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Report No: 69689-ET

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 397.8 MILLION  
(US\$600 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

PROMOTING BASIC SERVICES PHASE III (PBS 3) PROJECT

August 29, 2012

Social Protection Sector  
Country Department AFCE3  
Africa Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective July 31, 2012)

Currency Unit = Ethiopian Birr (ETB)  
ETB 17.71 = USD 1  
USD 1.00 = SDR 1.51

## FISCAL YEAR

July 8 – July 7  
Ethiopian FY 05 – IDA FY13

## ABBREVIATIONS AND ACRONYMS

|       |   |
|-------|---|
| AGP   | Agricultural Growth Project                               |
| AfDB  | African Development Bank                                  |
| BoFED | Bureau of Finance and Economic Development (Regional)     |
| COPCU | Channel One Programs Coordinating Unit                    |
| CPS   | Country Partnership strategy                              |
| CSA   | Central Statistical Agency                                |
| CSO   | Civil Society Organizations                               |
| DAG   | Development Assistance Group                              |
| DFID  | UK Department for International Development               |
| DP    | Development Partners                                      |
| DPO   | Development Policy Operation                              |
| EDHS  | Ethiopia Demographic and Health Survey                    |
| EDQAF | Ethiopia Data Quality Assessment Framework                |
| EMCP  | Expenditure Management and Control Program                |
| ESMF  | Environmental and Social Management Framework             |
| EU    | European Union  |
| FEACC | Federal Ethics and Anti-Corruption Commission of Ethiopia |
| FM    | Financial Management                                      |
| FPPA  | Federal Procurement and Property Administration           |
| FTA   | Financial Transparency and Accountability                 |
| GDP   | Gross Domestic Product                                    |
| GEQIP | General Education Quality Improvement Project             |
| GoE   | Government of Ethiopia                                    |
| GRM   | Grievance Redress Mechanisms                              |
| GTP   | Growth and Transformation Plan                            |
| IDA   | International Development Association                     |
| IFR   | Interim Unaudited Financial Report                        |
| IMF   | International Monetary Fund                               |
| JBAR  | Joint Budget and Aid Review                               |

|        |   |
|--------|---|
| JRIS   | Joint Review and Implementation Support                                   |
| LIG    | Local Investment Grant  |
| M4R    | Managing for Results Component  |
| MDG    | Millennium Development Goals  |
| M&E    | Monitoring and Evaluation   |
| MEFF   | Macroeconomic and Fiscal Framework  |
| MIS    | Management Information System   |
| MOA    | Ministry of Agriculture   |
| MOFED  | Ministry of Finance and Economic Development                              |
| MOWE   | Ministry of Water and Energy  |
| OFAG   | Office of the Federal Auditor General                                     |
| ORAG   | Office of the Regional Auditor General                                    |
| P4R    | Program for Results   |
| PASDEP | Plan For Accelerated and Sustained Development to End Poverty             |
| PBS    | Promoting Basic Services Program (formerly, Protection of Basic Services) |
| PDO    | Project Development Objectives  |
| PEFA   | Public Expenditure and Financial Accountability                           |
| PFM    | Public Financial Management   |
| PSNP   | Productive Safety Net Project   |
| QER    | Quarterly Expenditure Report  |
| REF    | Results Enhancement Fund  |
| SAIP   | Social Accountability Implementing Partners                               |
| SDR    | Special Drawing Rights  |
| SIL    | Specific Investment Loan  |
| TA     | Technical Assistance  |
| URRAP  | Universal Rural Road Access Program                                       |
| USAID  | United States Agency for International Development                        |
| VfM    | Value for Money   |
| WASH   | Water, Sanitation and Hygiene   |
| WMS    | Welfare Monitoring Survey   |
| WoFED  | Woreda Office of Finance and Economic Development                         |

|                          |                      |
|--------------------------|----------------------|
| Regional Vice President: | Makhtar Diop         |
| Country Director:        | Guang Zhe Chen       |
| Sector Director:         | Ritva Reinikka       |
| Sector Manager:          | Lynne Sherburne-Benz |
| Task Team Leader:        | Robert S. Chase      |
| Co-Task Team Leader:     | Camilla Holmemo      |



**ETHIOPIA**  
**PROMOTING BASIC SERVICES PHASE III (PBS 3) PROJECT**

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## PAD DATA SHEET

*Ethiopia*

*Ethiopia Promoting Basic Services Phase III Project (P128891)*

### PROJECT APPRAISAL DOCUMENT

*AFRICA*

*AFTSE*

| Basic Information   |                                    |   |  |
|---|------------------------------------|---|--|
| Project ID  | Lending Instrument                 | EA Category   | Team Leader                                  |
| P128891   | Specific Investment Loan           | C - Not Required  | Robert S. Chase                              |
| Project Implementation Start Date                               |                                    | Project Implementation End Date                                       |  |
| 25-Sept-2012  |                                    | 07-Jan-2018   |  |
| Expected Effectiveness Date                                     |                                    | Expected Closing Date   |  |
| 15-Oct-2012   |                                    | 07-Jan-2018   |  |
| Joint IFC   |                                    |   |  |
| No  |                                    |   |  |
| Sector Manager  | Sector Director                    | Country Director  | Regional Vice President                      |
| Lynne D. Sherburne-Benz   | Ritva S. Reinikka                  | Guang Zhe Chen  | Makhtar Diop                                 |
| Borrower: Federal Democratic Republic of Ethiopia               |                                    |   |  |
| Responsible Agency: Ministry of Finance and Economy Development |                                    |   |  |
| Contact:  | Ato Getachew Negera                | Title:  | Head, Channel One Programs Coordinating Unit |
| Telephone No.:  | +251 111 569215                    | Email:  | getnegera@yahoo.com                          |
| Project Financing Data(US\$M)                                   |                                    |   |  |
| <input type="checkbox"/> Loan                                   | <input type="checkbox"/> Grant     | Term:   |  |
| <input checked="" type="checkbox"/> Credit                      | <input type="checkbox"/> Guarantee | IDA Standard with 40-year maturity, including a 10-year grace period. |  |
| <b>For Loans/Credits/Others</b>                                 |                                    |   |  |
| Total Project Cost (US\$M):                                     |                                    | 6385.70   |  |
| Total BankFinancing (US\$M):                                    |                                    | 600.00  |  |
| Financing Source  |                                    | Amount(US\$M)   |  |
| Borrower  |                                    | 3170.80   |  |
| African Development Bank  |                                    | 250.80  |  |
| UK Department for International Development                     |                                    | 778.77  |  |

|                                    |         |
|------------------------------------|---------|
| EC European Commission             | 66.35   |
| IDA reallocated as a credit        | 600.00  |
| ITALY Dev. Coop. Department (MOFA) | 12.27   |
| AUSTRIA, Dir Gen Dev Coop.         | 8.10    |
| Financing Gap                      | 1504.3  |
| Total                              | 6385.70 |

### Expected Disbursements (in USD Million)

| Fiscal Year | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 0000 | 0000 | 0000 |
|-------------|--------|--------|--------|--------|--------|--------|------|------|------|
| Annual      | 198.00 | 198.00 | 198.00 | 4.00   | 2.00   | 0.00   | 0.00 | 0.00 | 0.00 |
| Cumulative  | 198.00 | 396.00 | 594.00 | 598.00 | 600.00 | 600.00 | 0.00 | 0.00 | 0.00 |

### Project Development Objective(s)

PBS 3 will contribute to the higher-level objective of expanding access and improving the quality of basic services by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of government at Regional and Local Authorities Level. The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads.

### Components

| Component Name   | Cost (USD Millions) |
|--|---------------------|
| (A) Basic Service Block Grants   | 6,192.90            |
| (B1) Citizen's Engagement (Strengthening Local Transparency and Accountability Systems)                              | 35.00               |
| (B2) Local Public Financial Management and Procurement (Strengthening Local Transparency and Accountability Systems) | 52.60               |
| (B3) Managing for Results (Strengthening Local Transparency and Accountability Systems)                              | 27.00               |
| (C) Results Enhancement Fund   | 78.20               |

### Compliance

#### Policy

|   |           |          |
|---|-----------|----------|
| Does the project depart from the CAS in content or in other significant respects? | Yes [ ]   | No [ X ] |
| Does the project require any waivers of Bank policies?                            | Yes [ ]   | No [ X ] |
| Have these been approved by Bank management?                                      | Yes [ ]   | No [ ]   |
| Is approval for any policy waiver sought from the Board?                          | Yes [ ]   | No [ X ] |
| Does the project meet the Regional criteria for readiness for implementation?     | Yes [ X ] | No [ ]   |

|  |            |           |
|--|------------|-----------|
| <b>Safeguard Policies Triggered by the Project</b> | <b>Yes</b> | <b>No</b> |
|--|------------|-----------|

|  |                  |                 |                  |
|--|------------------|-----------------|------------------|
| Environmental Assessment OP/BP 4.01  |                  |                 | X                |
| Natural Habitats OP/BP 4.04  |                  |                 | X                |
| Forests OP/BP 4.36   |                  |                 | X                |
| Pest Management OP 4.09  |                  |                 | X                |
| Physical Cultural Resources OP/BP 4.11   |                  |                 | X                |
| Indigenous Peoples OP/BP 4.10  |                  |                 | X                |
| Involuntary Resettlement OP/BP 4.12  |                  |                 | X                |
| Safety of Dams OP/BP 4.37  |                  |                 | X                |
| Projects on International Waterways OP/BP 7.50   |                  |                 | X                |
| Projects in Disputed Areas OP/BP 7.60  |                  |                 | X                |
| <b>Legal Covenants</b>   |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| JRIS   | Yes              |                 | Every 6 Months   |
| <b>Description of Covenant</b>   |                  |                 |                  |
| Satisfactory completion of JRIS/ JBAR, according to agreed reviews of Core PBS Principles  |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Audit Follow-up Report   | Yes              |                 | Yearly           |
| <b>Description of Covenant</b>   |                  |                 |                  |
| Annual progress reports on the actions taken on significant audit findings, six months after those Project Audit Reports are due |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Mid-term Review  |                  | June 30, 2015   |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| Complete a Mid-term review of the PBS program  |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Independent Procurement Audit  |                  | June 30, 2015   |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| Complete a Independent Procurement Audit of Sub-program B activities   |                  |                 |                  |
| <b>Name</b>  | <b>Recurrent</b> | <b>Due Date</b> | <b>Frequency</b> |
| Independent Procurement Audit  |                  | June 30, 2017   |                  |
| <b>Description of Covenant</b>   |                  |                 |                  |
| Complete an Independent Procurement Audit of Sub-program B activities  |                  |                 |                  |

| <b>Conditions</b>  |                                    |                                    |             |
|--|------------------------------------|------------------------------------|-------------|
| <b>Name</b>  |                                    | <b>Type</b>                        |             |
| Program Operational Manual   |                                    | Effectiveness                      |             |
| <b>Description of Condition</b>  |                                    |                                    |             |
| Prepare a Program Operational Manual Acceptable to IDA and PBS Development Partners  |                                    |                                    |             |
| <b>Name</b>  |                                    | <b>Type</b>                        |             |
| Disbursement Conditions  |                                    | Disbursement                       |             |
| <ul style="list-style-type: none"> <li>• Annual sub-national budget for basic services (for Sub-Program A) and annual workplans (for Sub-Programs B) have been delivered to the Association;</li> <li>• Satisfactory outcomes of JBAR, JRIS, and Core PBS Principles performance assessment (for Sub-Program A).</li> <li>• Submission of satisfactory IFRs (for all Sub-Programs).</li> </ul> |                                    |                                    |             |
| <b>Team Composition</b>  |                                    |                                    |             |
| <b>Bank Staff</b>  |                                    |                                    |             |
| <b>Name</b>  | <b>Title</b>                       | <b>Specialization</b>              | <b>Unit</b> |
| Robert S. Chase  | Lead Economist                     | Team Lead                          | AFTHD       |
| Per Wam  | Sr Social Scientist                | Sr Social Scientist                | AFTSE       |
| Donald Herrings Mphande  | Sr Financial Management Specialist | Sr Financial Management Specialist | AFTME       |
| Xavier Furtado   | Coordinator                        | Coordinator                        | AFTSE       |
| Richard Olowo  | Senior Procurement Specialist      | Senior Procurement Specialist      | AFTPE       |
| Camilla Holmemo  | Senior Economist                   | Senior Economist/co-TTL            | AFTSE       |
| Yoseph Abdissa Deressa   | Sr Social Protection Specialist    | Sr Social Protection Specialist    | AFTSE       |
| Lemma Argaw Findusse   | Consultant                         | Consultant                         | AFTSE       |
| Meseret Tsegaw   | Temporary                          | Temporary                          | AFCE3       |
| Wendmsyamregne Mekasha   | Social Protection Specialist       | Social Protection Specialist       | AFTSE       |
| Abiy Demissie Belay  | Financial Management Specialist    | Financial Management Specialist    | AFTME       |
| Selome Belay Zegeye  | Program Assistant                  | Program Assistant                  | AFCE3       |
| Ethiopia Belay   | Consultant                         | Consultant                         | AFTSE       |
| Binyam Bedelu  | Procurement Specialist             | Procurement Specialist             | AFTPE       |
| Bekele Chaka   | E T Consultant                     | E T Consultant                     | AFTSE       |
| Demelash Demssie   | E T Consultant                     | E T Consultant                     | AFTSE       |
| Mesfin Temesgen  | E T Consultant                     | E T Consultant                     | AFTSE       |
| Tamene Tiruneh   | E T Consultant                     | E T Consultant                     | AFTSE       |

|   |   |  |                          |                          |                 |
|---|---|--|--------------------------|--------------------------|-----------------|
| Samuel Mulugeta                               | E T Consultant  | E T Consultant                                       | AFTSE                    |                          |                 |
| <b>Non Bank Staff</b>                         |   |  |                          |                          |                 |
| <b>Name</b>                                   | <b>Title</b>  | <b>Office Phone</b>                                  | <b>City</b>              |                          |                 |
| Peter Mwanakatwe                              | Senior Economist, AfDB                                |  | Addis Ababa              |                          |                 |
| Benedetta Musillo                             | Senior Economist, EU                                  |  | Addis Ababa              |                          |                 |
| Peter Hawkins                                 | Senior Economist, DfID                                |  | Addis Ababa              |                          |                 |
| <b>Locations</b>                              |   |  |                          |                          |                 |
| <b>Country</b>                                | <b>First Administrative Division</b>                  | <b>Location</b>                                      | <b>Planned</b>           | <b>Actual</b>            | <b>Comments</b> |
| Ethiopia                                      | Afar Region   | Afar Region  |                          | X                        |                 |
| Ethiopia                                      | Amhara Region   | Amhara Region  |                          | X                        |                 |
| Ethiopia                                      | Benishangul-Gumuz Region                              | Benishangul-Gumuz Region                             |                          | X                        |                 |
| Ethiopia                                      | Gambela   | Gambela Region                                       |                          | X                        |                 |
| Ethiopia                                      | Harari Region   | Harari Region  |                          | X                        |                 |
| Ethiopia                                      | Oromiya Region  | Oromiya Region                                       |                          | X                        |                 |
| Ethiopia                                      | Somali Region   | Somali Region  |                          | X                        |                 |
| Ethiopia                                      | Tigray Region   | Tigray Region  |                          | X                        |                 |
| Ethiopia                                      | Southern Nations, Nationalities, and People's Region  | Southern Nations, Nationalities, and People's Region |                          | X                        |                 |
| <b>Institutional Data</b>                     |   |  |                          |                          |                 |
| <b>Sector Board</b>                           |   |  |                          |                          |                 |
| Social Protection                             |   |  |                          |                          |                 |
| <b>Sectors / Climate Change</b>               |   |  |                          |                          |                 |
| Sector (Maximum 5 and total % must equal 100) |   |  |                          |                          |                 |
| Major Sector                                  | Sector  | %  | Adaptation Co-benefits % | Mitigation Co-benefits % |                 |
| Education                                     | Primary education                                     | 53   |                          |                          |                 |
| Agriculture, fishing, and forestry            | General agriculture, fishing and forestry sector      | 21   |                          |                          |                 |
| Health and other social services              | Health  | 15   |                          |                          |                 |
| Water, sanitation and flood protection        | General water, sanitation and flood protection sector | 6  |                          |                          |                 |
| Transportation                                | General transportation                                | 5  |                          |                          |                 |

|   |  |     |  |
|---|--|-----|--|
|   | sector   |     |  |
| Total   |  | 100 |  |
| <input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project. |  |     |  |
| <b>Themes</b>   |  |     |  |
| Theme (Maximum 5 and total % must equal 100)  |  |     |  |
| Major theme   | Theme  | %   |  |
| Social protection and risk management   | Other social protection and risk management              | 30  |  |
| Public sector governance  | Decentralization   | 20  |  |
| Public sector governance  | Public expenditure, financial management and procurement | 20  |  |
| Social dev/gender/inclusion   | Participation and civic engagement                       | 20  |  |
| Rural development   | Rural services and infrastructure                        | 10  |  |
| Total   |  | 100 |  |

