeland development projects with initiation of the Bank Group and the request of the then GOE (1974-1990) to improve living standards of the pastoral populations through improving productivity of livestock and food security whilst ensuring sustainability of the rangelands. The project recognizes the rangelands upon which the pastoral populations are dependent for livelihoods are degrading and shrinking, and hence concerted efforts are necessary to

conserve and improve rangelands whilst improving their productivity mainly in livestock but also arable farming.

- The Wush Wush II tea project aimed at substituting importation of tea through domestic production of tea and thereby saving foreign exchange. The GOE launched the first tea development operation (Wush Wush I) with ADF funding and implemented it from 1980 and 1986. The project achieved 90% of its objectives at completion. Based on success of this first project, the GOE requested the Bank for financing the second phase. Wush Wush II was thus a continuation of the phase I project that proved the country could produce tea at low cost to meet the long established domestic demand for tea consumption and save its scarce foreign exchange.

3.2.3 The projects as shown above are generally consistent with the Bank's CSP and strategic objectives for developing agriculture and rural in Ethiopia, as well as the GoE's priorities for the ARD. Furthermore, these projects reflect the development needs of the regions of their locations, and they were based on good feasibility studies –all contributing to their quality at entry.

3.2.4 However, there were notable design deficiencies in some of the projects: failure to incorporate lessons learned from past project in formulation and appraisal of projects (e.g., Wush Wush II was a culmination of the success case of Wush Wush I tea project); failure to adequately address the decentralization challenges especially for development management capacity and the appropriateness of Bank rules and procedures; inadequate assessment of institutional and organization capacity of projects, non-use of log frame to guide project implementation (NLDP and SERP)<sup>4</sup>; no adequate contingency plans for projects susceptible to political instability and governance failure (e.g., the project area of SERP is historically known for its prone to conflicts); and inadequate monitoring and evaluation system as well as baseline studies built in to the projects (e.g., SERP was in operation for eleven years with no monitoring and evaluation system).

### 3.3 Achievement of Objectives (Efficacy)

3.3.1 Clarity is due first as to what is assessed under achievement of objectives since the projects embody a hierarchy of objectives that go beyond the common agriculture sector objectives, i.e., improving production and productivity, agricultural diversification, and competitiveness. Without built-in baseline data and adequate evaluation system in place, the projects are not capable by design to provide progress on their stated long-term objectives such as improving income level, living standards and food security. Instead what is often reported is achievement of outputs such as, for example, numbers of cross bred animals, forage development and animal health statistics in the NLDP report.

3.3.2 With the exception of the Wush Wush Tea II project, national fertilizer sector project and the Southeast rangeland project, there are no completed lending operations since the early 1990s to assess the extent to which stated objectives are achieved. In the case of the fertilizer project, the only available project completion report is from the GOE, which reports “all imports were

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<sup>4</sup> Although the formulation of these projects predated the adoption by the Bank of project logical framework (methodology for project design and evaluation --MPDE) in 1999, the Bank did not incorporate the MPDE during project implementation.

arrived timely and distributed to farmers.” The report notes that there was delay in loan disbursements in the first and second years but the delay did not affect the implementation of the project and the attainment of its output.

3.3.3 In accordance to the PCR for the Wush Wush II II, the project achieved most of its outputs satisfactorily including establishment of tea estate plantation and functional tea processing plant. And it also succeeded in substituting some of tea imports and saving foreign exchanges.

3.3.4 The PCR for the southeast rangeland project (2004) documents the SERP’s achievements in its four project components (extension and community development, animal production, health and livestock marketing, infrastructure development, and land use and range management) and concludes that “the project only achieved about 50-60% of the targeted activities.” The overall performance is unsatisfactory notwithstanding eleven years of operation.

3.3.5 The national livestock development project should have ended in 2006 but it is now extended by two years to June 2008. Notwithstanding the implementation difficulties, the project is rated satisfactory in its likelihood of achieving its objectives both by the Bank Group supervision team and the Coordinating Unit in MoARD, i.e. genetic improvement, forage development and animal health services.

3.3.6 Similarly, despite the evidence of lapse in timeliness of the activities of the Koga irrigation and watershed management project, there is a general expectation that the project will meet its stated outputs of construction of irrigation and rural infrastructure, improved watershed management, formation of rural institutions and capacity building a year earlier than the target completion date of 2008. There is no verifiable basis to support the authenticity of such scenario especially given the outstanding implementation issues.

3.3.7 In short, the three completed projects have mixed record of performance; satisfactory in the cases of Wush Wush II tea project and chemical fertilizers but unsatisfactory in the case of SERP with respect particularly to improving animal health, livestock productivity, marketing and rangeland conservation and improvement (see Table 1). The on-going projects are likely to deliver their stated outputs satisfactorily and possibly produce the desired outcomes, but it is speculative now without some field observations and ground truthing.

### **3.4 Efficiency**

3.4.1 Generally, the projects are appraised without sound financial and economic analyses. For example, the Wush Wush Tea II project and SERP had included financial analyses in their appraisals, but the model and the assumptions built into analysis were not applicable after the reformulations of the SERP in 1992 and 1995 (PCR 2004). The estimated financial and economic rates for Wush Wush II are not credible as the project appraisal failed to draw on important information on project cost estimation and implementation timeliness from the experience of the Wush Wush I project and consequently over estimated the project costs.

3.4.2 But there are important proxy indicators related to timeliness of project implementation and quality of output that will have considerable bearings on financial and economic returns of the projects. The following examples drawn from the reviewed projects indicate the state of implementation performance:

3.4.3 The supervision reports for the national livestock development project shows an average satisfactory implementation performance that declined overtime (2.13 in 2001, 2.0 in 2002, 2.19 in 2003, 2.06 in 2003, and 1.89 in 2005). Both the GOE and the Bank Group have contributed to the downward decline. First, the project has operated without agreed working document and hence without a mutually agreed formula for the implementation of the project. Second, the rules and procedures are not fully understood by the MOARD staff and at time are in conflict with the standard procedures of the line departments. Third, the project is an add-on to the regular activities of the line departments within MOARD without sufficient clarity on the institutional arrangement and incentive to the MOARD staff. Fourth, the recognition of the Bank staff of the scope and complexity of the program has been slow, especially the task of coordinating different project components within existing administrative structure that span across different implementing agencies and geographical areas. Finally, the Bank Group has been slow in communicating with the project staff and solving outstanding issues.

3.4.4 The loan and grant agreements of the Koga irrigation and watershed management project were signed in July 2001 and came into force in February 2002. The first loan and grant disbursements were released in June and September 2002 respectively. And, as of August 2005, the Bank Group disbursed 39 percent of the grant and 10.1 percent of the project loan. Although the latest supervision summary report (January 2005) indicates improved implementation performance over time, the slow utilization of the grant fund is indicative there are delays in the implementation of the project as evident, for example, from the problem of attracting and retaining development agents (extension staff), low number of participants voluntarily joining the water user associations, and the unresolved issues of resettlement and compensation to farmers affected by construction of the irrigation infrastructure<sup>5</sup>.

3.4.5 The Bank Group through its RFISP covers the largest share of the foreign component of the cost of the rural financial intermediation program (63%) allocated between equity and credit (77%) and capacity building including institution building (33%). Less than 5 percent of the planned disbursement of the grant component, which came into effect in October 2003, was released in April 2005. Most of the planned technical assistance including training were either initiated or in progress by August 2005. The first disbursement of the planned loan, which came into effect in July 2004, was released in April 2005. The program is closing the second year of operation but the ADF component was delayed by a year as a result of the delay by the borrower to fulfill the conditions prior to first disbursement. The set up of monitoring and evaluation is in its formative stage, and one audit report is outstanding.

3.4.6 The southeast rangeland came into effect towards the end of 1990 and the project was planned to be implemented over a period of six years, but continued operation until year 2000. The SERP too faced the same aforementioned implementation problems, but conditions were much severe (protracted and long delays in procurements, financial irregularities, lack of proper

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<sup>5</sup> The Bank approved a compensation for resettlement.



record keeping and documentation of project activities, frequent changes in management) causing delays in financial disbursements, suspensions and cancellation of loans (22% of the loan amount agreed during appraisal was cancelled). These conditions were aggravated by change in government in the country and the need for reformulation of the project twice (1992, 1995), internal and external civil strife in the project area, and the border war with Eritrea. SERP was supervised “twice in the first six years of its implementation period” (1992-1995) coinciding with the period of change in government and reformulations of the project.

