



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 10-Jun-2020 | Report No: PIDC29734



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Ethiopia	P174241	Ethiopia Covid-19 Response Emergency Development Policy Financing (P174241)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	02-Jul-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finance	Ministry of Finance		

Proposed Development Objective(s)

The objective of this emergency DPO is to strengthen the COVID-19 crisis response framework for better health outcomes, support fiscal stabilization and rapid economic recovery, and mitigate the negative poverty and social impacts of the crisis.

Financing (in US\$, Millions)

SUMMARY

Total Financing	500.00
------------------------	--------

DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

Other

Explanation

Concept review requirement has been waived for this emergency operation by OPCS (attached communication)



B. Introduction and Context

Country Context

The proposed Ethiopia COVID-19 Response Emergency Development Policy Financing (DPF) in the amount of US\$500 million to the Government of Ethiopia (GoE) supports policy reforms mitigating the impact of the COVID-19 crisis and laying the foundations for recovery. This support is both urgent and critical, given the magnitude of the economic crisis in Ethiopia caused by the pandemic and exacerbated by the global recession. Under a new leadership, Ethiopia embarked in 2018 on a set of ambitious reforms aiming to transform its economy and society. The World Bank, IMF and development partners actively support these reforms including through a DPF series, IMF program and policy reform financing by France and Germany. Ethiopia has made significant progress in the past two years. But the COVID-19 crisis and the necessary measures to protect lives are now threatening the attainment of the objectives of economic reforms. This operation augments earlier financing by the World Bank and the IMF and supports additional response measures that are essential to shield people and firms from COVID-19 impacts, as well as reforms supporting future recovery.

Containing transmission of the virus is of utmost importance, particularly in a country that ranks second to last in Africa in terms of hospital beds (at 0.3 per thousand people). Ethiopia's proximity to multiple fragile states and being a major land and air transportation hub greatly exacerbate vulnerability to epidemics. At the same time, limited disease-detection functions in Ethiopia expose the region to the potential spread of the pandemic. In addition, Ethiopia currently shelters about 1.5 million registered refugees from neighboring fragile states, the second largest refugee population in Africa.

The economic impacts of the crisis and necessary policy response measures to save lives are severe. GDP growth estimate for 2020 has been revised down. Ethiopian airlines representing about half of total export receipts reported losing US\$550 million since January as flights to nearly 80 destinations have been cancelled. The Jobs Commission estimates that over the next six months 1.76 million jobs in manufacturing, construction and urban services would be at risk and 1.9 million self-employed would suffer severe income losses. According to a recent survey of businesses in Addis Ababa, 42 percent of the surveyed firms reported to have ceased operations in April and more than 80 percent had experienced a decline in demand. Agricultural production is expected to be affected if there are delays in distribution of inputs that might adversely affect the planting season, contributing to increased food insecurity. These risks are further elevated by the worst locust infestation in 25 years.

A protracted COVID-19 crisis is likely to substantially reduce household income, possibly undermining welfare gains of the past 10 years. In 2016, when poverty was last measured, 31 percent of Ethiopians lived below the poverty line of US\$1.9/ day (2011 PPP), down from 34 percent in 2011 and 37 percent in 2005. A lot of households remain vulnerable to poverty, with consumption levels only marginally exceeding the poverty line. A shock that would decrease average household consumption by 10 percent—not an unlikely scenario given the severity of the economic effects of COVID-19 in Ethiopia—would push the poverty rate up by seven percentage points, effectively cancelling out the poverty reduction gains since 2005 and pushing over seven million Ethiopians into poverty. Preliminary data from an ongoing phone household survey to monitor and assess the impacts of COVID-19 points towards large losses in household income, in urban and, to a lesser extent, in rural areas. Next to the direct adverse effects on household income, COVID-19 also risks having longer-term effects in the form of selling of productive assets, early school dropout, and negative cognitive and human capital effects of early childhood undernutrition.