**ETHIOPIA**  
**PROMOTING BASIC SERVICES PHASE III (PBS 3) PROJECT**  
**PROJECT APPRAISAL DOCUMENT**

## **1. STRATEGIC CONTEXT**

### **A. Country Context**

1.1. Ethiopia has achieved impressive development results in recent years. That progress is evidenced through rapid and significant improvements in basic service delivery indicators. An Overseas Development Institute study<sup>1</sup> noted that Ethiopia is making the third fastest improvements of any country towards reaching the Millennium Development Goals (MDG). As discussed in greater detail in the sectoral context section below, the latest Ethiopia Demographic and Health Survey data show that child mortality has fallen from 123 per thousand in 2005 to 88 in 2010, and primary net enrollment rates rose from 68 percent in 2004/2005 to 82 percent in 2009/2010. This progress on basic service delivery is coupled and reinforced by an impressive growth record over the past 10 years. GDP grew on average 11 percent per annum during 2004/5-2009/10, according to official estimates. Initially led by agriculture, growth has become more broad-based, with a rising contribution from the mining, services and manufacturing sectors. Together, a sharp focus on decentralized basic service delivery, efforts to maintain equity, and rapid growth have led to overall improvements in welfare. Based on official data, the population below the poverty line fell from 38.7 percent in 2004/2005 to 29.6 percent in 2011.

1.2. These MDG, growth and poverty results spring from a long-term, concerted Government commitment to pro-poor development. Building on the *Sustainable Development and Poverty Reduction Program 2002-2004/5* and *A Plan For Accelerated and Sustained Development to End Poverty 2005-2010* (PASDEP), the Government's current development plan, the *Growth and Transformation Plan* (GTP), aims to achieve the Millennium Development Goals by 2015 and middle-income status for Ethiopia by 2020-2023. The Government considers the Promoting Basic Services (PBS<sup>2</sup>) Program to be an essential, integral element of its Growth and Transformation Plan. The plan reaffirms the Government's commitment towards a multi-sectoral approach to basic services, in which the Government includes health, education, water and sanitation, agriculture and natural resources, and rural roads. The GTP's objectives are to (a) attain high growth within a stable macroeconomic framework; (b) achieve the MDGs in the social sectors; and (c) establish a stable democratic and developmental state. To accomplish these objectives, the GTP identifies the following strategic pillars: (i) sustained rapid growth; (ii) agriculture; (iii) industrialization; (iv) infrastructure investments; (v) enhanced social development; (vi) strengthened governance; and (vii) empowerment of youth and women.

---

<sup>1</sup> Overseas Development Institute, Millennium Development Goals Report Card: Measuring Progress Countries, September 2010.

<sup>2</sup> For its first two phases, the "PBS" acronym formally referred to the "Protection of Basic Services Program". However, at the Government's request, while maintaining the PBS acronym, it now refers to the "Promoting Basic Services Program". During its first six years of implementation, the Government has demonstrated that it will protect basic services. As the program moves into its third phase, the Government and Development Partners jointly acknowledge that the PBS program now seeks to "promote" rather than "protect" basic services.

1.3. While progress to date on basic service and growth results and continued commitments to reach the MDGs are encouraging, Ethiopia still faces serious challenges. There are outstanding questions about the overall financing framework for the GTP. While each of the ambitious sectoral plans included within it may be individually appropriate, it is not clear how, when aggregated, all these plans together can be financed given available or likely-to-be-available resources. Further, two years into the GTP, inflation has been stubbornly high, remaining at more than 30 percent for most of the last twelve months. In June 2012, year on year inflation was 20.9 percent. The Government has taken steps to bring down inflation, including adopting cash-based budgeting and efforts to reach targets of negative reserve money growth. To strengthen dialog with development partners including the IMF and the World Bank about macroeconomic developments and overall financing of the GTP, the Government has committed to a structure of quarterly technical discussion with major development partners and co-leadership of a Development Assistance Group<sup>3</sup> (DAG) Macro Group. In addition, there will be opportunities for discussion of these issues as part of the High-Level Forum<sup>4</sup>.

## **B. Sectoral and Institutional Context**

1.4. The Government of Ethiopia promotes the GTP's basic service goals of reaching MDG targets by seeking to provide greater access to quality decentralized services. Accordingly, the Government is committed to increasing and sustaining resources for woreda<sup>5</sup> (district) authorities so that they can improve these basic services. As outlined below, each of the basic service sectors has adopted tailored approaches to improve local service access and quality.

1.5. To support these interlinked sectoral goals, each of which rely on local service providers, the Government has established and developed a decentralized system of economic governance<sup>6</sup>. That system supports information, resource and accountability flows between different levels of government and between service providers and citizens. Centered on woredas, this decentralized economic governance system provides the essential platform for improved service delivery necessary to reach MDG and GTP targets. The Constitution and legal framework commit the Government to maintain the integrity and capacity of deconcentrated administration down to woredas. Within Ethiopia's federal administrative structure, the Federal Government provides un-earmarked block-grant financing through regional governments. These in turn provide block grants to woreda administrations, so that these local governments deliver decentralized services. This administrative and financial structure has provided timely and predictable financing that supports a steady and impressive increase in basic services throughout the country.

1.6. Despite successes to date in local service provision, there are constraints in implementing Ethiopia's approach that may give woredas less budgetary discretion than their decentralization plans envisioned for them. Because of staffing obligations, limited capacity of woreda offices in planning and budgeting, and budget constraints, woreda officials may in practice have limited

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<sup>3</sup> The Development Assistance Group is an aid effectiveness organization in Ethiopia of development partners that provide assistance to the country.

<sup>4</sup> The High Level Forum is part of the aid effectiveness architecture in Ethiopia chaired by the Minister of Finance and Economic Development through which heads of delegation (i.e., Ambassador-level) meet regularly with Government ministers to discuss key development cooperation issues.

<sup>5</sup> Ethiopia's decentralized administrative structure involves regions, within which are zones, within which are woredas or districts. There are more than 1000 woredas within the country, and given frequent splitting of woredas, the number of woredas also continually rises.

<sup>6</sup> See Annex 9 on Decentralization in Ethiopia.

opportunities to reallocate block grant resources. For example, while woredas have access to un-earmarked resources through block grants, 85 percent of those resources finance recurrent expenditures, from which 80 percent are used to meet salary obligations. Woreda health, agriculture, and education offices are mandated to hire a certain number of primary service providers, e.g. a certain number per kebele or school age children. Further, capital resources available to woredas are earmarked for specific sectoral expenditures, often times through development partners (DP) sectoral programs (i.e, specific purpose grants) or from capital allocations that regional governments administer. For the capital-intensive basic services (e.g., roads and to a lesser extent water), many key sectoral investment decisions and management of those investments take place primarily at the regional level. Finally, there is limited opportunity for woredas to retain their own resources to augment block grants and generate greater fiscal autonomy.

1.7. Recognizing this limited capital budget available for woreda-level services, the Government has since FY12 (EFY04) put in place an “MDG fund” to support essential local-level infrastructure investments in the basic service sectors. In its first year, the MDG fund was allocated ETB 15 billion (approximately USD 900 million). In the MEFF, the Government has allocated ETB 20 billion (~USD 1.1 billion) for FY13, ETB 22 billion (~USD 1.2 billion) for FY14, and plans significant increases beyond that, e.g., ETB 5 billion (~USD 280 million) additional per year. Due to large procurement and contract management needs for which most woredas do not have capacity, the MDG fund is managed at the regional level. While this fund provides capital resources for woreda investments, since allocation decisions are made at the regional level, woredas do not have discretion over how those resources are allocated across sectors. In the first year of the MDG fund, all basic service sectors have received capital resources, though much of those resources have been allocated to roads, water and education, based on regional needs.

1.8. Given its firm commitment to decentralization and sustaining adequate resources for local service provision, the Government recognizes these challenges of woreda resource flows, administrative autonomy, and sustainable service provision. As part of its contribution to appraising Phase 3 support for the Promoting Basic Services program, it provided a “Policy Letter on Decentralization and Sustainability”, outlining its long-term strategy to help continue to build woreda capacity and allow local governments to deliver on their mandate of providing sustainable, quality basic services.

1.9. While Ethiopia’s federal system is complex, allowing strategies, resources, and information to flow between ten regional/urban governments and then to more than 1000 woreda administrations, its fiduciary and economic governance system is robust. Overall, the Public Expenditure and Financial Accountability ratings for Ethiopia place it in the top tier of countries in Sub-Saharan Africa. While strong in design, execution of that woreda-level economic governance system needs to be made more resilient, particularly in some jurisdictions.

1.10. With local woreda administrations as the front line, the GTP continues to make social service delivery a top priority. Over the period since the launch of the PBS program, expansion of access to basic amenities and social services has been significant. The Government has focused resources on the basic services that woredas provide. However, across woredas and basic service sectors, there are significant challenges to maintain equitable quality of services and to continue to strengthen woreda-level fiduciary, administrative, and information

1.11. **Education.** Within the GTP and with IDA support, the Government has promoted an Education Sector Development Plan to reach the education-related MDGs. Primary school (grade 1-8) net enrollment rose from 68.5 percent in 2004/5 to 85.3 percent in 2010/11; and the primary school completion rate (grade 8) increased from 34 percent to 49.4 percent during this period. Besides enrollment expansion, indicators of education quality also show progress: with the hiring of new teachers, the student-teacher ratio fell from 66:1 in 2004/05 to 51:1 in 2010/11 for primary education, and the ratio for secondary education fell from 51:1 to 33:1. As noted in the 2011 Welfare Monitoring Survey (WMS), literacy rates have risen since 2004 from 37.9 percent to 46.8 percent. Since its inception in 2006, the PBS program has contributed to the basic financing necessary to complement education specific programs, primarily the General Education Quality Improvement Program (GEQIP), by allowing woredas to hire more than 100,000 additional primary school teachers.

1.12. Despite this progress, significant efforts continue to be needed for the government to reach the MDG goal of universal primary education. Progress on education access has slowed. For example, when primary education is separated into grades 1-4 and grades 5-8, the upper primary net enrollment rates are quite low, 47.3 percent in 2010/2011, and at a trajectory that will not achieve universal primary education by 2015. As a complement to the GEQIP support, PBS will seek to improve opportunities for stakeholder feedback in primary education, improve the budgets available for non-salary recurrent expenditure that can be used to purchase educational materials, and will enhance local capacity for long-term, sustainable revenue planning and use.

1.13. **Health.** In line with the GTP and Health Sector Development Plans, the Government has been making strong efforts to provide health services for local communities, achieving impressive results in service expansion. Between 2005 and 2010, the number of health posts rose from 4211 to 14,416; the number of health centers increased from 519 to 2,689; and public hospitals rose from 79 to 111. As a result of these expanded health facilities, Ethiopia has shown impressive improvements in key maternal and child health indicators between 2005 and 2010, measured primarily through the Ethiopia Demographic and Health Survey (EDHS). Contraceptive prevalence increased to 29 percent from 15 percent and coverage of at least one antenatal visit

**Box 1.1: Nationwide Health Extension Worker Program  
Delivers Results**

Health systems in Ethiopia have long suffered from weak infrastructure, lack of human resources, and poor supply chain management. Access to health services has been particularly low in rural areas. To address the problem, Ethiopia launched the Health Extension Worker (HEW) program in 2003, deploying in phases more than 38,000 frontline community health workers. With support of the PBS project and Government funds through the block grant, the program has nationwide coverage. There are two HEWs in every *kebele* (village) nationwide. HEWs assist in managing health points, conduct home visits and outreach and provide basic health care services such as immunizations.

In 2010 more than 63 percent of Ethiopian households had received basic health training from HEWs and important impacts on health outcomes have been attributed to the program. Impact evaluations conducted using data from 2005 and 2007 (as the program was being rolled out) have shown that the share of households with access to improved sanitation increased disproportionately more in locations where HEWs were present compared to villages where they were not, as did HIV/AIDS awareness, the bed-nets ownership, contraceptives use, and vaccination coverage. Those who had access to HEWs also registered a marked increase in seeking treatment for malaria compared to control groups. Coverage of maternal health services also improved as many more health posts could provide these services.

While some weaknesses of the program still remain, elements of success include strong political appetite for strengthening health services for the poor; district-level commitments to providing complementary inputs (e.g., supplies, equipment and information systems); a significant increase in health expenditures; local community ownership; and inter-ministerial collaboration to support other basic services that can contribute to health outcomes.