3.4.7 The Wush Wush II project was appraised in July 1989, approved in December 1989 and came into force in October 1990. Although the project was to be implemented within a period of 5 years (January 1990 to December 1994), the actual implementation started in 1994 and completed in 1999 due to change in government and policy at early stage of the project life, reorganization of public enterprises, institutional instability and associated high staff turn over, and low performance of PMU. Despite slippage on completion of five years, however, the project achieved its outputs satisfactorily with 37% less of the planned (approved) loan.

3.4.8 These cases demonstrate that the projects experience problems of timely procurement of goods and services, disbursement of funds, auditing and reporting, attraction and retention of key project staff, and coordination of large project with multiple components. Hence, it is unlikely that the completed projects as well as the on-going projects operate in accordance to the planned schedule without jeopardizing the quality of output, institutional development and sustainability.

3.4.9 The delay in implementation and poor quality of output are bound to diminish the cost-effectiveness of the projects rendering them inefficient. Even in the case of Wush Wush II where the project objectives were achieved at substantial cost under run, it cannot be associated with operational efficiency but more with unrealistic project costs estimates and the currency depreciation relative to UA in the 1990s.

### **3.5. Institutional Development Impact**

3.5.1 Grant resources are integrated into all the lending projects aimed at institutional development such as:

- The Koga irrigation and water management project has a capacity building component aimed at enhancing the organization and management capacity of the project management unit and regional implementing agencies, and formation of farmers’ organizations.
- The capacity building component of the rural financial intermediation program covers formation of RUSACCOs (rural saving and credit cooperatives), expanding microfinance institutions, strengthening the regulation and supervision capacity of the National Bank, and improving the organization and management capacity of the program coordination unit within the Development bank of Ethiopia.
- NLDP has multiple components and diverse capacity building elements: scientific training and skill upgrading (e.g., genetic improvement, disease diagnostics and surveillance, disease control, livestock quality certification), information technology (e.g., health information), and project management.
- In addition to the capacity building of project management, the extension and community development of the SERP was one of the four key project components focusing on formation

and strengthening community-based institutions such as Degaan Councils, Contact Farmers' Groups, and Women's Development Groups.

- Most of the institutional memory from the successful completion of the Wush Wush I project was lost. For example, the formulation of Wush Wush II did not incorporate important lessons from Wush Wush I. The project financed short-term and medium term training in agricultural production and tea production processing, and commercial aspects of tea estate management. But the high turn over of the staff especially the dismissal of senior project staff as a result of change in government meant substantial loss in capacity and experience in tea production operations. Most of the financial and implementation records of the project were hard to track at the time of the project completion report mission. Overall, the institutional development performance of Wush Wush II was unsatisfactory.

3.5.2 As these examples illustrate, institutional building is an important component of the lending projects, which fall into at least four categories. The first category is related to provision of skills in project organization and management commonly to project coordination units and cooperating implementing agencies, which are often government agencies. The second category of capacity building involves formation of beneficiary-based institutions such as water user associations, rural saving and credit associations and cooperatives. The third category is supporting scientific research and skill development per the reference to the national livestock development project. Finally, GOE introduces legal covenants to ensure supportive legal framework for implementation of projects and their sustenance. Missing in all the projects are functional monitoring and evaluation systems with their baseline information.

3.5.3 The evidence so far indicates uneven progress in institutional development. There is a need for greater effort for the realization of strong institutional building particularly in formation of voluntary beneficiary-based institutions. With the exception of the SERP, progress so far has been unsatisfactory with building these institutions. Overall, the progress to date is modest on training and skill upgrading, but negligible in the areas of formation of voluntary beneficiary-based associations and institution of necessary legal covenants with combined rating.

### **3.6 Sustainability of Project Outcomes**

3.6.1 The question of how likely the actual or planned benefits of the projects are subject to risks that could adversely affect the continuity of the flow depends on their operational viability (technical, financial and economic viability), continuation of government commitment, beneficiary participation and institutions arrangement for self-support, and capacity to withstand external shocks.

3.6.2 Among the two completed projects, the national fertilizer sector project represents the case of least satisfactory sustainable arrangement. By definition, the project was a quick disbursement of loan within strictly defined time-bound to finance fertilizer imports. The most notable lost opportunity was employing the method of auction market (i.e. competitive bidding) to allocate the foreign exchange instead of administrative (non-transparent) allocation to competing importers, which would have been consistent with liberalization of input markets. Such auction based mode of disbursement combines three key desirable elements – balance of payment support, relieving input constraints to agriculture, and supporting privatization process.

3.6.3 The SERP was completed after a lengthy eleven years with a notable contribution towards formation of community-based institutions. The project has terminated with the skilled staff absorbed into the regional civil service. The components under animal health, production and marketing, and infrastructure development are integrated into regional Livestock, Environment and Crop Development Bureau. But the sustenance of these developmental activities faces uncertainty because of lack of self-financing scheme and government commitment to sufficient budgetary allocation. The potential though still exists for the community-based institutions to serve as important venues for identifying community needs and conduits for challenging development initiatives in future.

3.6.4 The privatization of the Wush Wush tea plantation is defensible in principle. And to the extent the plantation operates competitively, it is more likely to sustain its activities and outputs. However, the PCR raises issues on the process of the privatization and absence of important information pertaining to project governance and financial management. An additional factor that might jeopardize the operation and continuity of the project stems from its isolation in terms of road access to marketing centers.

3.6.5 There are key assumptions built into the national livestock development project (NLDP) that are detrimental for its sustainability: the GOE works towards privatization, institutes system of cost-recovery especially with regard to costs of animal health services, insemination services and seed production and distribution, and ensures beneficiary ownership and sustainability through participatory approach.

3.6.6 There are still unresolved issues that potentially affect the sustainability of the Koga irrigation and watershed management project: low retention of trained staff (e.g., development agents and management staff), low voluntary participation of farmers in water user associations, water rights and tradability (access, utilization and sharing benefits), resettlement, rights to land and compensation.

3.6.7 The sustainability of the on-going financial intermediation program depends on capacity of microfinance and RUSACCOs to deliver demand-driven financial products competitively in rural areas. The key requirements are generally known: transparent governance, viable financial operation, innovative financial products and instruments, and developing community-based banking system.

3.6.8 The overall assessment indicates most of the completed and on-going projects are susceptible to some risks and hence unlikely to sustain their benefit streams.

### **3.7 Overall Rating**

3.7.1 Table 1 provides ratings for the three completed projects. All the projects score high mark on being relevant followed by meeting stated project outputs. Their score is unsatisfactory on efficiency, institutional development and sustainability. The higher score of the Wush Wush II on sustainability is the expectation that the project would continue to operate under private management. The overall rating of the projects indicates that the projects are satisfactory in outcome but unsatisfactory in institution building and sustainability measures of performance.

3.7.2 It is early to present a summary aggregate performance rating for the lending operations of the Bank group since the majority of the projects are still in implementation phase. Recognizing the risk of rating the projects prematurely notwithstanding, it is possible to provide some indicative of the overall rating. With regard to relevance and quality at entry, the whole portfolio of the lending projects satisfactorily satisfies the relevance test. The projects are expected to satisfactorily meet their stated objectives --at least the objectives related to improving agricultural productivity and income. However, most of the projects are likely to incur more cost due to operational inefficiency and quality of output, and hence run with at least 30 percent cost inefficiently. The issues addressed under institutional development are relevant, but progress is modest. The sustainability of the actual or planned stream of benefits is subject to some risks.

3.7.3 The performance of the three completed projects is unsatisfactory, but that of the ongoing projects is likely to be satisfactory. On the whole, the performance of both completed and ongoing projects is expected to be satisfactory.

**Table 1: Ratings of Completed Lending Projects**

Criteria	Project ratings			Overall
	National Fertilizer	Wush Wush II	SE Rangelands	
Relevance & QAE	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Efficacy	Satisfactory	Satisfactory	Unsatisfactory	Satisfactory
Efficiency	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
Institutional Dev.	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
Sustainability	Highly unsatisfactory	Satisfactory	Unsatisfactory	Unsatisfactory
Overall	Unsatisfactory	Satisfactory	Unsatisfactory	Unsatisfactory

#### **IV. BANK GROUP NON-LENDING OPERATIONS**

The non-lending activities within the ARD portfolio comprises commissioning sector review work and studies specific to identification of projects, training of key managerial and technical staff, enhancing monitoring and evaluation systems, building self-sustaining community-based institutions, and the AfDB's role in development aid coordination and resource mobilization through co-financing arrangement. Except for the studies and the aid coordination activities, which operate as stand alone projects, the others are integrated into project lending activities. Hence, this chapter focuses on the studies and aid coordination, particularly in the performance of the studies.