Relationship to CPF

The proposed operation is one of the pillars of Bank's response to mitigate the impact of the global crisis on Ethiopia. The Bank has prepared a US\$82.6 million Ethiopia COVID-19 Emergency Response Investment Policy Financing (IPF) under the Fast-Track COVID-19 Facility to prevent, detect and respond to the threat posed by COVID-19 and strengthen national systems for public health preparedness. The Bank is reviewing portfolio and has cancelled slowly disbursing projects to finance supplemental and emergency operations in response to the crisis. These reallocations allow to fast track IDA disbursement to support the GOE at this critical juncture. This operation will provide financing to ensure long term reform stay on track and objectives of the Government's reform program and CPF are achieved.

C. Proposed Development Objective(s)

The objective of this emergency DPO is to strengthen the COVID-19 crisis response framework for better health outcomes, support fiscal stabilization and rapid economic recovery, and mitigate the negative poverty and social impacts of the crisis.

Key Results

The operation supports policy actions that are expected to contribute to meeting a number of results including (i) the containment of the spread of COVID-19 through adoption essential policy measures (ii) provision of temporary income support to vulnerable groups through the expansion of safety nets (iii) improved liquidity provision and greater flexibility for loan restructuring for firms impacted by COVID-19 (iv) establishment of legal framework for the use of movable collateral which will help ease access to finance especially for MSMEs; (v) revision of the Commercial Code to put in place modern bankruptcy and insolvency regime to help viable businesses to survive; (vi) introduction of e-transactions legal framework enabling electronic transactions between businesses and government especially needed to sustain operations while maintaining social distancing measures in place; (vii) streamlining of excise tax regime to eliminate exemptions, simplify compliance and help improve fiscal revenues; and (viii) enhancing transparency and accountability through improved government expenditure disclosure including for COVID-19 response.

D. Project Description

The proposed operation directly supports targeted areas of the Government's announced emergency response measures as well as its broader development agenda. It is structured around two strategic pillars: (I) Protecting Lives and Livelihoods – Mitigating the Health Impact of the Pandemic and Enhancing the Resilience of People and Firms; (II) Protecting the Future – Fostering Economic Recovery and Strengthening Policies for Rebuilding Better. Pillar I is aligned with the Government's announced responses to the economic and social impact of COVID-19 by providing households and firms immediate relief. Pillar II includes reforms that are core part of the GTPII and Homegrown reform agenda and contribute to resilient economic recovery.

COVID-19 is the most significant health crisis in Ethiopia in the recent past and requires strong actions to mitigate the impacts of the health crisis and sustain livelihoods. Weak health systems, the role of Addis Ababa as a transit hub for air travel in Africa, porous borders and a large number of refugees were major factors putting Ethiopia at high risk of COVID-19 transmission early on. The GOE has taken a One government approach and has set out a comprehensive emergency



response plan with strong coordination from the Prime Minister's Office. The World Bank's COVID-19 Emergency Response Investment Policy Financing have provided early assistance for timely response in the health sector. COVID-19 has elevated risks of falling into poverty for vulnerable households. Firms linked to economic sectors affected by COVID-19 face supply and demand shocks that threaten the sustainability of their businesses and their workforce. There is immediate need to provide timely and targeted relief to the affected households and firms in Ethiopia. Pillar I supports Government reforms in (i) adopting essential policy measures to sustain the containment of the spread of COVID-19 (ii) expanding the urban safety net to provide temporary income support to vulnerable groups, (iii) increasing the benefit under rural and urban safety nets to preserve purchasing power, and (iv) supporting private sector firms through liquidity expansion and greater flexibility for loan restructuring.