(Source: Bilal et al., *Health Extension Workers in Ethiopia: Improved Access and Coverage for the Rural Poor* in “Yes Africa Can”, Chuhan-Pole and Angwafo, eds., 2011)

reached 34 percent from a baseline of 28 percent. Remarkable improvements have been achieved in the under-5 mortality rate, with the rate declining from 123 (per 1000 live births) in 2005 to 88 per 1000 live births in 2010. Infant mortality dropped from 77 to 59. According to the Welfare Monitoring Survey, the prevalence of illness from 23.8 percent (2004) to 16.9 percent (2011). The PBS program contributed to these health sector improvements by allowing more than 38,000 health extension workers to be hired, two for every kebele in the country. Box 1.1 shows the importance of health extension workers to outcomes achieved in this sector.

1.14. Nonetheless, the country still faces significant health challenges, particularly in maternal mortality, which remains at 676 per 100,000 live births, roughly equivalent to where it was in 2005 (EDHS). Skilled attendants at delivery remains very low, although it has improved to 10 percent in 2011 from 6 percent in 2005 (EDHS). The key challenges for the health sector are to address stubbornly high maternal mortality and sustain the gains made in reduction of child mortality, improved nutrition of children and decreased burden of communicable diseases. This requires strong, well-coordinated inter-sectoral action led by woredas to promote community-based integrated service delivery through the successful health extension worker program<sup>7</sup>. Given this multi-sectorality, the woreda plays a crucial role as a platform for ensuring that all basic service sectors work well together to achieve MDG and GTP results.

1.15. **Agriculture and Natural Resources.** The GTP continues the Government's long-standing focus on the agriculture sector, which remains critically important for economic growth and food security. As compared to the previous development plan, PASDEP (2005-10), the GTP has an increased focus on commercialisation of smallholder agriculture, with shifts to large-scale commercial farming where feasible. The GTP presents a vision of a more modern, productive agriculture sector which, with a growing industrial sector, will help to achieve a middle-income economy by 2020-23. It calls for a doubling of agriculture annual GDP growth rate building on the improvements in agricultural productivity of the last years: average yield per hectare rose to 17.6 quintals in 2011 from 15.0 in 2007. To this end, the GTP calls for scaling-up improved technologies and best practices of model farmers; improving the extension and veterinary services; strengthening Farmer Training Centers; strengthening cooperatives; scaling-up land and water management; and providing irrigation and related rural infrastructure. Complementing other efforts such as the GOE's multi-donor financed Agriculture Growth Program to support improved agricultural productivity, the PBS program has supported the agriculture sector by supporting the hiring of more than 45,000 Development Agents (DA), one role of which is to provide agricultural extension services for crops, livestock and natural resources management, animal health professionals and cooperative promoters at the woreda and kebele levels (referred to below collectively as public sector agriculture agents).

1.16. The public sector can complement private sector activities, and play an appropriate role in agriculture service delivery and related investment in rural infrastructure. A large, trained group of nationally deployed public sector agriculture agents is a potentially valuable asset to help deliver results in agricultural productivity. However, to realize the potential benefit of this asset requires significant complementary inputs, especially related facilities or capital budgets to develop these, and operational and maintenance funds. Such complementary inputs are not universally available across geographic areas.

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<sup>7</sup> The proposed Health Program for Results operation will complement the PBS 3 by supporting improvements in health systems to enhance coverage for services that contribute to health MDGs by disbursing against results.

1.17. It is also important to ensure that these front line public sector agriculture agents are consistently providing high-quality services tailored to the communities they serve. However, experience indicates that staff attrition is high and performance is below expectations. Contributing factors may include limited opportunities for career development, insufficient higher learning programs for career upgrading, heavy work load, and limited scope for participation in developing work programs. To address these challenges will require an improved set of incentives which addresses the key underlying issues, as well as a regular program for systematic in-service training of such staff. In addition, the policy environment and strategic vision for sectoral performance must evolve and adapt to changing circumstances. To that end, there is a need to monitor effectiveness closely and understand changing sectoral needs. Currently, while policy development is a federal function in Ethiopia, data on agricultural service delivery is not often smoothly and accurately transmitted to federal decision makers. Though the Government is taking efforts to improve agriculture data quality, there are still significant efforts needed to strengthen monitoring and evaluation in the sector.

1.18. **Water and Sanitation.** There has likewise been progress on water and sanitation services. For example, by 2010, the proportion of the rural population with access to potable water rose to 65.8 percent, from 46 percent in 2006. The GTP aims to achieve universal access to water supply at the end of its implementation period in 2015. As a complement to sector specific operations, the PBS program has supported an increase in the number of woreda-level water supply, sanitation and hygiene (WASH) staff to oversee local access and quality of water supply. Further, health extension workers have supported WASH goals, including household access to latrines, so there are now more “open defecation free” communities.

1.19. While it is useful to ensure trained local staff are available to support the water sector, including to facilitate effective water users committees, enhanced results require these staff to be used effectively and to access complementary capital inputs. Ground water is the source for most of the rural water supply which, when combined with the government's plan for multiple use of this source including for small scale irrigation, will demand an improvement in planning, investigation, choice of appropriate technology, and capacity to implement and sustain the schemes functionality. The slow pace of implementing the integration between water supply and sanitation institutions is due among others to capacity limitation at local levels. Lack of a well developed M&E system is also a constraint for acquiring reliable sector data for planning and effective monitoring. Continuation of the assistance provided to the establishment and rolling out of M&E-MIS for the WASH sector is essential.

1.20. **Roads.** As for the other basic service sectors, in its GTP and Road Sector Development Plan Program 4, the Government makes a strong commitment to improving access to rural roads, along with improvement and maintenance of the main and rural road networks. The average distance to an all-weather road decreased to 3.5 hours in 2011 from 4.5 hours in 2007. The Government’s plan provides an opportunity to transform the road sector by significantly increasing rural accessibility and improving the condition and standard of Ethiopia’s road network.

1.21. GoE is embarking on a Universal Rural Road Access Program (URRAP), an ambitious program fully funded by the Government that aims to connect all kebeles to all-weather roads, providing year-round access to meet the needs of rural communities. For this roads sector plan to provide sustained rural transport services, it will need to consider financing and administrative

plans to maintain the rural roads constructed under the program. Sustainability of the rural roads network will require increases in skilled roads sector personnel to staff both the roads desks and to facilitate the private sector to provide design, construction and maintenance services. In this respect, Government has been promoting the development and strengthening of small and medium scale private enterprises, with more than 300 consultants and 900 contractors trained to date.

1.22. However, to manage the planning, design, construction and maintenance of these new roads, resources are also required at the woreda level. Increasingly, woredas will need to provide cost-efficient, quality and safe designs and introduce measures to ensure that rural road construction and maintenance considers environmental and safety issues. To date, through provision of recurrent budgets for local staff costs, the PBS program has supported the establishment of 500 woreda roads desks that provide a platform for these improved rural transport services. However, it remains unclear whether rural roads desk staff are sufficiently well-trained and resourced to facilitate the efficient and effective use of MDG Fund resources to achieve rural transport results.

1.23. **Overall**, across the basic service sectors, there has been important progress in Ethiopia over the period of the PBS program's first two phases. Since the launch of PBS 1, the overall structure of the program has remained similar. Through phases 1 and 2, and continuing in the third phase, PBS has provided extensive support for decentralized basic services through block grants, and through woreda-focused capacity building. Development partner contributions to block grants for sub-national recurrent expenditures reflect support for the Government's commitment to improve the quality and access of basic services nationally. Further, these block grants are based on recognition that the Public Financial Management system that allows these resources to generate results is strong.

1.24. The PBS block grants have enabled the improvements in decentralized basic service provision noted in the sectoral context paragraphs above and contributed to the significant improvements in the MDG indicators. Given its extensive support for recurrent block grant resources, the program has encouraged significant and valuable increases in nationwide, decentralized human resources, i.e., primary teachers to allow increases in access to schools, health and agriculture extension workers to convey essential service delivery messages, water staff to coordinate community water users groups, and recently, roads desk officers to facilitate efforts to improve rural roads.

1.25. Through the PBS program's first two phases, there has been a joint Government-DP recognition that these decentralized systems to deliver basic service results can be strengthened. Therefore, the PBS program has included capacity building and system strengthening components, including components focused on financial transparency and accountability, social accountability, public financial management, results data, local investment planning and the availability of health commodities.

1.26. Since its inception the PBS program has supported enhanced citizen engagement, seeking to improve opportunities for citizens to understand what resources are available for local service delivery and to provide feedback to service providers about the availability and quality of services. Both PBS Phases 1 and 2 have included financial transparency and accountability (FTA) components, the purpose of which has been to increase the amount of information

available to beneficiaries at the local level about budgets and service delivery performance. As highlighted in Box 1.2, the FTA component has developed and disseminated innovative tools that allow local woreda administrations to post budget information in ways that citizens can easily understand. It has provided budget literacy training to both local administrators and citizens, so they are able to understand the posted information. The component has also made service delivery targets and outcomes available at local level. It has supported innovative tools for citizens to get information about local budgets and service delivery standards. From a baseline of budget information publicly available in no woredas at the beginning of the program, now budgets and service delivery information are available in 84 percent of woredas.

1.27. For the first two phases of the program and continuing into Phase 3, the PBS program includes a social accountability element. As a complement to the financial transparency and accountability results, this component supports civil society organizations that improve opportunities for citizens to provide feedback to local administrators and service providers. The social accountability component piloted Community Score Cards, Citizen Report Cards and Participatory Budgeting. It also promoted interface meetings between citizens and local authorities to provide feedback on service delivery. During the PBS program to date, Social accountability activities were piloted in 86 woredas.

#### **Box 1.2: PBS Results to Enhance Citizen's Engagement**

Since its launch in 2006, the PBS program has supported Government to disclose budget information to the public and provide budget literacy training. The last three years have seen enhanced transparency around public budget procedures (planning, budget preparation, expenditures, and audits) and deepened engagement by citizens and citizen groups on public planning, budget processes and service delivery.

In PBS II, Financial Transparency and Accountability (FTA) tools have been rolled out to all regions, been customized to regional languages and local conditions, and disseminated to Woredas. FTA has been institutionalized in the government public finance system at the regional, zonal and Woreda levels. Over the last two years, public budget and service delivery information has been disclosed in over 84 percent of Woredas using the FTA templates. Completed service delivery templates are posted in 50 percent of the service delivery units (schools, health centers, etc) in Addis Ababa, Dire Dawa, Gambella, Harari, Oromia, and SNNPR.

MoFED has posted detailed fiscal information on its website (<http://www.mofed.gov.et>) such as the annual budget appropriation to the federal institutions, to regional governments and to city administrations. Amhara ([www.amharabofed.gov.et](http://www.amharabofed.gov.et)) and Oromia ([www.oromiabofed.org](http://www.oromiabofed.org)) regions have started posting on their websites their budget appropriations to Woredas. Regional TV and radio stations are used for FTA work in all the regions. Innovative FTA dissemination take place in the regions and Woredas and includes the use of amateur theatre clubs, leaflets, t-shirts, brochures, and traditional ways of information sharing.

In 2009, Budget Literacy Training training of trainers was provided for 65 core trainers drawn from MOFED and regions. These trainers have since trained 2,900 second level trainers who have gone on to train citizens in all Woredas and city administrations throughout the country. As of today, 119,896 citizens, including 22 percent women, drawn from different sections of the society such as traditional and religious leaders, youth, council members, Woreda and Kebele officials, have received basic literacy training. The percentage of citizens who reported that they have knowledge about the Woreda budget increased from 13 percent in 2008 to 20 percent in 2011.

The disclosure of budget information supported by training in budget literacy has enabled citizen feedback in Amhara, Harari, Oromia, and SNNPR. This initiative represents a key part of a system that can help services be delivered to local users in a manner that is increasingly transparent, responsive and accountable. The other part of such a system is the demand side opportunities provided through PBS' Social Accountability Program (ESAP): implemented by 45 CSO partners in 86 woredas in its first phase it is now aiming to considerably expand its outreach and begin institutionalizing its activities. The Social Accountability Program provides the training, tools and mechanisms that can allow citizens and communities to assess service delivery and budget use and develop joint action plans with service users to improve the quality of the services. Combined, FTA and ESAP provide a wide-ranging system for constructive citizens-state collaboration to improve public services in Ethiopia.

1.28. In its first two phases, the PBS program has also promoted efforts to improve the quality of local public financial management systems. It has supported a set of activities to strengthen local-level fiduciary and oversight capacity. PBS supports rolling out of automated financial management software from regions to woredas: at the end of PBS 2 the program will have supported roll-out of automated financial management software to more than 550 woredas. It finances activities to strengthen the internal and external auditing capacity, cash management, budget and account reforms and woreda procurement capacity.

1.29. The PBS program has also supported the capacity to collect and use improved decentralized results data for the basic service sectors. It has supported introduction of a data quality assessment framework and assessed the systems to collect results data for the basic service sectors. Further, it has supported improved management information systems for these sectors and conducted targeted studies to investigate constraints to service delivery results.

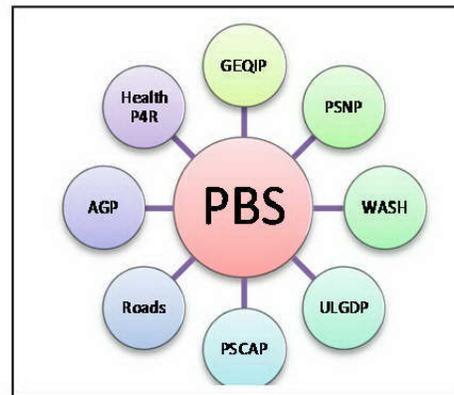
1.30. PBS 1 and 2 also both included specific support for local level capital investments, through the pilot Local Investment Grants, and for the health sector in particular. The LIG component was designed to give randomly selected woredas the opportunity to use discretionary capital, giving them the capacity to learn-by-doing to strengthen planning, budgeting, procurement, safeguards and contract management. The Pilot LIG capacity helped give insights into woredas' strengths and weaknesses in having capital resources available to them. PBS 1 and 2 also provided resources for essential health commodities, through the Health MDG Support Facility components, which provided decentralized health posts with complementary inputs necessary to achieve results.

1.31. The Government will need to continue to build on these results. It has demonstrated its commitment to decentralized basic service delivery by hiring primary level staff nationwide that can provide citizens access to services and who can provide essential inputs to service quality. The on-going challenge will be to ensure that resources are available to retain these staff and to ensure that they are progressively better trained and more effective. To sustain the gains the Government has made, it needs to identify how to provide a long-term stream of sufficient woreda financing. To augment the effectiveness of these staff, particularly to increase the quality of services, it will require that woreda budgets are sufficient to provide these front line staff with reliable complementary inputs. Further, while capital resources are available for basic services, they are provided either through DP supported sectoral programs (e.g., GEQIP, WASH, AGP) or through Government-financed programs administered at regional level on behalf of woredas (e.g., MDG fund). A full commitment to decentralized service provision needs a vision for building capacity and providing resources for woredas to manage capital investments further improving the quality of basic service delivery in a sustained manner. As part of the Government's commitment to basic service delivery results it has achieved, it has outlined its long term strategy to address these issues in a Policy Letter on Decentralization and Sustainability, received during project appraisal.