##### **4.1 Bank Group Supported Studies**

4.1.1 **Ethiopia: Agriculture Sector review (2002):** The review essentially updates the current state of knowledge and policy issues, identifies areas of consensus on policy issues and priorities, and develops focal areas of intervention for the Bank Group. The review draws on existing information base and analytical work already undertaken, but organized according to the prescribed format of the Bank Group, which includes characterization of the agriculture sector,

its performance, sources of growth and constraints, sector linkages, review of government policies, strategies and programs, and possible focal areas of intervention for the Bank Group. The core part of the review is the chapter on “proposed focal areas of Bank Group assistance” to the agriculture sector.

4.1.2 Following a brief review of the experiences of the Bank Group as well as the donors in the agriculture sector and drawing lessons, the review identifies strategic options for future Bank Group interventions: technological development and transfer, sustainable natural resource management, infrastructure development (rural road network, rural energy supply, and potable water supply) and human and institutional capacity building. Whilst recognizing the imperative of addressing land tenure issues for continuous sustainable agricultural development, the review does not consider property rights in its list of strategic options.

4.1.3 And it sets guiding principles governing these strategic options: support interventions that increase agricultural productivity per unit of resource used and halt practices that deplete natural resource base beyond its regenerative capacity, follow a sector-wide approach based on full national ownership of the process, forge strategic partnership with GOE and other development partners, continue policy dialogue, promote decentralized administration and management of programs and projects, and develop capacity towards empowering local beneficiaries.

4.1.4 Drawing on the above strategic options and the guiding principles, the sector review specifically proposed for the Bank Group to intervene in areas of: (1) input supply, credit and marketing, (2) small-scale irrigation and water harvesting, (3) natural resource conservation and environmental protection, and (4) pastoral area development in CSP 2002-2004. However, the review report does not demonstrate the process and criteria applied for selection of these focal areas of intervention except their congruency with the priority areas outlined by the GOE.

4.1.5 Essentially, the report is all about identifying areas of intervention that are coherent with the GOE priorities and the Bank Group vision of poverty reduction and policy, and agricultural and rural development policy and strategy. The review is relevant as much as it helps the Bank Group to recognize the priority issues and GOE priorities for the Bank Group to align its future interventions.

### **Genale Dawa and Awash River Basin Studies**

4.1.6 Over the period between 1993 and 2004, the Bank Group has provided technical assistance in support of six studies for project identification and preparation (Amibara Drainage II, pastoral areas development study, Koga-Birr irrigation study, Genale-Dawa master plan study, Awash River basin flood control study, and agriculture support project study). The Koga-Birr and agriculture support project studies have yielded concrete projects for financing. The pastoral areas development study has contributed to identification of two projects for consideration. The Genale-Dawa, Awash flood control and livestock development master plan studies are underway currently.

4.1.7 Upon the request of the Government of Ethiopia, the Bank Group approved the grant financing for the Genale Dawa River Basin Integrated resources Development Master Plan Study in September 2001 to support the development of a master plan that would enhance optimum

utilization of natural, human and livestock resources in the river basin, and to identify projects for the Bank Group financing. The Awash River Basin Flood Control and Watershed management Study was approved in 2003 with specific objectives of developing database for formulation of flood control and watershed management projects in the Awash Basin, and preparation of at least two projects to address problems of flooding, watershed management and agricultural production.

4.1.8 The Genale-Dawa study grant agreement was signed in November 2001 and entered into force in January 2002. The Awash flood control study was signed in 2003 and came into effect in February 2005. The Federal Ministry of Water Resources is the executing agency of the studies under the management of project coordinators. The studies are highly relevant to the on-going comprehensive master plan development of the Ethiopia river basins, and the conditions necessary for entry into force were met satisfactorily.

4.1.9 Both the studies have three phases. For the Genale-Dawa study, the first phase is establishing a comprehensive database, which feeds into developing master plan in phase two. The Master Plan will propose alternative strategies for sustainable resource development and forms the basis for identifying new program and projects. The third phase will be devoted to the preparation of feasibility reports for three priority projects. The Awash flood control study first reviews existing literature and stakeholders consultations to develop database, formulate flood control and watershed management projects in second phase and finally identify at least two projects for the Bank Group consideration for financing.

4.1.10 The studies have progressed satisfactorily. Although the submission of the phase one final report of the Genale-Dawa study has delayed, all the technical reports are completed and the delay has no material effect in entering phase II of the study. The study is currently in phase two on pre-feasibility water resources development project. The Awash flood control study is in its first phase in August 2005 focusing on literature review and consultations. The overall performance of the implementation is also rated satisfactory both the GOE and Bank Group project coordinators.

4.1.11 **Pastoral Areas Development Study (PADS):** PADS was initiated upon the request of the Government of Ethiopia in 1997 to develop a knowledge-based pastoral areas development strategy in line with the country's food security strategy of 1996. The Bank Group sent a technical mission in July 1999 and the terms of reference for the study were prepared in October 1999 with the objectives of developing pastoral areas development strategy and bankable projects for AFDB.

4.1.12 The grant agreements were signed in December 2000. It entered into force in June 2001. The Extension Department of the Ministry of Agriculture, specifically the Pastoral Extension Team (PET) was mandated to execute PADS. According to the terms of reference stated in 1999, the services of international consultancy would be procured for all the three phases of the study. There would be national counterpart technical team comprising experts in relevant areas (e.g., rangeland development, agronomy, animal health, socio-economics and GIS). There would also be a study coordination and review committee (SCRC) representing diverse stakeholders that would guide, coordinate and supervise the implementation of the study, and review the study

reports at all administrative levels. The SCRC would be assisted by a study coordinator person responsible for operational details including reporting to the study coordination committee and liaison with the Bank Group.

4.1.13 The implementation of the study was planned to be completed in three phases over a period of twelve months. Phase one was to prepare detailed review of existing knowledge about the pastoral societies in Ethiopia including a documentation of indigenous knowledge, review of existing legislation and policy, and diagnosis of constraints limiting pastoral areas of development. Phase two was to build on knowledge gained in phase one and develop a pastoral areas development strategy for the country as a whole. The last phase was to derive two priority projects and prepare in accordance to the Bank Group format.

4.1.14 Although the study entered into force in 2001 and planned to be completed over a period of twelve months, three-fourths of the grant was disbursed by January 2005. There was only one supervision mission from the Bank Group. And the PET office submitted only one quarterly report, which is listed in the January 2005 supervision mission report. As indicated in the recent report on the status of PADS, the output of the three phases was completely delivered. Two priority projects were prepared and submitted for the Bank's consideration and approval.

4.1.15 No detail accounts are available to explain the deviation in the implementation schedule and to rate the quality of the PADS reports. The supervision mission report of January 2005 rates very satisfactory on compliance of the GOE to the grant conditions and procurement of consultancy services, satisfactory on availability of local currency for financing the study, performance of consultants and technical assistance and performance of project management, and unsatisfactorily on adherence to implementation schedule.

4.1.16 On the other hand, the PET and the SCRC, which were equipped with detail knowledge of the country, lacked the leverage to enforce terms of reference and hence the content as well as the quality of the services of the international consultants. The performance of the Bank Group was considered unsatisfactory with respect to the supervision of the quality of the consultant services, resolving expressed concerns of PET particularly controversy over interpretation of contracts and enforcement, and the understanding the complexity of the issues.

4.1.17 Notwithstanding lack of access to the study reports, there are some indicators pointing inadequacies in the process and content of PADS. First, despite the effort of the PET to enhance the quality and relevance of the study reports, it cannot, however, be claimed with certainty the implementation inadequacies had not impaired the quality of the study. Second, it is plausible that the implementation inadequacies have slowed the generation of the output and hence the cost-effectiveness of the study. Third, the summary report of the phase one (to which this mission had access to) fails to capture the experiences and lessons learned from the past GOE and donor interventions in the pastoral societies. Finally, there is no evidence to show there has been coordination between the Bank Group and the World Bank in design and implementation of PADS notwithstanding the facts that the World Bank has provided development assistance to the pastoral areas in the past and it is currently active through its pastoral community development project (PCDP).

