Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Oct-2019| Report No: PIDC27937

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Ethiopia	P169079	Ethiopia Growth and Competitiveness DPF2 (P169079)	P168566
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Nov 26, 2019	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Ministry of Finance		

Proposed Development Objective(s)

The proposed operation is the second the series, and it is structured around three strategic pillars: (i) maximizing finance for development; (ii) improving investment climate and developing the financial sector; and (iii) enhancing transparency and accountability

Financing (in US$, Millions)

SUMMARY

Total Financing	1,000.00

DETAILS

Total World Bank Group Financing	1,000.00
World Bank Lending	1,000.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

In the past 15 years, Ethiopia achieved double-digit economic growth, driven by large-scale public infrastructure investment. Fast growth has resulted in a dramatic increase in GNI per capita, from US$140 in 2004 to US$790 in 2018, and fast poverty reduction, and was accompanied by significant progress on the Millennium Development Goals. Large public investment has been financed by tapping external financing, keeping government consumption low, and deploying heterodox mechanisms such as controlled interest rates and financial repression. The limitations of the state-led development model have become evident, as external competitiveness has been eroded and imbalances have increased, leading to foreign currency shortages.

Recognizing the shortcomings of the previous development model, in September 2019, Ethiopian authorities unveiled a Homegrown Reform Agenda. The plan consists of ambitious structural reforms aimed at removing business constraints, opening sectors to foreign participation and competition, and enhancing transparency and accountability in State-Owned Enterprises, coupled macroeconomic measures including those targeted at shifting the model of government financing and removing distortions. The proposed operation is expected to support the government in the implementation of these needed policy reforms.

Relationship to CPF

The CPF is organized around three focus areas: (i) promoting structural and economic transformation through increased productivity, (ii) building resilience and inclusiveness, and (iii) supporting institutional accountability and confronting corruption. This DPF will help achieve some specific goals set in the CPF, including: an enhanced business and investment climate; improved access to finance for micro, small, and medium enterprises; adoption of new approaches for sustainable infrastructure financing and debt management; and strengthened citizen engagement and accountability of government entities.

C. Proposed Development Objective(s)

The proposed operation is the second the series, and it is structured around three strategic pillars: (i) maximizing finance for development; (ii) improving investment climate and developing the financial sector; and (iii) enhancing transparency and accountability.

Key Results

Pillar (i) actions are expected to help identify sustainable ways of financing infrastructure, while improving efficiency in key growth-enabling sectors such as energy, telecom, and logistics. Pillar (ii) actions, aimed at improving the business climate, removing distortions from the financial sector, and developing the government security market, are expected to help attracting investment and increasing funding available to the private sector. Finally, under Pillar (iii), a strengthened CSO framework, coupled with SOE and privatization-related reforms are expected to lead to improvements in the delivery of critical services for businesses and consumers, improved transparency and accountability, a reduction in fiscal risks to the Government, and increased citizen engagement.

D. Concept Description

While fast increase in Ethiopia's public capital stock has supported strong growth, it has also led to the rapid accumulation of both external and domestic public debt, as well as the crowding out of the private sector. To address these challenges, the first pillar focuses in promoting PPPs, improving efficiency and restoring financial sustainability in the power sector, introducing competition in the logistics sector to reduce costs, and introducing competition and foreign participation in the telecom sector to increase connectivity and affordability. Improving efficiency in these growth-enhancing sectors is expected to contribute to maximizing finance for development.

To improve competitiveness, boost exports, and create job opportunities for the growing population, the role of the private sector in the Ethiopian economy needs to be strengthened. This requires coordinated efforts to improve the business climate by issuing regulations that reduce administrative burdens and restrictions on both domestic and foreign investors, taking actions to remove constraints within the financial system to expand credit to the private sector, and initiating the establishment of the government bond market.

Finally, transparency and accountability in the conduct of public affairs and access to information by citizens, civil society, the private sector, and media create an important feedback loop. This feedback loop is critical for strengthening service delivery, helping the Government and public enterprises direct resources to where they are needed, enhancing the investment climate for the private sector, and empowering citizens in matters affecting their lives. The third pillar of the operation promotes citizen engagement and social accountability and supports increasing transparency and accountability in SOEs and their privatization process.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Overall, the proposed DPF supports policy and institutional changes that are likely to have poverty-reducing effects in the medium term. For example, telecom sector reform is expected to have direct and indirect poverty-reducing effects. Improvements in the business and private sector environment through PPPs, a revised investment law, and SOE reform as well as gradual elimination of the 27 percent rule, are expected to boost the establishment of new enterprises, lead to a higher level of foreign investment, and expand the volume of credit available to the private sector. This should create additional jobs which can to some extent help absorb the approximately 2 million young Ethiopians who enter the labor force each year, although in the short term there could be some layoffs in SOEs going through privatization. Meanwhile, the policy reform of electricity tariffs may have short-term distributional impacts that need to be mitigated.

Environmental Impacts

The reforms supported by this operation are expected to accelerate private sector investment, with potentially significant effects on the environment and natural resources. The policy action most likely to cause negative downstream environmental and social impacts is the promotion of PPPs. Indirect negative effects could also potentially stem from actions to improve the business climate and foster investment. On the other hand, tariff updating in the energy sector is expected to lead to more efficient consumption and improved environmental outcomes. The assignment of independent authority to review, approve, and enforce Environmental and Social Impact Assessments is included in the third operation in this series and is expected to help mitigating the potential impacts described above.

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APPROVAL

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