### **C. Higher Level Objectives to which the Program Contributes**

1.32. Simultaneous with design of PBS 3, the GOE and IDA have been developing a new Country Partnership Strategy (CPS) for FY13 to FY16, which will guide IDA 16 resources through the GTP period. Consistent with the World Bank's Africa Strategy, the Ethiopia CPS has two pillars, 1. Fostering Competitiveness and Employment, and 2. Enhancing Resilience and

Reducing Vulnerability, as well as a foundation of Good Governance and Enhancing State Capacity. Promoting improved access to quality, decentralized basic service delivery is central to all three of these core CPS elements. PBS 3 makes the most direct contribution to Pillar 2 on Enhancing Resilience, for building human capital through improved education, health, water and agricultural livelihoods promotes the resilience of the Ethiopian population, as does strengthening the network of rural roads. Similarly, because the two CPS pillars are fundamentally linked, PBS 3 also contributes to Pillar 1 on Fostering Competitiveness and Employment, for the decentralized basic services that the PBS program supports are essential to competitiveness and employment. Finally, PBS 3 supports the Good Governance foundation, in that it promotes woreda-level transparency and accountability and strengthens the public decentralized financial management system.



1.33. PBS is one of a number of operations supported by IDA to assist the Government in achieving its goals for MDG achievement and poverty reduction. IDA also supports specific sectoral operations that improve the quality of general education through the General Education Quality Improvement Program (GEQIP), provide opportunities for improved local agricultural investments through the Agricultural Growth Program (AGP), support improved local water and sanitation (WASH), improved urban and local governance (ULGDP) and public sector capacity building and governance (PSCAP). In addition, through its M&E component and the PBS Secretariat, the PBS program has strengthened links to sector-specific programs. As an operation that enhances local government capacity and systems for strengthened decentralized basic service delivery, the PBS 3 operation complements and supports these sectoral operations within the Ethiopia portfolio. Because PBS supports recurrent expenditures for woreda-level basic services, it will have greater impact on those sectors that require more recurrent expenditures, such as health and education, and relatively lower impact on sectors that require more capital expenditures, such as roads and water. It is thus appropriate that the proportion of PBS funding is biased toward the more labor intensive sectors, where the number of staff (e.g., teachers, health extension workers, and agriculture extension workers) is higher.

## 2. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

2.1 PBS 3 will contribute to the higher-level objective of expanding access and improving the quality of basic services by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of governments at the regional and local authorities levels<sup>8</sup>. The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads.

<sup>8</sup> The Financing Agreement refers sub-national governments as “regional and local authorities levels”. Throughout the rest of this document, these administrations will be referred to as “sub-national governments”.

## **B. Program Beneficiaries**

2.2 A nationwide program, PBS supports through the block grants woreda-level recurrent expenditures for basic services across the country, excluding Addis Ababa, which does not receive a federal block grant. In addition, the capacity building efforts of the program benefit the quality of local government services for Addis Ababa as well. As such, its beneficiaries include the population of Ethiopia. Thus, the program beneficiaries number 84 million of which 42.6 million (50.4 percent) are males and 41.8 million are females (49.6 percent).

2.3 Like the new Ethiopia CPS, the PBS 3 program places a greater focus on promoting gender equity. It pursues this objective through several activities. First, gender equity is an element of the “Equity” Core PBS Principles, and reviews of progress on gender equity will be part of the JRIS reviews for Sub-program A: Basic Service Block Grants. Further, Component B1: Citizen’s Engagement includes a specific focus to encourage greater women’s participation in efforts to understand local budgets (Sub-component B1a: Financial Transparency and Accountability) and to give priority to social accountability implementing partners (SAIPs) (Sub-component B1b: Social Accountability Program) that involve or specifically target women. In Component B3: Managing for Results, the PBS 3 results framework specifically stipulates disaggregation of results by gender where available and, through the statistical system strengthening component, seeks to build greater capacity to collect gender disaggregated information. Finally, through Sub-Program C: Results Enhancement Fund, PBS 3 will seek to include performance based targets that create incentives for improvements in gender equity.

## **C. PDO Level Results Indicators**

2.4 PBS 3 will support the continued promotion of better services in Ethiopia, including ensuring sustained and further gains in *access* paired with an increased focus on *quality* of services. Further, the program will deepen its support for local system strengthening by supporting improved transparency and accountability systems at the woreda level. Key results to which the PBS 3 program will contribute are: improved net primary school enrollment (including improved gender parity); strengthened primary health care services; gains in agricultural extension and productivity, improved rural water supply; strengthened transparency and accountability of local government budgets and planning systems; improved accountability and fiduciary systems; and increased capacity to collect and use results information to inform management decisions.

2.5 Progress towards the attainment of the PDO will be assessed through the following Project Development Objective indicators (further described in Annex 1: Results Framework and Monitoring):

- Education: Student-teacher Ratio (Grades 5-8) & Proportion of Qualified Primary School Teachers (by gender and region)
- Health: Ratio of health extension workers to population
- Agriculture: Agricultural extension services beneficiaries
- Water: Reduced non-functioning water supply schemes (by region and urban/rural)
- Rural roads: Roads in fair and good condition
- Transparency: Citizens who are informed about Woreda budget

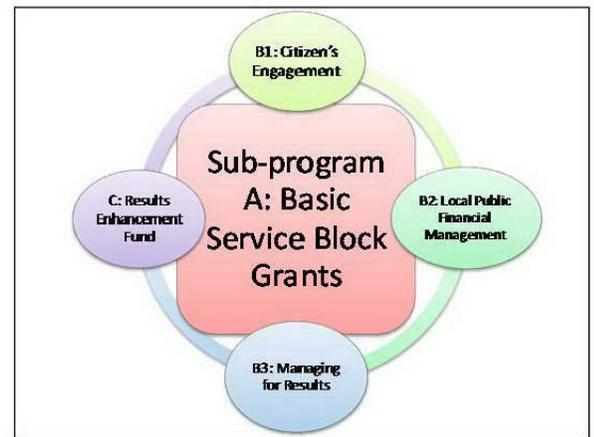
- Social Accountability: Citizens who report that Woreda officials have actively sought the views of people in their Kebele on improving quality of basic services
- Financial Management: WoFEDs that have effectively rolled-out IBEX

### 3. PROJECT DESCRIPTION

#### A. Project Components

3.1. PBS supports the Government’s commitment to strengthen decentralized service delivery and enhance local transparency and accountability mechanisms that support those service delivery objectives. The PBS Program combines (A) a high-volume sub-program that finances recurrent expenditures for basic services at sub-national levels, (B) a system strengthening sub-program with three components to improve transparency and accountability systems at woreda-level, and (C) a results enhancement fund to pilot performance-based approaches to remove constraints to reaching results.

3.2. *Basic Service Block Grants (Sub-program A – USD 6.2 billion, IDA USD 555 million)* finance recurrent (salaries, operations and maintenance) expenditures in the five basic service sectors (education, health, agriculture, water and sanitation, and rural roads) at local levels. The Basic Service Block Grants are disbursed from the federal level to the regions, and from the regions to the woredas. They are discretionary at the sub-national level, i.e. each woreda decides the allocation of the grants to the five basic service sectors based on the needs in their woreda<sup>9</sup>. When these resources are combined with other complementary inputs, they support MDG and GTP results. The Basic Service Block Grants are based on Core PBS Principles that reflect joint understandings of how to reach the shared development objectives of improved decentralized basic service delivery.



3.3. To track progress towards common objectives and agreements, the program is based on a set of interrelated “Core PBS Principles” that guide program implementation (mechanisms for monitoring commitment to these principles are described in greater detail in the Annex 2: Detailed Project Description). These core principles derive from Government commitments reflected in its Constitution, its current Growth and Transformation Plan (GTP), as well as sectoral and multi-sectoral plans.

3.4. **Effectiveness.** The Effectiveness principle focuses on how to maintain effective service delivery with a view to identifying ways to further improve them. Although effectiveness is influenced by a broad range of issues, the PBS program considers adequate sectoral resource allocation, balanced intra-sectoral allocation, and results achieved as it reviews the Effectiveness principle. Under PBS 3, each JRIS will review and update action plans on effectiveness.

<sup>9</sup> Based on 2010/2011 actual spending, the largest allocation goes to education (48%), followed by health (17%) agriculture (17%), water and sanitation (10%), and rural roads (8%).

**Core PBS Principles**

- Results / Effectiveness
- Sustainability
- Additionality
- Fairness
- Equity
- Transparency
- Fiduciary Probity
- Predictability

3.5. **Sustainability.** The PBS program seeks to ensure that financing of basic services can be sustained over the long-term even without the PBS Program. When reviewing sustainability, the PBS program considers financing sources for decentralized basic services, and the unit costs of basic service delivery. PBS 3 will also include a study on domestic resource mobilization and

the costs of basic services through the medium- and long-term. This study will then be the basis for reviews at each May JRIS.

3.6. **Additionality.** The Additionality Principle ensures that government priority to the MDGs are expressed in medium-term commitments to increase overall financing for the federal block grants and hence to basic service at sub-national level and that allocated resources for basic services are flowing in a predictable manner.

3.7. **Fairness.** The Fairness Principle ensures that resource allocations from the federal government to the regions and from regional governments to woredas are rules-based and transparent, and that block grant disbursements to the regions as well as from regions to woredas are executed as planned in budget allocations.

3.8. **Equity.** To review the Equity Principle, PBS will track and assess any discrepancies in access to basic services among the different regions and woredas and between genders, with a view to identifying possible interventions to address these discrepancies.

3.9. **Transparency.** A core principle of the PBS program's contribution to the access and quality of basic services is to provide stakeholders with more information about resource flows, standards and results.

3.10. **Fiduciary Probity.** The PBS program relies on a robust fiduciary system reaching from the federal level through regions to local administrations. It involves numerous mechanisms to maintain the strength of that system.

3.11. **Predictability.** The predictability principle seeks to ensure mutual accountability by predictable resource flows for basic service delivery results. Development Partner contributions need to be based on longer-term commitments, so that agreed disbursements can be made on time. Likewise, the Government has a responsibility to accurately reflect these DP contributions for PBS in yearly government budgets. Though this principle should discourage the practice, any new development partner resources committed after the budget is finalized will be incorporated into the supplemental budget.

3.12. Semi-annual Joint Review and Implementation Support (JRIS) and Joint Budget and Aid Review (JBAR) missions (See the Annex 2 on "Performance Assessment Framework for PBS 3 – Core Principles", Annex 3 on Implementation Arrangements, and Annex 5 on Implementation Support) allow for the Government, including MoFED, sectoral ministries, and regional authorities, and Development Partners to review performance according to these principles. Disbursement for the Basic Service Block Grants depends on overall performance according to these principles.

3.13. IDA sees support for basic service block grants as essential to the success of the PBS program. It has allocated USD 555 million to this component to be disbursed over three years. In addition, there is significant support from other development partners for this component, totaling USD 984 million over five years. Disbursement commitments from the Government, IDA and other development partners for this component year by year are summarized in Table 1. The total financing gap for the Basic Service Block Grants Sub-program A is USD 1.49 billion. Most PBS development partners are unable to make long-term commitments for program financing, i.e., beyond the first two years due to their different budget cycles. For example, only DFID has committed to finance block grant resources for years four and five of the program. Accordingly, there is a significant financing gap in those years, i.e., USD 545 million for year four and USD 622 for year five. The Government will likely seek Development Partner contributions to close this financing gap for the later program years. However, it has committed to cover from its own resources any remaining gap for Sub-program A beyond development partner commitments for any given year.

**Table 1 :Sub-program A Costs and Financing, Year by year**

| Sub-Program A: Basic Service Block Grants | PBS 3 Financing Period |           |           |           |           | Total   |
|---|------------------------|-----------|-----------|-----------|-----------|---------|
|   | 7/12-6/13              | 7/13-6/14 | 7/14-6/15 | 7/15-6/16 | 7/16-6/17 |         |
|   | EFY05                  | EFY06     | EFY07     | EFY08     | EFY09     |         |
| ETB million                               | 17,485                 | 21,332    | 26,025    | 29,929    | 34,418    | 129,190 |
| US\$ million                              | 937                    | 1,089     | 1,265     | 1,386     | 1,516     | 6,193   |
| Government Contribution (US\$ mill)       | 481                    | 563       | 658       | 708       | 761       | 3,171   |
| IDA Contribution (US\$ mill)              | 185                    | 185       | 185       | -         | -         | 555     |
| Total Other DP Contributions (US\$ mill)  | 258                    | 245       | 215       | 133       | 133       | 984     |
| Financing Gap (US\$ mill)*                | 14                     | 96        | 206       | 545       | 622       | 1,483   |

\* GOE will likely seek DP contributions to reduce this gap for Sub-program A. However, GOE has committed to cover from its own resources any remaining gaps in block grants beyond DP commitments in any given year.

3.14. *Strengthening Local Accountability and Transparency Systems (Sub-program B – USD 114.6 million, IDA USD 40.0 million).* Basic Service Block Grants provide resources through Ethiopia’s decentralized economic governance system to woredas, as the administrative level responsible for local basic services. While the country’s decentralized, integrated system of fiduciary, administrative and information governance is robust, the Government and Development Partners recognize that it can and should continue to be strengthened, particularly in its implementation in the large number of very diverse woreda administrations throughout Ethiopia. Sub-program B: Strengthening Local Accountability and Transparency Systems seeks to maintain and strengthen these systems, with a strategic focus on the woreda-level as the front-line of administration with responsibility for PBS objectives. The sub-program includes three interrelated components: (B1) Citizen’s Engagement, (B2) Local Public Financial Management, and (B3) Managing for Results.

3.15. *Citizen’s Engagement (Component B1 – USD 35.0 million, IDA USD 10.0 million).* The objective of the sub-program is to help improve delivery and quality of services at Woreda and Kebele levels through an institutionalized system for transparency and accountability that is socially inclusive and responsive to local needs. As recognized in the Program Development Objective and Core PBS Principles, transparency and accountability are essential to promoting improved local service delivery. In Phases 1 and 2, the PBS program supported opportunities for

citizens to get information about local budgets and local service delivery objectives, as well as to provide feedback to those responsible for service delivery. For PBS Phase 3, the Government and PBS Development Partners seek to expand, deepen and link these on-going efforts to promote citizen's engagement. It will also seek to institutionalize them, so that efforts for citizen's engagement can be sustained outside of the PBS program. The Citizen's Engagement Component (B1) links three thematically related work programs to strengthen the system and capacity for services to be delivered to local users in an increasingly transparent, responsive and accountable manner. These are (B1a) Financial Transparency and Accountability, (B1b) Social Accountability, and (B1c) Grievance Redress Mechanisms.