## 4.2 Aid Coordination, Co-financing and Resource Mobilization

4.2.1 There is a large presence of multilateral and bilateral organizations providing development and relief assistance to the country. But a few dominate in terms of the external resource flow. Based on the average of the ODA for 1997-2003, for example, the World Bank, European Union and the African Development Bank contributed respectively 44, 20 and 11 percent, which is equivalent to three-fourth of the ODA from Multilateral Agencies. Other notable assistance comes from Japan, USAID and UN systems (UNDP, IFAD, WFP, UNICEF and FAO), some EU member countries (Germany, Italy, the Netherlands, Ireland, Sweden and France) and Canada.

4.2.2 The ODA including relief is channeled to finance multiple areas of interventions. As of May 2004, for example, the ODA allocation covers food security and agriculture (the World Bank, AfDB, EU, UN systems, USAID, Germany, Japan, Italy and UK), environment conservation and management (UNDP, Germany and Sweden), Social sectors including water and sanitation (Japan, USAID, the World Bank, Germany, Sweden, Ireland Aid and UK), economic infrastructure (the World Bank, AfDB, Japan and France), relief and emergency (USAID, the Netherlands) and Governance and civil society (USAID and Sweden).

4.2.3 The emphasis for most of the development partners is on food security and social sectors consistent with the GOE poverty reduction and food security priorities. The ODA assistance to infrastructure building such as irrigation, roads and energy and agriculture development is confined to a few donors notable the World Bank and the African Development Bank in infrastructure development. Whilst the share of agriculture in the World Bank has declined since the 1990s (World Bank, 200), the Bank Group has maintained its share in agriculture. Despite the evidence of low ODA per capita, the donor assistance still lacks a long-term development framework concentrating on a few strategic areas.

4.2.4 The donors in Ethiopia use the Development Assistance Group (DAG) for aid coordination and harmonization. The DAG, geared to supporting the Ethiopian PRSP, is organized into thematic working groups (DAG TWGS) such as, for example, food security and agriculture, education, health, roads and the direct budget support. In the case of the food security and agriculture, the Rural Economy Development/Food Security Thematic Working Group comprises all the active donors in the sector including the Bank Group. The Bank Group participates in the monthly meetings of this thematic working. The Ministry of Finance and Economic Development (MOFED) in consultation with DAG coordinates external assistance at country level.

4.2.5 The different levels of aid coordination modalities provide donors to coordinate and harmonize their activities and practices, develop a common development framework, and set a common policy position. For the GOE, the MOFED-DAG forum has the advantages of ensuring donor assistance is conformity with the GOE development and poverty reduction priorities, reducing transactions costs arising from harmonization of procedures (procurement, disbursement, M&E, and reporting), enhancing efficiency of scarce external assistance through co-financing arrangement, engaging in policy dialogue, and owning and driving the development process in the country.



4.2.6 The GOE has called on the development partners to shift towards direct budget support to allow it more flexibility in allocation and utilization of external assistance. There is a general recognition among the development partners of the general preference of GOE for sector-wide budget support approach. And some of these partners are gradually using direct budget support to deliver part of their assistance. There is now a Direct Budget Support Group consisting of multilateral organizations (the World Bank, Bank Group, EU) and bilateral donors (SIDA, CIDA, DFID, Ireland and Germany). Such move appears to be grounded by conviction that there is a credible improvement in GOE public sector management and fiduciary stance, which cannot be independently established.

4.2.7 The Bank Group is actively engaged in the different tiers of donor coordination and harmonization arrangements. The ETCO office actively participates in the MOFED/DAG, DAG and thematic sub-group meetings. These donor coordination mechanisms have been instrumental for the Bank Group to collaborate in the three policy-based operations since 1993: the Structural Adjustment Loan 1 (SAL I) approved in 1993, the SAL II in 2001, and now the Poverty reduction Support Loan (PRSL). The ADB was also a partner in the Coalition for Food Security where the GOE and development partners forged a common stance on policy and strategy for food security in 2003. The Bank Group has also used the donor coordination modalities to identify and clear projects for financing and co-finance projects with other development partners (e.g., the RUFIP with IFAD and World Bank).

4.2.8 Whilst notable progress has been made in coordination and harmonization among the development partners, there are still overlapping activities that are likely to reduce the cost-effectiveness of their interventions such as the pastoral development projects (the Bank Group and the World Bank)<sup>6</sup>. A much greater coordination and harmonization is still required at all levels (i.e. policy, strategy and program) within the donors, and between the donors and GOE. If the effectiveness of the AfDB participation should be judged by evaluation of its peer partners in the country in aid coordination and harmonization, pro-active policy dialogue and resource mobilization, the AfDB presence is not prominent particularly in policy dialogue and in influencing policies affecting ARD policies, strategic choices, and investment decisions compared to its available financial leverage.

### 4.3 Overall Rating

The Bank supported studies are relevant and significantly contribute to informed design of projects with a good quality at entry and potential for satisfactory performance. The majority of the studies have or likely to convert into relevant bankable projects, and hence met the criterion of efficacy. Long delays in implementation were severe in the case of the PADS, which was partly related to external factors, but also reflects the poor implementation and quality control arrangements. Except for the PADS, however, the other studies are cost efficient. Overall, the Bank Group non-lending operations especially the studies have satisfactory performance with a substantial scope for improvement.

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<sup>6</sup> The World Bank introduced the pastoral project before the completion of the AfDB pastoral study. As a result, the AfDB pastoral study could not inform the design of The World Bank-funded pastoral project.

## V. OVERALL ASSESSMENT OF BANK GROUP ASSISTANCE

This chapter attempts to provide an overall rating of the whole portfolio of instruments applied to assist the agriculture sector. The logic of such aggregation across instruments is not questioned here. However, a cautionary remark is in order of the need for some weighting mechanism so that the aggregation correctly reflects the Bank Group ARD assistance to the country. Table 2 below summarizes the ratings of Bank assistance by major instruments.

### 5.1 Aggregate Performance of Lending and Non-Lending Operations

5.1.1 The Bank Group ARD assistance in terms of choice and use of instruments is reasonably balanced between project lending, grants, debt relief resources, policy-based lending and line of credit (equity participation). Project lending is by far the major instrument. Grant and debt relief resources in total resource envelope are second in importance. Often, project lending is coupled with grant resources. The grant resources also extend to PRSP process and activities. The Bank Group also enters selectively into co-financing arrangements to leverage resources for project financing.

5.1.2 The reviewed portfolio of ARD assistance is relevant judged by its rural focus with agriculture emphasis especially the smallholder agriculture. Such strategic focus on smallholder agriculture is consistent with the poverty reduction vision of the Bank Group (1999), its poverty policy (2004), and agriculture sector policy and strategy (1996 and 2002). It is also aligned to the GOE agriculture development led industrialization strategy (1992), food security strategy (1996 and 2002) and poverty reduction programs.

5.1.3 The performance of both the lending and non-lending assistance is generally satisfactory in terms of meeting their stated objectives (i.e. achieve at least 50%). But the project objectives are not achieved cost-effectively due to implementation deficiencies and inadequate quality assurance. Hence, the projects including the studies are rated cost inefficient.

5.1.4 The Bank Group support to ARD involves important components of institution building both as integral part in the lending projects as well as in technical assistance (i.e., support studies, training, development of community-based organizations and institutions, and monitoring and evaluation). The performance so far is modest.

5.1.5 Despite the relevance and good quality at entry of ARD operations, inadequate implementation performance, modest gain in institutional development and slowness in instituting self-sustaining institutions and legal framework are making it unlikely for the most of the projects to be sustained.

**Table 2: Summary Ratings of Bank Assistance to the Agriculture and Rural Development Sector**

Criteria	Ratings
Relevance of Strategy	Satisfactory
Lending assistance <ul style="list-style-type: none"> <li>• Outcome</li> <li>• Institutional development</li> <li>• Sustainability</li> </ul>	Unsatisfactory Unsatisfactory Unsatisfactory
Non-lending services	Satisfactory
Bank Performance	Unsatisfactory

## 5.2 Development Impact

5.2.1 **Poverty Focus:** Given that there has been marginal change in poverty in the 1990s, it is hard even to correlate the contribution of the Bank to the overall trend in the country. And without some reasonable counterfactual evidence, it is hard to get into assessment of the ARD assistance on poverty reduction. Most of the long-term objectives of the projects include poverty reduction implicitly or explicitly but none of them report in their progress reports.