As Ethiopian economy adjusts to operating in COVID-19 environment the longer-term reform agenda focused on private sector driven growth becomes even more urgent. Ethiopia has been implementing significant economic reforms shifting to private sector led growth and addressing external imbalances before the onset of COVID-19 pandemic. Despite the constraints that COVID-19 response measures have placed on the Government, including social distancing measures obliging many civil servants to work from home, reform momentum is sustained. Pillar II supports policy actions included in the broader reform agenda but now fast tracked to help facilitate economic recovery including: (i) establishment of legal framework for the use of movable collateral which will help ease access to finance especially for MSMEs; (ii) revision of the Commercial Code to put in place modern bankruptcy and insolvency regime to help viable businesses to survive; (iii) introduction of e-transactions legal framework enabling electronic transactions between businesses and government especially needed to sustain operations while maintaining social distancing measures in place; and (iv) streamlining of excise tax regime to eliminate exemptions, simplify compliance and help improve fiscal revenues; and (v) enhancing transparency and accountability through improved government expenditure disclosure including for COVID-19 response.

E. Implementation

Institutional and Implementation Arrangements

The MoF is the coordinating institution for monitoring and evaluation among all the participating ministries and federal government agencies. The MoF is responsible for coordinating the work of the ministries and agencies responsible for implementation of the Prior Actions under this operation, as well as to monitor progress and results. The Technical Committee established to oversee the preparation and implementation of the Growth and Competitiveness DPF series will be used as well to monitor progress in the reforms under this Emergency operation.

Data availability and quality are appropriate to monitor progress of the operation. The outcomes will be monitored through results indicators as detailed in the Policy and Results Matrix. Most of these results indicators are based on routinely published information and, for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators and providing these to the MoF on a timely manner. MoF will be responsible for submitting such information at a frequency and in a format satisfactory to the Bank. The World Bank will provide implementation support, including technical assistance in needed reform areas as described above, to ensure timely implementation and adequate data collection and monitoring of indicators and outcomes.



F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

A prolonged COVID-19 crisis is likely to substantially reduce household income, possibly undermining welfare gains of the past 10 years. The reforms supported by this operation are largely pro-poor and likely to have positive poverty and social effects in the short and medium term. Measures aim to alleviate the adverse impacts of the COVID-19 pandemic on households and firms in the short term, safeguard rural livelihoods and food availability and affordability in the medium term, and improve access to finance and government revenues in the longer term. None of the prior actions carry a clear substantial risk of adverse social or poverty effects.

Environmental, Forests, and Other Natural Resource Aspects

The Emergency Response DPF is expected to contribute to the GoE's ongoing efforts in implementing COVID-19 crisis response. These response measures seek to prevent, detect and respond to the coronavirus pathogen and related public health emergencies, to mitigate the economic and social impacts of the crisis, and to support economic recovery. The policy measures most likely to cause substantial negative environmental impacts are those under Pillar I regarding strengthening disease prevention and relating to health and safety risks associated with the pathogen and reagents and the safe use of equipment to be used in the laboratories, isolation centers and quarantine facilities. The adoption of the new Commercial Code, the e-Transactions Proclamation, and the Excise Tax Proclamation, all under Pillar II, are expected to have positive environmental impacts. Other prior actions are not expected to have positive or negative environmental impacts.

G. Risks and Mitigation

The overall risk rating of this operation is substantial. Like in other countries, the impact of the COVID-19 crisis has heightened uncertainty and risks in Ethiopia. Macroeconomic risks, which were already high, amid foreign currency shortages and inflationary pressures, have exacerbated further, as a wide range of economic sectors is expected to be hit. On the political front, risks are also high, as general elections, planned for August, have been postponed due to the pandemic. The COVID-19 crisis could also affect the pace of the ambitious structural reforms the Government is pursuing. Stakeholder risks, risks to implementation, fiduciary risks, and environmental and social risks are all rated substantial.



CONTACT POINT

World Bank

Miguel Eduardo Sanchez Martin, Nataliya Mylenko
Senior Economist

Borrower/Client/Recipient

Ministry of Finance

Implementing Agencies

Ministry of Finance
Yasmin Wohabrebbi
Director International Financial Institutions Cooperation Di
yasminwohabrebbi@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Miguel Eduardo Sanchez Martin, Nataliya Mylenko
----------------------	---

Approved By

Country Director:	Charles Andrew Undeland	28-May-2020
-------------------	-------------------------	-------------