**3.16. Financial Transparency and Accountability (Sub-component B1a).** The objective of the FTA sub-component under PBS 3 is to build upon achievements attained under the last two phases of the PBS program and to deepen citizens' access to budget, expenditure and service delivery information, thereby enhancing the participation of citizens in the planning and budget preparation processes. It aims to deepen engagement of citizens and citizen representative groups in public planning, budget processes and public service delivery at the local level. The FTA initiative will be linked to the Social Accountability program and synergies will be created with other government and donor supported projects.

3.17. The FTA sub-component will improve the quality of information to the public by refining and simplifying the FTA tools so that the budget and service delivery information can be easily understood by citizens of different levels of education. Innovative FTA activities that were started under PBS II will be encouraged and supported, and effective utilization of media for the FTA work will be supported. Budget Literacy Training will continue to create awareness of citizens and of woreda and kebele council members. As the FTA work involves other sectors beyond BOFED/WOFED, efforts will be made to effectively engage sector staff (education, health, agriculture, water and rural roads) so that they can institutionalize the FTA work in their respective offices and support service facilities by disclosing their budget and service information to citizens. Resources will also be provided to strengthen systems for environmental and social impact assessment at the woreda level, including capacity building of basic sectors in mainstreaming environmental and social issues in project design and implementation.

**3.18. Social Accountability Program (Sub-component B1b):** The objective of the social accountability program in PBS 3 is to support public service providers in around 170 woredas to deliver improved quality services in education, health, agriculture, water and sanitation, and rural roads, in response to feedback and plan input from communities and citizen groups. The PBS social accountability activities are financed through a programmatic multi-donor trust fund administered by IDA though without IDA resources. During PBS Phase 3, the program will continue the use of tools piloted in the first phase, including Community Score Cards, Citizen Report Cards, and Participatory Budgeting. Interface meetings between users and providers of services along with woreda and kebele officials will also continue as will the development of agreed action plans monitored by joint committees of service users and providers. Other social accountability tools will also be carefully considered based on their value added, including participatory planning and budgeting, budget tracking, gender responsive budgeting and service charters. The program will include the following main components: (i) provision of grants for Woreda and Kebele social accountability activities in subprojects implemented by CSOs (i.e., social accountability implementing partners - SAIPs); (ii) capacity development and training of SAIPs and the local level partners (citizen groups, service providers, government officials and

council members); (iii) monitoring and evaluation, including a mid-term review and a final impact evaluation; (iv) management and coordination by the Management Agency; and (v) technical support and integration of global experience.

**3.19. Grievance Redress Mechanisms (GRM):** A study conducted under PBS in 2011 found that GRMs exist in several of Ethiopia’s regions. These are “home-grown”, regional level mechanisms established during the past decade to improve governance, including the Government’s Business Processes Reengineering initiative, which provided the impetus and format for such mechanisms in a number of regional states. However, the mechanisms were set up differently and developed with significant variations in terms of the legal underpinnings of the mechanisms, the government entity responsible, accountability, procedures, and finality and enforcement of the decisions. PBS 3 will help to strengthen the existing GRM offices at the regional state level and contribute to information and public awareness of the services they provide. This will include: (i) technical assistance to develop a common standard of grievance redress procedures and handling at the regional GRM offices; (ii) a program for capacity development and training for the grievance officers; and (iii) a program for information and public education of citizens on the opportunities and procedures for grievance handling in the regions.

*3.20. Local Public Financial Management and Procurement (Component B2 – USD 52.6 million, IDA USD 20.0 million).* The PBS Program relies on a robust, decentralized PFM system that allows public resources to flow reliably from the federal treasury, through regional and zonal administrations, to woreda-level and front-line basic service providers that generate results. While Ethiopia’s PFM system is strong, given the scope, complexity and diversity of the decentralized economic governance system in the country, there are regions and aspects of its operation that urgently need to be strengthened. Given the focus of the PBS operation on local level administration, woreda-level PFM system strengthening is of highest priority. While the financial reporting requirements of the PBS operation strengthen local financial capacity through learning by doing, there is need to strengthen local PFM capacity through other elements of the PBS program.

3.21. Currently, woreda-level administrations experience high staff turnover, estimated to be 25 percent per annum, where PFM (and other) woreda staff frequently move into and out of their positions. Often, this staff turnover involves those without fiduciary training taking on financial management or procurement tasks. Accordingly, there is a strong need to train woreda staff in the systems and procedures to maintain fiduciary systems. The main activity supported by this sub-component is to develop standardized training materials, to institutionalize delivery of this training through regional management institutes, and to monitor the quality of this training. This sub-component also supports the development and dissemination of standardized manuals in cash management, procurement, internal audit and commitment control. Further, it will support roll-out of automated financial management software to woredas. Finally, it will strengthen systems for external audit through the Office of the Federal Auditor General and Offices of the Regional Auditors General and support parliamentary oversight through the Public Accounts Committee. Overall, the systems strengthening done through this sub-component will improve capacity and results in delivering basic services on the ground.

3.22. The Government is developing a Public Financial Management action plan to ensure that the overall Ethiopian system generates improved results, retains quality staff and maintain

accountability. The PBS Local PFM Component B2 will be embedded within that comprehensive action plan, with a specific focus on woreda-level PFM strengthening. During appraisal, the Government communicated its detailed action plan for EMCP to PBS Development Partners.

3.23. *Managing for Results (Component B3 – USD 27.0 Million, IDA USD 10.0 million).* Reliable, timely and available data and results analysis are essential for meeting PBS Program objectives. Together they allow mutual monitoring of progress towards GTP and PBS goals and analysis of why progress is particularly strong in some regions or sectors and could be improved in others. The overall aim of the Managing for Results Component is to enhance program effectiveness by ensuring that data, systems, and analytic capacity are strengthened to deliver results throughout the project implementation period. It will (a) monitor PBS program results, (b) strengthen the multi-sectoral, decentralized system for credible, timely and available data, and (c) undertake targeted surveys and studies that fill crucial gaps in the Government's and DP's understanding of how PBS results can be sustainably achieved. This component will thus strengthen the capacity of each of the basic services sectors to deliver GTP and MDG results.

3.24. *Results Enhancement Fund (Sub-Program C – DFID administered UKLBS 50 million or USD 78.2 million).* As an affiliated sub-program supporting innovations to improve basic service and fiduciary results, the Results Enhancement Fund (REF) will support specific accomplishments that the Government and Development Partners agree relax constraints to delivering decentralized basic service results. In a yearly prize for performance according to objective criteria, the fund will provide resources to the three sub-national administrations that made the most progress to improve performance. The benchmarks of the fund will be defined based on the overall principles of equity and learning. As part of the equity principle, to the extent possible, less developed or emerging regions and woredas should be as or more likely to have their performance recognized and to receive disbursements from the fund. Further, the fund will include resources so that the lessons of how specific entities achieve these results will be shared with others, to promote learning about how those results were achieved.

3.25. The detailed arrangements for this component will be finalized during PBS 3 implementation, but the REF will likely focus on promoting incentives for improvements in the main areas of weakness identified for public financial management at the regional level: (i) Effective controls of the budget totals and management of fiscal risks as a mainstay of maintaining overall fiscal discipline; (ii) Planning and executing the budget in line with government priorities as a key component of implementing federal and regional objectives; and (iii) Managing the use of budgeted resources in a way that contributes to efficient service delivery and value for money. Closely following the framework established by the multi-agency program, PEFA (Public Expenditure and Financial Accountability) it will seek to focus the performance criteria on the following aspects: (i) Credibility of the budget: is the budget realistic and implemented as intended? ; (ii) Comprehensiveness and transparency: are the budget and the fiscal risk oversight comprehensive and fiscal and budget information accessible to the public? ; (iii) Policy-based budgeting<sup>10</sup>: has the budget been prepared with due regard to federal and regional policy?; and (iv) Predictability and control in budget execution: is the budget

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<sup>10</sup> i.e.: adequacy of guidance provided to woredas; adherence to a budget calendar; existence of multi-year forecasts and functional allocations; existence of costed sector strategies; linkage between capital budgets and forward expenditure estimates; degree of cash consolidation; integration of payroll and personnel records

implemented in an orderly and predictable manner and are there arrangements for the exercise of control and stewardship in the use of public funds?

## **B. Project Financing**

### **Lending Instrument**

3.26. The Government of Ethiopia has demonstrated a commitment to reach the MDGs and capacity to strengthen decentralized basic service delivery. Particularly given the diversity, complexity and level of economic development, Ethiopia's economic governance system is robust in its capacity to provide resources to decentralized service providers, maintain accountability for those resources, and deliver results. Nonetheless, Ethiopia's three-tier administrative system for delivering these results can be strengthened.

3.27. From the PBS program inception in 2006, the World Bank used investment lending instruments (SIM and SIL) to support the PBS program. It will continue to use this category of instrument, structuring PBS 3 as a five year Specific Investment Loan (SIL). PBS 3 integrates Sub-program A: Basic Service Block Grants with the capacity-enhancing Sub-program B: Strengthening Local Accountability and Transparency Systems and Sub-program C: Results Enhancement Fund. The Block Grants sub-program, which provides recurrent expenditures to sub-national governments for basic services, supports resources needed to deliver decentralized basic service results, allowing increased basic service-delivery staffing and recurrent costs that complement the results of other sector-specific investment lending in the portfolio which provide capital resources and other materials to support decentralized basic service delivery. The capacity enhancing sub-program works to ensure that Ethiopia's decentralized economic governance system remains robust across jurisdictions and maintains progress on crucial accountability improvements. Further, using the SIL instrument, disbursement for the block grant component requires detailed financial reports on a quarterly-basis from all decentralized jurisdictions. Beyond the information these financial reports provide on resource flows to local governments, the effort to ensure that local governments can produce accurate fiduciary reports that can be consolidated from regions to federal level offers a consistent capacity enhancing exercise. Further, as also noted above, supporting increased staffing for decentralized basic services, the PBS investment lending instrument complements the results of sector specific investment lending.

3.28. **Strong Use of Development Effectiveness Principles.** Using a SIL instrument to support Ethiopia's results and strengthen country systems, PBS 3 is a strong example of development effectiveness principles, as summarized in the Paris, Accra and Busan agreements. Continuing with the approach adopted for Phases 1 and 2, PBS 3 closely follows aid effectiveness principles.

- It enjoys strong **country ownership and alignment**, by supporting an existing and credible government program. DP funding complements Government resources for the PBS **program**. As evidence of its ownership, the Government provides the largest financial contribution. For PBS Phase 1 and 2, it provided approximately USD 4 billion on regional-level recurrent expenditure in the basic service sectors.
- PBS demonstrates **harmonization**, through dedicated resources for coordination and streamlined donor processes through the PBS secretariat. Beyond the Government and

IDA, 10 other DPs have contributed to the PBS program. A total of USD1.6 billion have been committed to the PBS program by DPs across all PBS sub-programs. IDA and the other Development Partners have contributed or committed approximately USD2.7 billion for the basic services block-grant expenditures to date.

- PBS 3 further works with **Government systems**, providing resources through and enhancing the capacity of those systems, including procurement.
- It promotes **mutual accountability** through review mechanisms that encourage timely and predictable financing when benchmarks are met.
- Finally, PBS 3 demonstrates a strong focus on **results**, using a jointly-agreed results framework along with significant dedicated resources to strengthen national data collection and M&E systems.

3.29. **Other Instruments Considered.** Using a SIL instrument to support the PBS program allows DPs to combine fast-disbursing support through government systems with significant efforts to strengthen the capacity of those systems. An alternative instrument would be to combine a development policy operation (DPO) with a technical assistance (TA) program to strengthen systems. However, the Government and PBS partners considered this option and found it would be less effective than using the existing SIL instrument. A SIL instrument enables PBS partners to define a set of eligible expenditures for the program, in the PBS case, recurrent expenditures at woreda-level for defined basic services. Further, by integrating reviews of progress on system strengthening (through the semi-annual JRIS missions and ongoing dialog between reviews), the PBS instrument allows a more timely, frank and productive dialog on progress and constraints of that decentralized economic governance system.

3.30. Another possibility considered but rejected would be to provide IDA support to the PBS program using the new Program for Results (P4R) modality. Several factors weigh against using this approach. Using a SIL instrument, the current PBS program delivers decentralized basic service results, though progress has been more pronounced in the labor-intensive sectors. There is little strong argument to move away from an approach that has become more effective and smooth in implementation over time. All stakeholders to the PBS program, including the Government, IDA, and numerous DPs find the SIL instrument well-suited to supporting Ethiopia's GTP and progress towards the MDGs. Further, the Government of Ethiopia seeks to use the P4R instrument on a smaller, sector specific program in health rather than using it for the first time to support a multi-sectoral, national program so central to GTP goals. Beginning with this health sector example, the GOE is exploring how the P4R instrument may be particularly well-suited to its capacity to deliver decentralized results.

3.31. While the third phase of the PBS program will be delivered using a SIL instrument, the Government and PBS DPs jointly recognize that the PforR may, over time, offer more benefits and fewer risks than the current approach. To that explore that possibility, Sub-program C: Results Enhancement Fund will use additional DP resources to pilot multi-sectoral results-based approaches in the Ethiopian context.

## Project Cost and Financing

3.32. Over a five year period, from December 2012 to January 2018, the third phase of the PBS program will involve USD 6.4 billion of resources. The majority of those resources (USD 6.19 billion) are for Sub-program A: Basic Service Block Grants, which finances sub-national governments' recurrent expenditures for basic services. Significant GOE resources finance this sub-program, with sizeable contributions from DPs, including IDA. Even with DP contributions of USD 1.53 billion, there is a large financing gap of USD 1.49 billion for the Basic Service Block grants, particularly in the later program years. The Government will seek contributions from development partners to fill these gaps. However, given the importance of decentralized basic services for meeting GTP and MDG targets the Government has committed that, in any given year, it will provide its own resources, beyond development partner commitments, to fill any remaining gaps.

3.33. The projected cost of Sub-program B: Strengthening Local Transparency and Accountability Systems is USD 193.8 million. For this Sub-component, there is a projected financing gap of USD 21.4 million, particularly in the Citizens Engagement and Monitoring for Results Components. Given significant development partner interests in these components, it is likely that these financing gaps will be filled.