5.2.2 However, the projects show some degree of poverty focus. First, they are all in the right sector for reducing poverty (agriculture). Second, the projects are targeted broadly to smallholder farmers and hence to the large segment of the poor population. In addition, the following types of pro-poor elements are notable from the individual projects:

- The Agricultural Sector Support Project falls within the country's poverty reduction framework targeting in particular drought-prone and vulnerable administrative areas. The project objective is to improve rural livelihoods and food security among the drought-prone and vulnerable food insecure population.
- The Rural Finance Intermediation Support Project (RFISP) aims effective and efficient delivery of financial services to rural households who are engaged in farm and non-farm activities. Over the project period, the number of rural households that will have access to financial services is projected to grow from 0.5 million to over 2 million in most parts of the country. The project would increase income and food security by relaxing the financial constraints of rural households to improve productivity, diversify income sources and manage risks effectively.

5.2.3 Of the two projects, the first is more geographically targeted where the policy is implementing agricultural growth where a specific target population lives. The second is more general with growth designed to reach as many small farmers as possible where the majority of poor are found.

5.2.4 **Environmental Impact:** Ethiopia continues to experience degradation of its natural resource base: frequent occurrence of droughts and increased aridity, desertification and loss of rangelands, degradation of arable land, water degradation, and deforestation. The degradation of these resources has a profound impact particularly on the livelihoods of the rural populace as they depend largely on natural resources. Hence, protecting the environment and natural

resources, and to mainstream environment and natural resource management into development processes are critical for sustenance of rural livelihoods.

5.2.5 But most of the projects did not systematically integrate environmental concerns in their design and implementation plans. One of the exceptions is the SERP, which has as its objective sustenance of the rangelands whilst improving their productivity to support the livestock-based pastoral populations. The land use and range management component of the project includes activities involving monitoring range conditions and evaluation, and range generation and sustainability. Per the evaluation in the PCR, the project has been successful in sensitization and promoting awareness, mobilizing communities control soil erosion, water harvesting and conservation, and reforestation.

5.2.6 **Gender Equality:** The Bank's interventions in agriculture have important implications for gender equality given the relatively high of the Ethiopian population on the sector for their livelihoods. The importance gender equality is explicitly recognized especially in the Bank-assisted projects approved in 2002-2004 compared to the pre-2002 approvals. However, effective gender mainstreaming in most Bank-assisted projects is weakened by the inadequate analysis and operationalization of gender issues. Furthermore, the lack of gender-sensitive monitoring and evaluation systems in the Bank-assisted project limits the tracking of their gender equality outcome.

5.2.7 **Private Sector Development:** The expected contribution of the Bank's interventions to private sector development is yet to be realized especially in the fertilizer input market due in part to the slow pace in allowing the participation of private entrepreneurs. In the agricultural export market, the Government privatized, through imperfect, tea production and export. The Government has also attracted private sector investment in horticulture.

5.2.8 **Community Participation:** Effective community participation in project design, implementation and monitoring and evaluation is yet to become an integral of the Bank-assisted projects in agriculture mainly due to financial and staff resource constraints. Some progress is, however, being made in enhancing community participation especially in recent Bank approvals.

## **VI. PERFORMANCE OF KEY CONTRIBUTORS**

The sources of explanation for the above aggregate performance measures as well as their variation across projects are found in the contribution of the Bank Group and its co-financers, and the GOE in different stages of project cycle (identification, preparation, appraisal, and implementation). There are also exogenous factors that contribute to project performance.

### **6.1 The Bank Group Contribution**

6.1.1 There are marked improvements in relevance and quality at entry of ARD assistance to Ethiopia. First, the projects appraised since the early 1990s have been consistent with the Vision of the Bank, and its poverty reduction and agricultural policies and strategies. Departing from past practices, it now invests in studies (Economic and Sector Work and studies specific to

project identification and preparation) to enhance its knowledge and understanding of the country's agricultural development potentials and constraints and consults with stakeholders mainly with the GOE. Secondly, it utilizes the aid coordination framework to identify projects jointly with GOE and thereby ensure conformity with the GOE policy priorities in ARD.

6.1.2 However, there are still design deficiencies that emanate from its uncritical reliance on the GOE for project identification, its noncommittal to influence investment choices including project placement and targeting consistent with its own principles, and some incoherence in its project portfolio (disjoint across projects and time). There is thus a scope for improving its relevance and strategic selectivity through continuing periodic sector review, pro-active involvement in development discussion and dialogue in the country (ETCO provides one such venue), integrating lessons learned from its past interventions through performance monitoring and impact assessment, and enhancing the quality of project identification, preparation and appraisal.

6.1.3 The implementation performance of the Bank Group has also improved over time. The frequency of supervision of the Bank Group has increased to address frequently arising procurement and disbursement issues, and to monitor project progress (ignoring the case of SERP, which has operated under exceptional circumstances as detailed below). The matching of the skill mix of the AfDB staff to the technical and administrative requisites of projects has improved. Resources are committed to enable projects to provide technical support to improve and accelerate preparation and submission of progress reports and audit reports. The re-opening of the Country Office is also an important contributor notwithstanding the inadequacy in staffing and decision making authority.

6.1.4 However, the Bank Group is notably weaker in its implementation performance as compared to its relevance and quality at entry. Whilst the frequency of supervision has increased, there are issues on the quality of supervision and the timeliness of resolving outstanding issues. None of the projects operate on their implementation schedule, which is partly related to inflexible procurement and disbursement requirements, slow authoritative response to outstanding problems, insufficient requisite understanding and knowledge of the complexity of projects, and inadequacy in utilization of the ETCO staff for providing technical and administrative support.

6.1.5 The experience of SERP also highlights the retarding effect of poor project governance on operational effectiveness (i.e. political interference in project management, limited transparency and accountability in financial management, and non-compliance with the agreed rules and procedures) and the risk of project supervision in an environment of political uncertainty, and disputes, conflicts and war.

6.1.6 The key for monitoring progress in translating project inputs into outputs and consequently into final outcome or impact is to set effective monitoring mechanism that is based on clearly stated objectives and activities, manageable set of indicators linked to the objectives and realistic targets. Often the projects have either no logframes or the logframes are not clearly conceptualized and monitorable. Hence, the supervision reports cannot be traced to the indicators and targets set in logframes. Here lies the major drawback in the Bank assistance supervision

where there is no marriage between field missions and logframes. The Bank can only improve its design and implementation of its assistance if it is able to select projects that can maximize its learning curve and undertake impact evaluation. Such concept is remote in practice in the Bank ARD assistance to Ethiopia. Even the PCRs are few and sparse, and often prepared after considerable lapse of time at which time considerable institutional memory is lost and project information becomes hard to track.

## **6.2 The Borrower Performance**

6.2.1 The contribution of GOE is significant particularly in setting the broad policy framework for ARD (e.g., improved macroeconomic management, ADLI as the center of ARD strategy, food security strategy, poverty reduction strategy, agriculture and rural development strategy), supporting studies that form the bases for project identification (e.g., the commendable river basin studies undertaken by MOWR), pro-actively engaging with development partners in aid coordination and project identification. The GOE compliance with conditions for quality at entry of the AfDB projects is generally satisfactory albeit notable delays on average between loan agreement signature and entry in to force.

6.2.2 However, there are areas of concerns and inadequacies: non-transparency in decisions related to investment choice, geographic placement of projects and choice of targeted population, non-matching of project size to implementation capacity particularly in the regions, inadequacy in timeliness and completeness of financial and reporting, slowness in enacting legal covenants necessary for implementation performance and sustenance of projects, weak project monitoring and reporting, and poor institutional memory of past projects.

6.2.3 It is important to ensure the right monitoring indicators are integrated into project design, enhance capability to monitor, and effectively implement M&E. The purpose is not only to monitor implementation performance per se, but to draw lessons and transfer the gained knowledge into improving design of future projects (or, interventions). It is not clear, for example, how much the lessons learned from past projects are incorporated in the new generation of projects.

6.2.4 And the pivotal question is not only how much the Bank Group and GOE have become effective in design and implementation of projects, which are important achievements, but also how much they have sustainable positive impact on the lives of the poor. This question is often not adequately addressed in the post-evaluation studies.

## **6.3 Intervening Factors**

6.3.1 Whilst generally the Bank Group and GOE have positively contributed to project outcome (relevance, efficacy and efficiency), institutional development and sustainability, the influence of intervening factors especially external to the Bank-funded projects cannot be discounted. The southeast rangeland development project is a good example of atypical influence of external factors on project performance and outcome (PCR, 2004)

6.3.2 SERP was declared effective in late 1990. A change of government occurred in May 1991, which necessitated reformulation of the project twice in 1992 and 1995. Given the history of frequent drought occurrence and civil strife in the project area, the communities were subjected to internal displacements. These conditions were aggravated by frequent conflicts in neighboring Somalia, which led influx of refugees and returnees into the project area. The border conflict with Eritrea also contributed to loss of contractors leaving behind unfinished works. The sum of these external factors and associated poor project governance contributed to lengthy operation of SERP for eleven years without satisfactory achievements in project outcome, institutional development and sustainability.