**Table 2: Project Cost and Financing**

| Program Components (US\$ Millions)   | Program Costs  | GOE Financing  |                | DPs            | IDA          | %IDA        | B Gap       |
|--|----------------|----------------|----------------|----------------|--------------|-------------|-------------|
|  |                | MEFF           | A Gap*         |                |              |             |             |
| Sub-Program A: Basic Service Block Grants  | 6,192.9        | 3,170.8        | 1,482.9        | 984.2          | 555.0        | 9.0%        |             |
| Sub-Program B: Strengthening Local Transparency and Accountability Systems   |                |                |                |                |              |             |             |
| B1: Citizen's Engagement   | 35.0           | -              | -              | 8.6            | 10.0         | 28.6%       | 16.4        |
| B2: Local PFM & Procurement  | 52.6           | -              | -              | 32.6           | 20.0         | 38.0%       | -           |
| B3: Managing for Results   | 27.0           | -              | -              | 12.0           | 10.0         | 37.0%       | 5.0         |
| Sub-Program C: Results Enhancement Fund  | 78.2           |                |                | 78.2           |              |             |             |
| Unallocated  |                |                |                |                | 5.0          |             |             |
| <b>Total (US\$ Millions)</b>   | <b>6,385.7</b> | <b>3,170.8</b> | <b>1,482.9</b> | <b>1,115.6</b> | <b>600.0</b> | <b>9.4%</b> | <b>21.4</b> |
| * GOE will likely seek DP contributions to reduce this gap for Sub-program A. However, GOE has committed to cover from its own resources any remaining gaps in block grants beyond DP commitments in any given year. |                |                |                |                |              |             |             |

3.34. For Phases 1 and 2, the PBS program provided an instrument for harmonizing development partners contributions to Ethiopia's decentralized basic service results. As noted in Table 2 above, for PBS 3 there will continue to be significant DP contributions to the program. Summarized in Annex 9 on Donor Contributions and Multi-donor Trust Fund Arrangements, beyond GOE and IDA, PBS 3 will combine resources from DFID, AfDB, EU, Italy, and Austria, and potentially Ireland, Germany and Spain. The majority of these contributions (75 percent) will be provided through World Bank administered Multi-Donor Trust Funds.

### C. Lessons Learned and Reflected in the Project Design

3.35. As the third phase of support to the PBS program, PBS 3 will benefit from six years of program implementation. In the uncertain environment following a contested general election in Ethiopia in 2005, DPs recognized the imperative to continue supporting the Government's significant progress towards achieving the MDGs through strengthened decentralized basic services. With close collaboration, the Government, IDA, and other DPs created the nationwide PBS program, which brings together the Government and multiple donors to support and improve basic service sectors through sub-national levels of government. From this challenging situation, PBS 1 and 2 were able to protect and consolidate the local delivery of basic services to the population across the country, focusing on improving *access* to services. As noted in the "Sectoral and Institutional Context" section above, the PBS program has been instrumental in supporting decentralized basic service delivery results.

3.36. Lessons learned include:

- A harmonized and coordinated approach between Government, Development Partners, and other complementary programs is essential to strengthening decentralized service delivery. The PBS program follows **development effectiveness** principles, in that there is a high-degree of Government ownership of the program, and DPs align behind the key objectives of that program<sup>11</sup>. The PBS program provides a forum and mechanism to bring together several donors' financial contributions to support overall program goals.
- Further, because Government and DPs agree on these overall objectives and jointly support them, the PBS program provides a **productive forum** to discuss challenges and constraints to meeting those objectives. Because most of the major donors are PBS partners, PBS discussions are taken very seriously by DPs and Government. As such, it allows progress on policies and procedures to strengthen local service delivery systems.
- The use of **country systems**, while requiring significant implementation support and capacity development, is crucial for strengthening decentralized service delivery. The Government has made impressive improvements in PFM, FM and procurement during PBS 1 and PBS 2. However, continued support and use of these systems is required to further strengthen capacity and improve fiscal decentralization.
- The PBS program involves dedicated resources for DP coordination. These support the **PBS Secretariat**, which has played a vital role to bring together DPs and Government with analysis targeted on decentralized basic service delivery and capacity building of Government implementing agencies through hands-on implementation support.
- Given Ethiopia's strong focus on results, block grant support for service delivery has the potential to work better when combined with **results- and performance-based elements**, which recognize and reward good regional and sub-regional performance in service delivery, public financial management, accounting and reporting, and transparency and accountability. Through PBS 3, the Government and DPs will seek to develop more performance-based financing and management approaches.

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<sup>11</sup>The PBS Program was featured at the World Bank's 2011 Showcase on Aid Effectiveness as well as the Knowledge and Innovation Space at the 4<sup>th</sup> High-Level Forum on Aid Effectiveness at Busan, South Korea. See: [www.africa-platform.org](http://www.africa-platform.org) (search for "Ethiopia").

- Basic service results depend on macro-economic stability. Because of the overall weakness of other alternative forums for **macro-economic dialog** between the Government and Development Partners, the PBS program contributed a forum for sharing macro-economic information. However, given its investment lending modality and focus on maintaining basic services, it should not be the main instrument for dialog.
- Many of the MDG results require **multi-sectoral** coordination. While the woredas could provide a valuable platform for linkages between basic services, the administrative and resource constraints of decentralization make this a continuing challenge, one where the PBS program continues to need to put significant effort.
- The Government’s commitment to decentralized basic service provision, particularly through the increased staffing that PBS has supported, will entail a significant stream of woreda level financing. To ensure continued results, the PBS program needs to support a long-term vision of **sustainable financing** for these services.
- **Strengthening woreda-level capacity** for transparency and accountability represents a key element for ensuring better services by improving the ways services are managed and delivered.
- **Strengthening the economic governance systems** of woredas lightens the burden on sector-specific interventions to ensure these cross-cutting systems in woredas are working effectively.
- The Program takes a comprehensive, integrated approach that uses country systems while also providing resources for building the capacity of those same systems. While essential for program effectiveness, this makes for a relatively **complex design**. Accordingly, the program needs to be carefully managed and supported by appropriate human and financial resources for implementation.

3.37. *Proposed Program Modifications.* While the PBS program has proven effective to support decentralized basic service delivery and local transparency and accountability, it will continue to evolve to respond to changes and emerging issues. In this light, the Government and the Task Team propose to change the formal name of the third phase of the program from “Protecting Basic Services” to “Promoting Basic Services”. This name change reflects that in the past six years, the Government, the World Bank and DPs have shown that they are committed to protecting basic services, even when the political and economic environment has been uncertain. While the formal name will change, the program will still be referred to by its common acronym of PBS. Having demonstrated this commitment, the next phase of PBS support will entail improving the foundation upon which sectoral activities can better improve the quality of decentralized services.

3.38. As described above on the choice of instrument, the core architecture PBS program will remain largely unchanged. It will continue to include support for basic service block grants based on shared principles and complement this support with efforts to build decentralized capacity. Within that architecture and based on implementation experience, PBS 3 will respond to the lessons from previous phases in the following way:

- *Results Enhancement Fund.* As discussed above, the program will evolve towards a stronger results focus. As a step in this evolution, it will include a pilot Sub-program C: Results Enhancement Fund, using additional grant resources administered by DFID.

- *Simplified Structure.* In the interest of streamlining implementation arrangements and simplifying program structure, the PBS program will no longer include a health component or the Local Investment Grant (LIG) pilot. Working with the Federal Ministry of Health, IDA has developed a dedicated program to support health MDGs: the Health MDG support operation, using the P4R approach. Further, though the LIG pilot program was evaluated as successful<sup>12</sup>, it was conducted on a pilot basis in 99 woredas. The cost and implementation burden of scaling the program up to include the whole nation was viewed as prohibitive. In addition, the Government's MDG fund, while managed at the regional level, will provide for capital expenditures on basic services, especially roads and water, at the woreda level.
- *Link Social Accountability and Financial Transparency and Accountability.* Further, to promote closer links between efforts to promote opportunities for citizens to get information about service delivery and provide feedback about those services, Phase 3 of the program will strengthen the links and synergies between the financial transparency and accountability and social accountability sub-components.
- *Sustainability.* Given the front-line staff that the Program has supported to date and the dynamics of woreda-level financing, the program will help to identify and support a long-term plan for sustaining decentralized basic service provision, considering the balance over time in recurrent vs. capital, salaries vs. operations, and own-generated vs. externally financed resources.
- *Maintain a Strong PBS Secretariat.* During the latter half of PBS 2, the level and quality of the Secretariat's analytical work and coordination services have improved significantly, with demonstrable effect on aid effectiveness. For PBS 3, it will be important to maintain a strong and effective PBS Secretariat.

3.39. Beyond these component-specific changes, the following strategic cross-cutting issues have been included into the evolution of the overall program design:

- *Service Quality and Sectoral Linkages.* While in general there has been strong progress on access to decentralized basic services, there continues to be more efforts on improving the quality of those services. In general, IDA and DP sector-specific support focuses on improving service quality. However, as a complement to these sector programs, the government and task team will explore ways to build a foundation for service delivery that can support sectoral programs' ability to improve quality and the data for policy analysis to support those sectoral results.
- *Equity.* On average, Ethiopia has shown impressive progress to improve basic services and to reach the MDGs. However, these averages mask significant variations in results across local governments. Through studies on service delivery effectiveness and the Results Enhancement Fund, the PBS 3 program supports efforts to encourage learning from local jurisdictions that are particularly successful in achieving results, improve equality in gender outcomes, and improve equitable targeting of basic services.

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<sup>12</sup> A separate evaluation was conducted for the LIG pilot, which highlighted that the PBS program component was successful in meeting its objectives of identifying constraints to woreda management of discretionary capital resources and building capacity for them to do so.

## **4. IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

4.1. The Ministry of Finance and Economic Development is the Implementing Agency for the PBS program, given its overall responsibility for supporting financial flows from the federal to more decentralized levels and for ensuring that public financial management systems work smoothly. Within MOFED, the Channel One Programs Coordinating Unit (COPCU) is responsible for coordinating daily PBS activities across the basic service ministries, government bodies and sub-national government entities and for ensuring compliance with joint legal agreements. During PBS Phase 2, MOFED restructured COPCU to make it more effective in program implementation, assigning a Deputy Coordinator, bringing in additional accountants to facilitate financial reports and hiring in each region staff that report to COPCU, improving the communication between federal and regional levels. Finally, COPCU has hired dedicated staff working on PBS procurement, safeguards and social accountability. Improvements in COPCU staffing and management have demonstrated Government's willingness to tackle implementation challenges.

4.2. At the regional government level, Bureaus of Finance and Economic Development (BoFEDs) will continue to have similar responsibilities at the regional level as MoFED has at the federal level. In late 2011, all BoFEDs created new positions for Channel One Coordinators at the regional level. This structure will continue under PBS 3 and will help to strengthen the overall system's capacity for PBS 3 implementation and follow-up. BoFED responsibilities include: i) receiving, consolidating, and transferring financial and expenditure reports from the Woreda Finance and Economic Development (WoFED) offices to MOFED; ii) receiving woreda level plans for the basic service sectors and assisting woredas in reconciling their plans within the agreed budget; iii) allocating budgets to woredas in line with the agreed fiscal transfer formulas; iv) reviewing and consolidating results reports from woreda governments; v) following up on audit findings and informing MOFED for the consolidation of action plans; and vi) collaborating with Regional Bureaus to implement, manage, and monitor FTA activities at sub-national levels.

4.3. At local level, WoFEDs and Urban Administration Offices of Finance have similar responsibilities as those of the BoFEDs. Their responsibilities also include: i) undertaking regular M&E and coordination with woreda sector offices; ii) undertaking operational tasks such as planning, supervision, and financial management; iii) submitting consolidated monthly reports, including monthly reconciliation of expenditures to BoFEDs; iv) reporting on a monthly basis on the actual use of block grants including basic services sub-program resources at local level and overall performance in relation to service delivery targets; v) enhancing financial transparency and collaborating in social accountability initiatives at local levels; and vi) managing and coordinating the day-to-day implementation of FTA-related activities.

4.4. Councils at regional, zonal woreda and kebele levels: i) provide general oversight of those sub-national government institutions involved in the PBS Program's implementation; ii) review and approve annual development plans and budgets; and iii) facilitate information sharing and harness the involvement of citizens in the planning, budgeting, and management of delivering basic services. They will also be responsible for furthering Component B1a Financial

Transparency and Accountability (FTA) initiatives. The detailed implementation arrangements are in Annex 3.

4.5. **PBS Secretariat.** To facilitate and coordinate the dialogue on and implementation of the PBS program, donors established the PBS Secretariat in 2006, at the outset of PBS Phase 1. Its role was further elaborated and formalized with the approval of PBS Phase II in 2009. The Secretariat is housed at the Ethiopia World Bank Country Office; its staff costs and activities are supported through donor contributions to a Multi-Donor Trust Fund.

4.6. Not an executing or implementing agency, the Secretariat serves the PBS Donors' Group to facilitate and coordinate the smooth and efficient implementation of the PBS Project, and to ensure the appropriate coordination of Project activities and dialogue with other related national and sector programs. In that role, the Secretariat provides substantial technical and analytical inputs to the PBS dialogue. It also makes available hands-on training and coaching to help build country systems.<sup>13</sup> Since late 2010, the level and quality of the Secretariat's analytical and logistical support has increased significantly. (See Annex 3 for more information on the Secretariat).

## **B. Results Monitoring and Evaluation**

4.7. As described in both the Project Components and Detailed Project Description sections, the focus of PBS 3 will be on results. Accordingly, the attention and resources allocated to monitoring and evaluation has been augmented: Component B3: Managing for Results has a USD 27 million budget. Further, it stipulated results reporting every six months as part of the Joint Review and Implementation Support missions, where results data is already available disaggregated by region and gender. This results focus also has system strengthening elements. The implementation principles for the Managing for Results program are to link to the Government's GTP monitoring and augment them to provide region- and gender-specific information. Rather than identifying additional indicators that would require creation of separate monitoring mechanisms, the PBS program approach is to strengthen existing mechanisms to ensure that data is credible, timely and available. The results monitoring and evaluation will also include a mid-term evaluation of the program after 2 years, a second evaluation after 4 years when the Government has produced its next five year plan, and a final evaluation after Phase 3 of the PBS program concludes in January 2018.

## **C. Sustainability**

4.8. As noted throughout the PAD, sustainability is one of the Core PBS principles. As part of the Government's long-term goal to become a middle-income country and gradually reduce development assistance, both the Government and Development Partners recognize that external support for decentralized basic services cannot continue in perpetuity. Over time, for the results that PBS supports to be sustainable, the Government intends to take on financing of these core government functions, gradually reducing external assistance. To plan for and progress towards this sustainability, Government and Development partners seek to have a higher proportion of the PBS program paid for by domestic resources. As part of the PBS program, they will jointly

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<sup>13</sup> For more, see: PBS Secretariat, *Annual Report (October 2010 to end-October 2011) and Fourteen-Month Indicative Workplan*, submitted to the PBS Co-Chairs (World Bank and African Development Bank) on December 12, 2011.

review trends in the share of domestic sources financing decentralized basic services, promote a plan for having that share significantly increase, and discuss the Government and Development Partner's long-term strategy for financing decentralized basic services.

#### **D. Loan/Credit Conditions and Covenants**

##### **Condition of Effectiveness:**

- Adoption of Project Operational Manual for PBS III satisfactory to IDA and partners.