## **VII. CONCLUSIONS, LESSONS AND RECOMMENDATIONS**

The overall conclusion that emerges in response to the questions specified in section 1.1 is the Bank Group assistance to ARD has been relevant, its effectiveness in achieving (or, likelihood of achieving) has been satisfactory but there is considerable scope for improving cost-effectiveness, and its contribution to institution building and sustainability has been modest. There are important lessons that emerge from understanding the factors that underline these performance measures, and recommendations way forward. The lessons drawn and recommendations are reflective of the quantity and quality of information available at the time of the evaluation assignment, and hence subject to change as more information and knowledge are gained in future.

### **7.1 Conclusions**

7.1.1 There are important changes in the thinking, policy and operation of the Bank Group in general over time that seemed to have bearings on its improved average performance in Ethiopia, especially on its project identification, preparation, appraisal and quality at entry. The Bank Group now emphasizes on enhancing development effectiveness with a significant shift towards pro-poor policy framework. The Bank Group continuing assistance to agriculture sector with emphasis on smallholder agriculture to increase productivity and real income is consistent with the importance of the sector to the Ethiopian economy and the shared overarching goal of poverty reduction of the Bank and GOE.

7.1.2 Guided by the use of CSP, which is a programming tool for the Bank Group to identify its areas of intervention, the Bank Group implements ARD assistance that is reasonable balanced in terms of project choice and use of instruments. Unlike the pre-1990s where the approach was mainly commodity based (e.g., sugar, coffee and tea), the emphasis since the early 1990s has shifted towards addressing key agricultural growth constraints that have far reaching effect in scope such as fertilizer supply, credit for small farmers and building irrigation infrastructure. In addition, the Bank now uses more and diversified ARD instruments with more emphasis on integrating grant resources for capacity building in project lending.

7.1.3 The reviewed portfolio of ARD assistance is relevant. Whilst recognizing the relevance of the chosen projects, however, there is no way of ascertaining the investment in these projects is the most desirable from perspectives of economic optimality and poverty reduction. This is

because the process of choosing projects is generally a fuzzy area, more so as it has to reflect the preference of the borrower. The CSP is often a useful programming tool in identifying strategic sectors but there is no clear guidance in investment choices. The agriculture sector review of 2002 has identified a list of potential focal areas of interventions but the analytical underpinning and the process are not adequately elaborated. The Bank Group has yet to develop a consistent mechanism to formulate pipelines of projects informed by its comprehensive understanding of the sector, its past learned lessons, and assessment of its comparative advantage in Ethiopia.

7.1.4 The quality at entry is also satisfactory in most of the interventions within agriculture, which is mainly attributed to the processes of ensuring project relevance and the GOE often compliance with the Bank's conditions for entry into force. However, there is still a scope for improvement in its relevance and quality at entry through continuing periodic sector review, proactive involvement in development discussion and dialogue in the country, integrating lessons learned from its past interventions through performance monitoring and impact assessment, and enhancing the quality of project identification, preparation and appraisal.

7.1.5 Investing in economic and sector work as well as in studies for project identification and preparation is critical for the Bank Group. But the sector review needs to be grounded in analytical framework and pools adequately existing knowledge base in the country. The quality of studies leading to project identification and preparation is uneven.

7.1.6 There are also other issues of technical nature that are often not adequately addressed. Missing in some of the appraisals are financial and economic rates of return. The assumptions and risks specified in the appraisal reports are often not adequately elaborated especially their empirical base. There are project input and output targets specified in most of the appraisals but often hard to track the underlying methods of projection and assumptions. There are also indicators supposedly to monitor input and output performance of the projects but of uneven quality in terms of information capturing and measurability.

7.1.7 There is a general assumption that growth in agriculture sector translates into poverty reduction and food security. Such assumption is generally valid, but specifying the links permits design policies and investment choices that enhance effectiveness of agricultural growth on poverty reduction.

7.1.8 Whilst relying on the GOE for identification of projects has the advantage of being relevant, it has also potential undesirable effects. The stream of projects the Bank finances may become fragmented with no continuity since it is not following its pipelines. Moreover, the GOE agriculture sector policy and priorities may not always be the most desirable and socially optimum. For example, the AfDB Boards in approving the 2002-2004 CSP, noted that the success of Ethiopia's rural-based development vision would depend on access to land and security of holding, and on the development of vibrant private and financial sectors. The Bank Group operations shy away from some of these "sensitive" areas of policy dialogue such as land policy and administration.

7.1.9 Uncritical support to the GOE request can also endanger the principles that guide the Bank Group interventions in Africa. A case in point is the National Fertilizer Sector Project. The



Bank's commissioned Agriculture Sector Review (2002) concludes that the project has "enhanced private sector participation in fertilizer marketing and distribution". But the fact is the private sector was withdrawing with its share dropping to zero in 2000. The Bank Group support at the time when a few public companies dominate the fertilizer market diminishes the relevance of the project from both its long-term institutional development and sustainability perspectives.

7.1.10 Although most of the projects are likely to achieve their stated short-term (or, intermediate) objectives, experiences so far show the projects operate at low efficiency as indicated in slippage in implementation schedule and problem of quality assurance, which may compromise quality of output hence the efficiency of the projects. The Bank Group has made notable contribution towards supporting studies for project identification and training in specialized skills of project management. However, progress is marginal in areas of monitoring and evaluation system, formation of self-sustaining community-based societies, ensuring institution of legal covenants necessary for operational effectiveness of project, and developing effective project management systems with strong organizational linkages among cooperating agencies. These deficiencies in operational efficiency and institutional development elevate the risk of the sustainability of the benefit streams of projects. These conditions are aggravated in projects that have been exposed to external risks with no adequate contingency plans as in the case of the southeast rangeland development project.

7.1.11 Both the Bank Group and the GOE have made significant progress on improving the design of projects (identification, preparation and appraisal). But their performance on project implementation, institutional development and sustainability performance has not been satisfactory. More works need to be done on improving efficiency of delivery of the assistance, institutional building and strengthening, and reducing risks that diminish viability and sustainability of benefits streams from scarce invested resources. Especial safeguards are necessary for projects subject to exogenous factors that have detrimental effect on project performance.

## **7.2 Lessons Learned**

7.2.1 There are important processes contributing to the relevance of the ARD assistance: the Bank Group learning and improved knowledge of the country's agricultural development potentials and constraints through investing in studies, compliance with the Bank Group vision of poverty reduction and its agriculture policy, GOE managed donor coordination process as a vehicle for project identification, and consultations with in-country stakeholders. The reliance on the GOE for project identification is consistent with the principle of country ownership provided the Bank Group undertakes its own independent appraisal consistent with its own guiding principles and comparative advantage, and engages proactively in dialogue to ensure necessary policy reforms are implemented.

7.2.2 The quality studies commissioned for project identification tends to be high in studies that have a long history of academic research and/or strong GOE support. On the other hand, the quality of studies tends to be weak where the Bank Group has initiated without strong link to the research community. Anchoring on existing empirical knowledge, pooling and tapping on

existing expertise, and flexibility in managing studies are essential elements for improving the project quality at design.

7.2.3 Several factors have hampered the implementation performance of the Bank Group: inadequate specification or understanding of rules and procedures, imbalance between project size and complexity and implementation capacity which was further weakened with the decentralization of the Government administration, delay in responding to emerging operational problems and taking remedial measures particularly in early phase of implementation, weakness in quality assurance of performance, unfamiliarity in complexity of issues, and inadequate utilization (or, capacity building) of the ETCO staff for providing technical and administrative support.

7.2.4 Underlying factors in cost inefficiency in projects, which manifest in delays in procurements, disbursements of funds and retention of skilled manpower, lie in inadequacy in project conception, inflexibility in project implementation, failure to align project size to implementation capacity (or, sequencing capacity building), poor project governance (political influence in project management decisions), inadequacy in incentive (lack of reward system for proven performance), and lax in GOE commitment to necessary legal covenants.

7.2.5 Institutional development tends to be weak in an environment where technical support is inadequate (e.g., developing monitorable indicators for effective M&E), existing organizational arrangement is not suited to project requisites, incentive structure is weak, policy and/or legal ambiguity prevails (e.g., undefined property rights governing land and water), and community mobilization and participation is limited.

7.2.6 Sustainability of project benefit stream at affordable cost is a function of operational efficiency as determined by financial and economic viability (efficacy and efficiency), institutional development, capacity to withstand external factors, and government commitment especially policy and legal support. Sustainability is assured where financial viability is strong, organizational arrangement is effective, institutions governing behavior permit adequate incentive and risk taking, contingency plans exist to pool risks, and policy and legal uncertainty is diminished. The marginal rating of most of the ARD projects is rooted in absence of most of these essential conditions.

### **7.3 Recommendations**

#### **To the Bank Group:**

7.3.1 The Bank Group has taken significant actions to improve effectiveness of project performance since the mid-1990s: enhance ownership of projects, improve relevance of projects and quality at entry, and implementation performance.

7.3.2 **Raise the standards for ensuring relevance:** Continue the current focus on promoting smallholder agriculture with poverty and food security focus. The application of compliance, alignment and confirmation rules is commendable to ensure relevance. But improve transparency in choosing projects guided by core principles and comparative advantage, establish sound

economic justification for locating projects, and use analytical and financial leverage in influencing policy and institutional change to enhance project effectiveness.

**7.3.3 Continue investing in pre-project studies:** The practice of “formulating new projects based on studies of pre-existing conditions” is an important progress and essential tool for AfDB to be pro-active in investment choice, and hence needs to be sustained with greater effort on improving the analytical content and quality assurance. Include in these studies careful analysis of past experiences, distill essential lessons to develop coherent project, assess existing institutional and implementation capacity, and understand potential sources of risk affecting project performance.

**7.3.4 Ensure coherence within and between projects:** As long as the AfDB continues its current project approach, it is instructive to follow the holistic approach as prescribed in the Bank Group policy for agriculture and rural development (ADB/ADF, 2001) to maximize project effectiveness through ensuring essential project components are implemented simultaneously. The current agriculture support project is an example with components that include small scale irrigation (SSI), rain water harvesting (RWH), crop development and marketing, integrated ecosystem management, and capacity and institutional building. Provided the project assures other missing components such as access to roads and markets, and credit are available in project areas, there is coherence in the project components. As such an integrated approach may not be successful in certain contexts; a gradual and learning approach should therefore be promoted.

**7.3.5** This review reiterates the recommendation stated in the agriculture sector identification mission of late 2002, which called for a shift from a project approach to integrate all projects into a well defined and closely linked groad based agriculture sector support program.

**7.3.6 Align project size and complexity to operational capacity:** It is necessary to either align project scope to implementation capacity or follow a phased approach where project size expands as implementation and institutional capacity develops.

**7.3.7 Build in margin for flexibility:** Negotiate carefully implementation terms with minimum ambiguity, build in margin for flexibility to adjust as conditions change in the implementation phase, and delegate more authority and responsibility to the country office to exercise within the permissible margin.

**7.3.8 Establish effective M&E and response system:** Adequate assessment of implementation capacity, instituting monitoring and evaluation system, and effective responses to changing conditions are necessary to ensure projects are executed in line with agreed objectives, timelines, and implementation plans. Improved communication, adequate supervision, and flexible but correct timely response to problems are necessary to ensure implementation of a project on track.

**7.3.9** The purpose of M&E is not only to monitor implementation performance per se, but to draw lessons and transfer the gained knowledge into improving design of future projects (or, interventions). It is not clear, for example, how much the lessons learned from past projects are

incorporated in the new generation of projects. The absence of depository of past experience and the lessons learned should not be tolerated in current environment of technology information.

**7.3.10 Engage in Pro-active Policy dialogue:** Donors meet regularly with the GOE to ensure harmonization and coordination. The forum provides the Bank Group to engage pro-actively in setting priority intervention areas. Given the financial leverage of the Bank and the presence of the Country Office in the country, it needs to enhance its effectiveness in influencing policy change and mobilization of resources for growth financing in partnership with the donor community. Beefing up the analytical capacity of AfDB/ETCO supported by the research and policy units of the Bank Group would contribute to enhance the profile and effectiveness of the Bank.

7.3.11 Continuous consultations with borrowing country, donors, and project staff are also necessary to ensure project objectives, timing of implementation, and operation are not in conflict with complementary policy reforms. There are still overlapping activities that are likely to reduce the cost-effectiveness of their interventions such as the pastoral development projects (the Bank Group and the World Bank). A much greater coordination is still required at all levels (i.e. policy, strategy and program) within the donors, and between the donors and GOE.

**7.3.12 Promote Potential Best Practice:** The Bank Group at times needs to differentiate projects in terms of their potential contribution to best practice with lessons transferable to other African countries. The RUFIP is one project with such potential. For such type of project, the emphasis should not only be whether the project meets their operational requirements, but to integrate baseline study, adequately specified monitoring performance, and impact evaluation on development outcome. The output of such project includes “lessons that are replicable or that can be scaled up” in other countries.

#### **To the Borrower Country:**

7.3.13 The record of GOE also shows improved policy framework for broad based rural and agricultural development, and project formulation. Similar to the record of the Bank Group, the GOE’s weakness lies in project implementation, institutional building including monitoring and evaluation, and sustainability. Hence, the recommendations specified for the Bank Group are also applicable to the GOE especially “continuing investing in pre-project studies”, “aligning project size and complexity to operational capacity”, “establishing effective M&E systems” and ‘learning from past experiences and promoting best practices.’”

7.3.14 In addition, consideration of the following recommendations helps to enhance the effectiveness of ARD.

**7.3.15 Complete missing policies:** The GOE has set the right policy environment for smallholder-agriculture led rural development: macroeconomic policies, poverty reduction programs and food security strategy. Important agricultural policies are also in place that address main growth constraints: infrastructure development, technology transfer, building skilled manpower, and formation of agrarian institutions. But there are missing or incomplete policies:

property rights in general and land in particular, input and financial market reforms and sequencing, private sector development, and population mobility and settlement.

**7.3.16 Develop sector-wide program that guides efficient resource allocation:** Growth in agriculture has been slow and its effectiveness in improving human welfare has been weak. Greater efforts are necessary to jump start and speed agricultural growth and transformation. This calls for thorough understanding of the growth constraints of agriculture in its heterogeneous production environments and developing sector-wide investment program that recognizes differences in paths of development. With such program, more clarity is due on rules that guide investment allocation, placement of projects and resource commitments.

**7.3.17 Supporting studies that form the bases for project identification** (e.g., the commendable river basin studies undertaken by MOWR) is commendable. The returns to informed investment decisions warrant that the GOE continues to invest in studies that enable it to identify agricultural projects and programs with high payoffs in terms of growth and poverty reduction.

**7.3.18 Build and enhance project implementation capacity at local level.** Progress on civil service reform and human capacity building at local level needs to continue (e.g., expanding farmers' training centers and skill upgrading of extension agents). More work is necessary on improving project governance to enhance accountability and financial fiduciary. The drive towards establishing community-based organizations promises improving service delivery and reducing transaction costs as problems associated with governance diminish over time. Promoting the private sector as partner to these community-based organizations is critical to broaden and deepen private sector development in rural Ethiopia (e.g., linking microfinance institutions to community based credit and saving associations).

**7.3.19 Enhance depository of lessons learned and replicating best practices:** A key component of institutional building is strengthening monitoring and impact evaluation systems. It is important to ensure the right monitoring indicators are integrated into project design and monitored regularly to assess progress and address emerging implementation deficiencies. Combining monitoring with selective impact evaluation also enable to draw lessons and transfer gained knowledge into improving design of future projects (or, interventions). Absence of depository of past experiences, loss of institutional memory, and limited information sharing in current environment of information technology restrict policy debate and dialogue.