##### **Dated Covenants:**

###### **December 2012**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **June 2013**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **December 2013**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **June 2014**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **December 2014**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **June 2015**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors
- Complete a Mid-term Review of the PBS Program
- Complete an Independent Procurement Audit of PBS Sub-Program B activities

###### **December 2015**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **June 2016**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **December 2016**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors

###### **June 2017**

- Satisfactory outcome of JRIS, with involvement of Regions and sectors
- Complete an Independent Procurement Audit of PBS Sub-Program B activities

##### **Conditions of Disbursement:**

- Annual sub-national budget for basic services (for Sub-Program A) and annual workplans (for Sub-Programs B) have been delivered to the Association;

- Satisfactory outcomes of JBAR, JRIS, and Core PBS Principles performance assessment (for Sub-Program A).
- Submission of satisfactory IFRs (for all Sub-Programs).

**Other:**

- Annual progress reports on the actions taken on significant audit findings, six months after those Project Audit reports are due

## 5. KEY RISKS AND MITIGATION MEASURES

### A. Risk Ratings Summary Table

| Risk                                     | Rating   |
|--|----------|
| Stakeholder Risk                         | High     |
| Implementing Agency Risk                 |          |
| - Capacity                               | Moderate |
| - Governance                             | Low      |
| Project Risk                             |          |
| Design                                   | Moderate |
| - Social and Environmental               | Low      |
| - Program and Donor                      | Moderate |
| - Delivery Monitoring and Sustainability | Moderate |
| Overall Implementation Risk              | High     |

### B. Overall Risk Rating Explanation

5.1. *Macroeconomic Instability.* Despite its strong growth performance, Ethiopia continues to face macroeconomic challenges, specifically, high inflation. By the end of June 2012, the year-on-year inflation rate was 20.9 percent. This monthly figure reflects a reduction from 25.5 percent in May and 29.8 percent in April. While it has decreased in the past months, for the last 18 months, inflation has been high, over 30 percent for much of that period. As the Government, IDA and DPs recognize, this price instability threatens to derail the gains in overall welfare achieved through high sustained growth.

5.2. Recognizing the difficulties that inflation poses for the PBS program, the Government has committed to dialog with the World Bank, DfID, AfDB and the EU about its efforts to bring down inflation. These efforts include cash-based budgeting and negative reserve money growth. In addition, these DPs, MOFED and the Central Bank are meeting regularly at technical level to review how these efforts are progressing. While in previous phases, the PBS instrument has provided a forum for discussion of macroeconomic instability and inflation, given that it is a SIL, PBS partners agree that it is not an appropriate instrument for macroeconomic policy dialog.

5.3. Accordingly, the following arrangements have been made to allow a more productive discussion of inflation and broader macro-economic issues outside the context of the PBS program. That approach consists of a Government commitment to regular, substantive dialog on technical, heads of agency and ministerial levels. The Government has committed to quarterly meetings among technical staff from MOFED, the Central Bank and the largest development partners, including USAID, DFID, EU, AfDB and the World Bank. Further, as part of the Development Assistance Group architecture for development effectiveness, the Government and

DPs have committed to establish a separate DAG macroeconomic group, co-chaired by the Government and a representative of Development Partners. Finally, the Government has committed to discussions of outstanding macro-economic issues related to financing of the GTP as part of regular meetings of the High Level Forum. Other alternative instruments for dialogue on the macro-environment in Ethiopia will be developed as part of the Country Partnership Strategy.

5.4. *Fiscal Sustainability.* While service delivery and achieving the MDGs remain important elements of the Government's strategy, it is unclear how the Government will finance its commitments in the ambitious GTP, where a financing gap remains. Beyond how the GTP financing gap will affect macro-economic stability, it has implications for the sustainability of the PBS program: there is a perceived risk that, in the face of inadequate financing for all GTP objectives, the Government would have to reduce spending for PBS objectives.

5.5. Although donors provide significant financing for basic services through the Program, the Government always has been, and continues to be, the majority financier of the Federal Block Grants. Moreover, in a period when the Block Grant itself has been expanding at a rapid pace, the Government has also steadily increased its domestic revenue share of financing for the Block Grants. This is an encouraging pattern towards sustainability. To further promote sustainability and independence from aid, the Government is placing high priority on increasing domestic savings and increasing tax revenues to 15 percent of GDP in its Growth and Transformation Plan (GTP). The World Bank is also urging increased efforts to improve private sector development to further strengthen economic growth and improve the revenue base. As discussed above, "Sustainability" is a Core PBS Principle and, to mitigate this sustainability risk, the JRIS reviews will review progress to develop a comprehensive long-term plan for PBS program sustainability.

5.6. *Governance and Accountability.* Some PBS DPs and external actors continue to raise concerns about the narrow space for citizens' formal political engagement in Ethiopia. Since the Basic Service Block Grants provide a high volume of resources through Government systems, it is important to show that PBS promotes independent accountability, monitoring and expanding space for citizen voice. The PBS program has demonstrated that it is an effective mechanism for developing citizen engagement, particularly through the FTA and Social Accountability activities.

5.7. Since its inception, the PBS program has included robust mechanisms that detect distortions in the allocation of resources to basic services. Beyond the basic service results the program has achieved, those accountability mechanisms have been developed and strengthened to include extensive financial reports and continuous audits. Further, through its capacity building sub-program, it includes extensive efforts to promote local level transparency and citizens' accountability mechanisms. Further, it supports improved M&E activities to promote independent survey-based verification of results that help lead to increased accountability of service providers and improved basic service delivery. Throughout Sub-program B on Strengthening Local Accountability and Transparency Systems, PBS 3 includes renewed and strengthened efforts to ensure that governance and accountability is supported and continues to improve.

5.8. *Engagement with Civil Society.* In January 2009, Parliament passed the Charities and Societies Proclamation, which provided a new legal framework for all CSO activities. The stated

purpose of the law was to “aid and facilitate the role of charities and societies in the overall development of the Ethiopian people.” The law was widely criticized, however, among the DP and NGO communities because it restricts civil society organizations (CSOs) with foreign funding from activity in political governance and rights-based advocacy.

5.9. To allay concerns about how the CSO law might affect PBS social accountability activities, the Government furnished DPs with a letter in February 2009 assuring that the law would not impede implementation of PBS social accountability activities in the delivery of basic services. The Government and DPs also agreed that implementation of the CSO law would be reviewed regularly as part of the broader Development Assistance Group’s (DAG) High Level Forum. The Government has continued to honor this agreement and social accountability activities under PBS preceded without hindrance from the CSO law. In addition, through the PBS Financial Transparency and Accountability work, the Government has taken significant steps to increase local citizen awareness and involvement in budgeting and feedback to service providers.

5.10. However, the Government’s Charities and Societies Agency, which regulates CSO activities in Ethiopia, has recently adopted a series of guidelines and directives pertaining to CSO operations. These include a ‘guideline’ requiring CSOs to keep their administrative costs to no more than 30 percent of overall costs and their operational costs at 70 percent or more, in order to achieve the best ‘value for money’ ratio for their activities. While most parties agree the 30:70 split is reasonable in principle, there is concern that the interpretation of costs considered as administrative expenditure might have a negative impact on the activities carried out by CSOs, including social accountability activities funded by PBS. For example, costs for transport, M&E, project supervision, and consultants, are all likely to be considered as part of administration. The Government has clarified that a mechanism exists through the Ministry of Federal Affairs to review borderline cases of that implementation guideline. The Government and the PBS development partners will continue to monitor how, if at all, this guideline may affect the PBS social accountability work. In addition, PBS partners will continue their engagement on this and other CSO guidelines under the auspices of DAG and other forums.

5.11. *Program Complexity.* The PBS program takes a comprehensive approach to supporting and strengthening decentralized service delivery. As such, its capacity-building components support a number of government agencies at different levels. This approach allows the Government, IDA and DPs to build on Core PBS Principles for Basic Service Block Grants to strengthen local development planning and implementation, decentralized financial and accountability systems, public financial management, social accountability, and monitoring and evaluation. The comprehensive PBS capacity building approach makes for a relatively complex design.

5.12. As noted above, to reduce this complexity, Phase 3 of the PBS program will no longer include a designated sub-program to support the health sector and will no longer continue the LIG component. To manage the remaining complexity, the PBS program involves extensive implementation support. The Task Team Leader, a Lead Social Protection Economist, is based in Addis, as is the co-Task Team Leader, a Senior Social Protection Economist. For each of the sub-programs, a senior level, field-based staff takes responsibility as a focal point or Sub-program Task Team Leader. Further, a donor-financed PBS Secretariat coordinates activities between all DPs and Government agencies involved in the Program and provides critical

analytical inputs to inform the ongoing dialogue between DPs and the Government. This extensive implementation support is financed by a combination of World Bank budget resources and donor-financed Multi-Donor Trust Funds.

5.13. *Financial Management.* A robust and effective financial management system is essential for the integrity of the PBS program. Through PBS 1 and 2, significant efforts have been made to strengthen financial reporting and financial management, leading to large improvements. Since 2010, there have been reduced delays in the submission of financial reports. In the first and second quarters of FY12, all reports were submitted by their due dates. However, some challenges to the timely submission of quality reports and audits remain: there remain weak internal audit controls at the federal and regional levels and continued inadequate follow up on audit reports. To address these challenges, MoFED has undertaken several important initiatives, including restructuring the Channel One Programs Coordinating Unit (COPCU) to ensure that financial management and reporting issues are better coordinated and given the follow-up and attention necessary; ensuring that corresponding actions are taken at the regional level, including the recruitment of Channel One Program Coordinators; setting plans to improve internal audit reforms by strengthening their independence; planning to reengineer the Chart of Accounts to ensure proper accounting and transparency; implementing the Real Time Gross transfer system; providing necessary training; and continuing the roll-out of the IBEX system. As outlined in the Financial Management Section of Annex 4 on Implementation Arrangements, for PBS 3 FM reporting requirements have been streamlined, so that they are better aligned with Government FM reporting schedules and procedures, so that they can be prepared within the timelines necessary of IDA FM standards.

## **6. APPRAISAL SUMMARY**

### **A. Economic and Financial Analyses**

6.1. The economic and financial review of past PBS interventions indicates that the program (i) generates good value-for-money; and (ii) has allowed the expansion of basic services without endangering the sustainability of the macro framework. First, PBS 1 and 2 have contributed to the substantial expansion of decentralized basic services, and to the associated observed improvement in indicators in the targeted sectors. In turn, analyses by DfID (2011) and the EU (2012) indicate that PBS has not only led to improvements in social indicators but also has done so in an operationally efficient and effective way. Second, the expansion in the social sectors has been costly (on average above 1.5 percent of GDP between 2006 and 2012). In the absence of concessional financing, this expansion would have been either difficult or have put significant fiscal pressures on the country. The Government recognizes that the dependency of donor support to maintain PBS operations combined with the high share of current spending financed by PBS represents a fiscal risk if donor funding were to become scarce. For this reason, it has in place a mechanism to reallocate capital spending expenditure to recurrent spending for social services to adjust if reductions in donor resources to PBS occur in the short run. Likewise, the Government is exploring alternative ways to increase its share of funding for the provision of basic services in the medium-term with the aim over the long-term of gradually assuming responsibility for financing decentralized basic services.

6.2. *Policy Letter on Decentralization and Sustainability.* As noted above, the PBS program has provided significant resources to woredas for recurrent expenditures that have contributed to

improvements in basic services. This support has taken place in the context of a firm government commitment to decentralized service delivery, focused on the woredas. However, given current administrative and funds flow arrangements, and budgets available, woredas do not have opportunities to reallocate block grants resources and have limited capital resources available to them. The Government is aware of how these issues could constrain decentralization. To provide more resources to woredas, in the medium term, the Government has budgeted for significant increases in the size of block grants to woredas. This would likely increase the budgetary discretion of woredas to tailor basic service provision for the woredas. However, it is also unclear how the Government will finance these increases. Further, over the long term, the Government intends to gradually reduce the external funding of basic services, particularly recurrent expenditures at woreda level.

6.3. As part of its commitment to decentralization and sustainability and to address these issues, the Government provided a “Policy Letter on Decentralization and Sustainability”. The main elements of the letter are: a summary of recent progress on PBS higher level objectives, a statement of the Government’s commitment and approach to maintain and deepen decentralization, and the Government’s long term plan for providing adequate finance for woreda-level basic services, including the proposed mix of external, Federal Block Grant and own local resources.

6.4. *Program Financing and Financing Gap.* The major element of the PBS program is support to woredas for recurrent expenditures at woreda level for basic services financed through block grants. Based on assumptions from the Government’s Macroeconomic and Fiscal Framework (MEFF), the development partners and Government have determined that the overall size of the block grant program will be USD 6.4 billion. Further, based on assumptions of the Government’s own expenditures on block grants over the coming years, the GOE financing for Basic Service Block Grants is likely to be USD 3.2 billion. There is a large financing gap for Sub-program A of USD 1.49 billion, resulting from development partner budget cycles and their ability to make long-term funding commitments. While the Government will seek contributions from development partners to finance this gap, which arise particularly from need for commitments in program years four and five, it has committed, in any given year, to finance remaining gaps beyond development partner commitments, in recurrent expenditures for sub-national basic services.

6.5. *PFM component costs.* An essential element of the PBS program is to strengthen woreda-level capacity, particularly for PFM and accountability systems. As outlined in the Detailed Project Description (Annex 2), the clear focus of the PFM program in PBS 3 is to support woreda-level systems. During appraisal, the Government provided a three year action plan for PFM strengthening. Further, the Government and Development Partners agreed on detailed activities, budgets and implementation arrangements for PFM system strengthening activities. These arrangements will be included in the PBS Project Operational Manual, to be submitted to IDA prior to project effectiveness.

6.6. *Value for Money.* It is difficult to do a precise value for money calculation for a program paying for recurrent expenditures through government systems on a national scale. As the PBS program is one of several instruments financing each of the five sectors, drawing a clear link between financing and overall effectiveness requires considerably more data than is currently available in addition to posing methodologically difficulties. Consequently, PBS 3 proposes to

include additional diagnostic reviews (around Effectiveness and Equity, for example) as part of the ongoing dialogue between DPs and the Government of Ethiopia.

6.7. The PBS program's value for money can be seen as having three main dimensions: economy; efficiency; and equity.<sup>14</sup>

6.8. **Economy.** Salary costs remain the most important cost driver in the PBS program. According to DFID's value for money analysis, between 2006/07 and 2009/10 the share of sub-national recurrent spending consumed by salaries across all five sectors averaged 68.9 percent, and showed little significant fluctuation on an annual basis during this period. As the bulk of PBS financing (from Government and DPs) is used to pay salaries (the largest cost driver), the PBS program remains essential and highly relevant.

6.9. More data is necessary on the unit cost calculations used to determine the FBG and woreda block grant allocation formulas. As part of the PBS Program sustainability reviews, the program will be able benchmark, track, and develop a better understanding of the unit costs involved in delivering the five basic services. Moreover, PBS 3 will promote improved collaboration with the relevant line ministries and sector working groups to contribute to a better understanding of these costs.