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**AGRICULTURE AND RURAL DEVELOPMENT SECTOR OPERATIONS - TABLES**

**Table A1: Ethiopia- Agriculture and Rural Development –Committed Sector Operations  
(in million UA), 1993-2004**

Project	Fund source	Approval date	Amount		Status
			Net Approved	% Disbursed	
<b>Approved during the period 1993-2004</b>					
National fertilizer Project	ADF	1997	36.43	100	Completed
National Livestock Dev. Project	ADF	1998	27.00	57.48	Ongoing
Pastoral Area Development Study	TAF	2000	0.71	74.65	Ongoing
Koga Irrigation Project	ADF	2001	32.59	0.34	Ongoing
Koga Irrigation Project	TAF	2001	1.33	12.03	Ongoing
Genale-Dawa Master Plan Study	TAF	2001	3.93	0.00	Ongoing
National fertilizer Project II	ADF	2001	8.09	100	Completed
Rural Finance Intermediation	ADF	2003	27.17	0.0	Ongoing
Rural Finance Intermediation	TAF	2003	8.00	0.0	Ongoing
Awash River Basin Control	TAF	2003	1.83	0.0	Ongoing
Livestock Development Master Plan	TAF	2003	2.34	0.0	Ongoing
Agric. Support Programme	ADF	2003	21.24	0.0	Ongoing
Agric. Support Programme	TAF	2003	17.70	0.0	Ongoing
Fisheries Resources Dev. Study*	TAF	2004	0.92		APVD
Creation of Sustainable tsetse*	ADF	2004	9.55		APVD
<b>Total for the period (MUA)</b>			<b>198.83</b>		
<b>Pre-1992 Approvals but completed in 1993-2004</b>					
Southern rangeland Livestock	ADF	1975	4.59	100	Completed
Wush Wush Tea	ADF	1980	7.36	100	Completed
Addis Ababa Fuelwood	ADF	1981	6.62	100	Completed
Bebeka Coffee Plantation	ADB	1982	10.00	100	Completed
Gelena irrigation	TAF	1984	1.10	100	Completed
Dairy Rehabilitation & Dev.	ADF	1984	5.01	100	Completed
Small-scale irrigation	ADF	1985	5.36	100	Completed
Awash Basin Water Supply	TAF	1985	1.19	100	Completed
PADEP (Sidamo/Gamo/Gofa)	ADF	1985	5.44	100	Completed
Tepi Coffee Development	ADB	1986	4.68	100	Completed
	ADF	1986	16.05	100	Completed
Amibara Drainage I	ADF	1987	14.78	100	Completed
Finchaa Sugar Project	ADB	1988	78.25	99.68	Completed
	ADF	1988	14.46	100	Completed
South East rangelands	ADF	1989	18.28	100	Completed
EVDSA Institutional Building	TAF	1989	2.56	100	Completed
Wush Wush II	ADF	1989	6.42	100	Completed
Meat Plan Feasibility Study	TAF	1990	1.02	100	Completed
Omo-Ghibe Master Plan Study	TAF	1991	5.07	100	Completed
Birr-Koga Irrigation Study	TAF	1991	2.48	100	Completed
Amibara Drainage II Study	TAF	1992	0.54	66.67	Completed
<b>Total</b>			<b>400.04</b>		

\* Approved in 2004 but became effective in 2005

Source: Compiled from ADB database

**AGRICULTURE AND RURAL DEVELOPMENT SECTOR OPERATIONS -- TABLES**

**Table A2: CSP Objective and Project Type for the Agriculture and Rural Development Sector, 1993-2004**

<b>CSP Period</b>	<b>Key Objectives</b>	<b>Project Approved</b>
2002-2004	Increased food security through increased facilities for domestic production (to contribute to food poverty reduction & regional integration)	Rural Finance Intermediation; Awash River Basin Control; Livestock Development Master Plan; Agric. Support Project; Agriculture sector review; Fisheries development study (under the Nile River Basin Initiative). During the period 2002-2004 all but one of the approvals had zero disbursement. Consequently, the CSP objectives for the sector could not be achieved.
1999-2001	Improved food production through irrigation, pastoral agriculture and provision of fertilizer.	Pastoral area development study; Koga irrigation & watershed management project; Genale-Dawa master plan study; National fertilizer project II
1996-1998	Increased food production through increased productivity of peasant farmers (credit; small and medium scale irrigation; afforestation to promote environmental sustainability and livestock development)	National fertilizer project; national livestock development project –two projects representing about 80% of the planned allocation. However, there was no delivery for irrigation.
1993-1995 (EPCP)	Increased food production through improved peasant agricultural production	Amibara drainage II study –only operation was approved because of the delays in the replenishment of the ADF-VII resources. Consequently, the objectives were not met.



**AGRICULTURE AND RURAL DEVELOPMENT SECTOR OPERATIONS -- TABLES**

**Table A3: Ratings of Selected Aspects of the Bank Assistance**

Criteria	Ratings (1-4 scale)	Remarks/comments (if any)
Strategy (CSP):		
a. Conformity with GOE sector policies/strategies	3	
b. Complementarity with other donors	2	Not frequent
Lending assistance:		
a. Relevance (with bank sector priorities/ objs.; GOE sector priorities/objs.)	3	
b. Efficacy	3	
c. Efficiency	2	
d. Institutional development	2	
e. Sustainability	2	
Non-lending services		
a. Studies (ESW)	3	
b. Policy Dialogue	-	No information to judge
c. Aid coordination (bank perspective)	2	
Bank Performance		
a. Project preparation	3	
b. Project appraisal	2	
c. Project supervision	2	
d. Project evaluation	1	
Borrower performance		
a. Project identification	3	
b. Project preparation	2	
c. Project implementation	2	
d. Aid coordination (GoE perspective)	3	
Exogenous Factors	1	Not adequately factored

**AGRICULTURE AND RURAL DEVELOPMENT SECTOR OPERATIONS -- TABLES**

**Annex A4: OPEV Evaluation Criteria and Ratings Scale**

**Evaluation Criteria**

These criteria are standard recommended by Evaluation Cooperation Group of Multilateral Development Banks<sup>7</sup>:

*Relevance* is the extent to which the strategy (goals, objectives, activities and activities) adopted by the Bank and which has guided its intervention in a given country is relevant to the development problems of the country as identified ex post.

*Coherence* refers to the extent to which strategy and program maintains internal and external synergies.

*Efficacy* is the extent of achievement of program objectives set out in the CSP.

*Efficiency* measures the cost per unit of benefit delivered. Such unit cost may be difficult to measure, at least for now, as costs are not currently imputed to activities. But with the development of cost centers in Bank budgeting, it should be easy in future, to know for example how much it costs (staff and consultant's time) to produce a CSP in comparison with countries in the same region or at the same level of development. Thus for now, this concept may be confined to using proxies for the design and delivery of assistance, for example, cost and time overruns in program implementation.

*Outcome* is the extent or likelihood of achievement of program key relevant objectives in an efficient manner. In effect, program outcome represents an unbalanced weighted average of relevance, efficacy and efficiency. Most of the weight is loaded on efficacy.

*Sustainability* is the extent to which the achievements (actual and expected) of program/intervention can be sustained beyond program period.

*Institutional development* is the extent to which Bank intervention has strengthened a country's capacity to manage, among others, the following areas: economic management, the structure of public sector, in particular the civil service, institutional soundness of the financial sector, legal, regulatory and judicial systems, monitoring and evaluation systems, aid coordination, financial accountability, building NGO capacity, social and environmental capital.

*Other impacts* refer to program contribution to long-term changes in the country's development conditions.

*Partnership development/coordination* is the Bank's effectiveness in fostering external assistance coordination and building Government and country ownership of external assistance processes.

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<sup>7</sup> See OPEV's draft guidelines for country assistance evaluation.

## **AGRICULTURE AND RURAL DEVELOPMENT SECTOR OPERATIONS -- TABLES**

*Borrower performance* is the effectiveness of the Borrower in assuming ownership and responsibilities of the assistance strategy and program.

*Bank performance* refers to the effectiveness of the Bank in discharging its responsibilities in ensuring (i) quality of strategy and program at entry, (ii) quality of supervision and (iii) quality of other services.

### **Ratings Scale**

The AfDB normally uses a 4-point rating scale in its operations and this practice has been carried over to post-evaluation. The OPEV ratings scale comprises highly satisfactory (4 points), satisfactory (3 points), unsatisfactory (2 points) and highly unsatisfactory (1 point):

#### **Relevance of strategy**

- Highly relevant (4 points)
- Relevant (3 points)
- Irrelevant (2 points)
- Highly irrelevant (1 point)

#### **Efficacy**

- Highly satisfactory (4 points)
- Satisfactory (3 points)
- Unsatisfactory (2 points)
- Highly unsatisfactory (1 point)

#### **Sustainability**

- Highly likely (4 points)
- Likely (3 points)
- Unlikely (2 points)
- Highly unlikely (1 point)

#### **Institutional Development**

- High (4 points)
- Substantial (3 points)
- Modest (2 points)
- Negligible (1 point)

#### **Efficiency**

- Highly efficient (4 points)
- Efficient (3 points)
- Inefficient (2 points)
- Highly inefficient (1 point)