6.10. **Efficiency.** The program's transaction costs are significant given the level of technical expertise necessary to ensure effective management and implementation. Nonetheless, these costs are thought to be improving as a result of the Secretariat's increased effectiveness.<sup>15</sup> Even if these costs seem high to individual DPs, they are modest considering the size of the program. Under PBS 3, the Secretariat's costs will be approximately 0.32 percent of the overall program cost (excluding the Government's contribution).

6.11. Also of importance are the efforts the Government has taken during PBS 2 to strengthen its own internal coordination of all Channel One donor-funded programs, of which the PBS program is the largest. In 2009, MoFED created the Channel One Programs Coordinating Unit (COPCU) with responsibility for coordinating all DP-funded programs whose resources go through Treasury as well as serving as a focal point within MoFED for coordinating related activities. This arrangement has helped to streamline the many program activities that had previously been scattered among different departments within MoFED. In addition to contributing to reduced transaction costs across the program, MoFED has taken opportunities to strengthen and restructure COPCU's capacity as needed.

6.12. The strength of Ethiopia's PFM systems is also of critical importance as 'efficiency' depends on the system's ability to manage financial inputs effectively and translate inputs into sector results. While challenges in financial reporting and management remain, the improvements in the timeliness and quality of financial reporting noted at several JRIS missions are steps in the right direction. An important lesson learned from PBS 1 and 2 is the need to focus PFM strengthening at the woreda level, and this is the proposal for PBS 3.

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<sup>14</sup> This section draws extensively from DFID, *Understanding VfM in the Protection of Basic Services (PBS) Programme*, 2012.

<sup>15</sup> DFID, pp. 3-4.

6.13. There is a need for all PBS stakeholders to develop a more refined understanding of how support for recurrent spending can most efficiently and effectively complement sector-specific support for non-salary recurrent and capital investment needs. Under PBS 3, the program will continue and strengthen its efforts to build links between the PBS program and sector-specific instruments and dialogue. This will entail a closer tracking of salaries, unit costs, as well as intra- and inter-sectoral allocations as part of the proposed Effectiveness Review.

6.14. **Equity.** Equity remains an important and high-profile consideration for the Government of Ethiopia. As an evolving federal system, the principle of equity continues to be an essential consideration in the development of both the FBG allocation formula<sup>16</sup> and the formulas used by regional governments to allocate block grants to the districts. The Fairness Test, which was introduced under PBS 1, will remain one of the two core conditions under PBS 3. The Fairness Test will continue to ensure that transfers to regional and woreda governments take place in a timely manner and according to these formulas (see Annex 2). Passing the Fairness Test will remain essential to triggering DP disbursements to the FBG.

6.15. In addition, the Government and DPs have agreed to include Equity as a core principle under PBS 3 to be reviewed as part of the semi-annual Fairness review at each JRIS mission. The objective of this Fairness and Equity Review will be to track and assess any discrepancies in access to basic services between and within regions and between genders, with the view to identifying possible interventions. The socio-economic study conducted under Sub-program B3 will also investigate access of various groups to basic services.

## **B. Technical**

6.16. *Linkages with Basic Service Sectoral Plans.* The PBS program supports higher level objectives of improving the access and quality of basic services delivered by sub-national governments. As outlined in the “Policy Note on Decentralization and Sustainability”, the Government is committed to supporting decentralized service delivery to reach GTP and MDG goals. However, the opportunities for allowing local sectoral offices to reallocate resources are limited by a combination of administrative and budget constraints at woreda-level. Further, local sectoral staff often need additional technical skills and training.

## **C. Financial Management**

6.17. To assess the fiduciary risks of this operation, the FM Annex (Annex 4) summarizes the current state of the Government’s public financial management (PFM) systems as well as ongoing reform efforts to further enhance them. It rates the Fiduciary Risks as “High” and “Substantial” after mitigation measures. It also outlines results of a financial management assessment conducted by the Bank and actions to strengthen the system which have been agreed with the Federal Government of Ethiopia. The assessment has concluded that with the implementation of the proposed actions, the proposed financial management arrangements, which are the same as earlier ones used for PBS 1 and 2, are adequate to provide, with reasonable assurance, accurate and timely information on the status of the loan as required by the Bank.

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<sup>16</sup> A new Federal Block Grant formula to take effect in EFY 2005 (July 2012) was approved by the House of Federation in May, 2012. This formula will be in effect for 5 years.

## **D. Procurement**

6.18. An assessment of procurement risks was carried out in June 2012 for COPCU and CSA as main Implementing Agencies. It reviewed the procurement procedures, organizational structures, staffing, and skills for procurement management. The overall risk for procurement (prior to mitigation measures) was considered High. The assessment recommended a number of actions to mitigate the procurement risks. With implementation of these measures the procurement risk is expected to be reduced to Medium. The main measures consist of strengthening the procurement units with hiring of qualified and experienced procurement specialists and introducing accountability mechanisms, through enhanced internal auditing capabilities.

6.19. Procurement of goods and works and selection of consultants under the proposed project would be carried out in accordance with: (i) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by WB Borrowers" dated January 2011; (ii) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by WB Borrowers" dated January 2011; and (iii) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and revised in January 2011; (iv) the provisions stipulated in the Legal Agreements; and (iv) exceptions to National Competitive Bidding Procedures (see Annex 4).

6.20. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame would be agreed between the Borrower and IDA project team in the Procurement Plan (PP). The PP would be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

## **E. Environmental and Social Safeguards**

6.21. PBS 3 is proposed to have two Sub-Programs: Sub-Program A -- Basic Services Block Grants, and Sub-Program B – Strengthening Local Accountability and Transparency Systems.

6.22. For Sub-program A, Basic Services Block Grant, as Project financing is limited to recurrent expenditures for basic services and does not include financing for capital investment or civil works, World Bank safeguard policies are not triggered. Although there could be concurrent Government financing for capital development in the basic services sectors that will enhance the development outcomes of Sub-Program A, this is not necessary to achieve the objectives of PBS 3. Also for Sub-Program B, which is to strengthen Local Accountability and Transparency Systems, the World Bank safeguard policies are not triggered. Thus the Environmental category for PBS 3 is determined to be C.

6.23. Through the previous two PBS Phases, a pilot Local Investment Grant (LIG), which was a Specific Purpose Grant from the Federal Government to selected woredas for capital investments in the five basic services sectors, was introduced. Due to the inclusion of the LIG component, the World Bank safeguards policies, including Environmental Assessment OP/BP 4.01 and Involuntary Resettlement (OP/BP 4.12) were triggered because of the small

infrastructure construction activities. Accordingly, Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) were prepared and disclosed. However, the LIG component is no longer included in PBS 3.

6.24. Even though PBS 3 does not trigger the World Bank safeguard policies at project level, it provides an opportunity to build on the LIG safeguards work and strengthen environmental and social assessment at local level, given its size and coverage. This can be done, among others, through:

- a) Assess the capacity to conduct environmental and social assessments in the basic service sectors at local level
- b) Targeted capacity building on ESA to basic services sector offices
- c) Strengthened horizontal linkages between the basic service sectors and environment offices at local level
- d) Encouraging best practices in environmental and social management in planning and implementation of projects regardless of funding source

6.25. Building on the capacity building effort of the previous two PBS phases on environmental and social assessment, PBS 3 will support the five basic services sectors to mainstream environmental and social assessment in project/program planning and implementation at local levels. This will help the sectors to provide the basic services in a more environmentally and socially sustainable manner.

6.26. As stated above, strengthening woreda safeguard systems and staff capacity to implement that system under PBS 3 would be a great opportunity given the size and coverage of the project. Most of the regions have established a Land and Environment Protection Office at woreda (district) level. Though the PBS 2 Environmental Sustainability Study highlighted that the capacity of these offices is limited, it provides an opportunity to mainstream environmental and social issues into development planning and implementation at local levels. PBS 3 has to build on the experiences gained through the Local Investment Grant (LIG) component of the previous phases to encourage best practices in environmental and social management in the planning and implementation of projects. The capacity building on environmental and social assessment will be embedded in Sub-Program B – Strengthening Local Accountability and Transparency Systems.

6.27. The Safeguards policies applicable for the operation are:

| <b>Safeguard Policies Triggered</b>            | <b>Yes</b> | <b>No</b> |
|--|------------|-----------|
| Environmental Assessment OP/BP 4.01            |            | X         |
| Natural Habitats OP/BP 4.04                    |            | X         |
| Forests OP/BP 4.36                             |            | X         |
| Pest Management OP 4.09                        |            | X         |
| Physical Cultural Resources OP/BP 4.11         |            | X         |
| Indigenous Peoples OP/BP 4.10                  |            | X         |
| Involuntary Resettlement OP/BP 4.12            |            | X         |
| Safety of Dams OP/BP 4.37                      |            | X         |
| Projects on International Waterways OP/BP 7.50 |            | X         |
| Projects in Disputed Areas OP/BP 7.60          |            | X         |

## Annex 1 : Results Framework and Monitoring

| <b>Higher-level objective:</b><br><b>Expanding access and improving quality of basic services</b><br>The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads. |      |                   |                         |                             |            |            |            |            |           |                          |                                    |          |
|---|------|-------------------|-------------------------|-----------------------------|------------|------------|------------|------------|-----------|--------------------------|------------------------------------|----------|
| Higher Level Results Indicators   | Core | UOM <sup>17</sup> | Baseline (FY11) (EFY03) | Target Values <sup>18</sup> |            |            |            |            | Frequency | Data Source/ Methodology | Responsibility for Data Collection | Comments |
|   |      |                   |                         | FY13 EFY05                  | FY14 EFY06 | FY15 EFY07 | FY16 EFY08 | FY17 EFY09 |           |                          |                                    |          |
| <b>Education</b><br>1. Primary Completion Rate:<br>a. Grade 8<br>(Disaggregate by Gender +Regions)  |      | %                 | 49.4                    | 78                          | 89         | 95.5       | 96         | 97         | Annual    | EMIS                     | MoE                                |          |
| 2. Primary enrolment rates<br>a. Net enrolment rates for grade 1-8 (disaggregated by regions)   |      | %                 | 85.3                    | 93                          | 95         | 100        | 100        | 100        | Annual    | EMIS                     | MoE                                |          |
| b. Gender Parity Index for grade 1-8 (disaggregated by regions)   |      | %                 | 0.94                    | 0.98                        | 0.99       | 1          | 1          | 1          | Annual    | EMIS                     | MoE                                |          |
| <b>Health</b><br>3. Immunization: Proportion of children vaccinated Penta-3 <sup>7</sup>  |      | %                 | 86                      | 89                          | 94         | 96         | 97         | 98         | Annual    | HMIS                     | MoH                                |          |
| 4. Pregnant women received <b>antenatal</b> care during first visit to a health provider  | X    | Number            | 2,403,088               | 2,426,476                   | 2,484,945  | 2,514,180  | 2,550,000  | 2,600,000  | Annual    | HMIS                     | MoH                                |          |
| <b>Water and Sanitation</b><br>6. Increased access to potable water supply coverage:<br>a. Rural water supply coverage within 1.5 km radius   |      | %                 | 71.3                    | 80                          | 86         | 92         | 93         | 95         | Annual    |                          | MoWE                               |          |

<sup>17</sup> UOM = Unit of Measurement.

<sup>18</sup> Target values of higher level indicators are harmonized with the Government of Ethiopia's Growth and Transformation Plan (GTP) Framework. Target values for outer years (EFY08 and EFY09) are subject to change based on the Government's next five year plan.

**Higher-level objective:  
Expanding access and improving quality of basic services**

The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads.

| Higher Level Results Indicators  | Core | UOM <sup>17</sup>   | Baseline (FY11) (EFY03) | Target Values <sup>18</sup> |            |            |            |            | Frequency | Data Source/ Methodology       | Responsibility for Data Collection | Comments |
|--|------|---------------------|-------------------------|-----------------------------|------------|------------|------------|------------|-----------|--------------------------------|------------------------------------|----------|
|  |      |                     |                         | FY13 EFY05                  | FY14 EFY06 | FY15 EFY07 | FY16 EFY08 | FY17 EFY09 |           |                                |                                    |          |
| b. Urban potable water supply coverage within 0.5 km radius  |      | %                   | 92.5                    | 95                          | 97         | 99         | 100        | 100        | Annual    |                                | MoWE                               |          |
| 7. Proportion of households with access to latrine   |      | %                   | 86                      | 87                          | 88         | 88         | 89         | 90         | Annual    |                                | MoH                                |          |
| <b>Agriculture</b><br>8. Increased agricultural productivity : major food Crops productivity <sup>19</sup> |      | Quintal per Hectare | 16.5                    | 19.2                        | 20.5       | 22         | 22         | 22         | Annual    | Ag Sample Survey/Adm in system | MoA/CSA                            |          |
| <b>Roads</b><br>9. Average time to nearest all-weather road  |      | Hours               | 3.5                     | 2                           | 1.6        | 1.5        | 1.4        | 1.3        | Annual    | Reports from RSDP              | ERA/                               |          |

<sup>19</sup> Major crops include Cereals, Pulses and oil seeds.

|   |      |        | <b>Project Development Objective (PDO):</b> To contribute to the higher-level objective of expanding access and improving the quality of basic services by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of sub-national governments. |                          |            |            |            |            |           |                      |                                 |  |
|---|------|--------|---|--------------------------|------------|------------|------------|------------|-----------|----------------------|---------------------------------|--|
| PDO Level Results Indicators  | Core | UOM    | Baseline (FY11) (EFY03)   | Cumulative Target Values |            |            |            |            | Frequency | Data Source/ Methods | Responsible for Data Collection | Comments   |
|   |      |        |   | FY13 EFY05               | FY14 EFY06 | FY15 EFY07 | FY16 FFY08 | FY17 EFY09 |           |                      |                                 |  |
| 1. a/ Student Teacher Ratio (Grades 5-8) (Staffing)   |      | %      | 51  | 46.6                     | 45         | 43.5       | 42         | 41         | Annual    | EMIS                 | MoE                             |  |
| 1. b. Proportion of qualified primary school teachers (Disaggregated by gender + Regions) (Staffing)  |      | %      | 47.2  | 72                       | 83         | 95         | 96         | 97         | Annual    | EMIS                 | MoE                             |  |
| 2. Ratio of health extension workers to population (Disaggregated by Regions) (Staffing)  |      | %      | 1:2,578   | 1:2,500                  | 1:2,500    | 1:2,500    | 1:2,500    | 1:2,500    | Annual    | HMIS                 | MoH                             |  |
| 3. Agricultural extension services beneficiaries (Direct Beneficiaries)   |      | Number | 0   | 11,400,000               | 12,800,000 | 14,600,000 | 14,800,000 | 14,900,000 | Annual    | MoA Reports          | MoA                             |  |
| 4. Reduced non functioning water supplies schemes (disaggregated by regions + Urban/Rural) (Operations)   |      | %      | 20  | 14                       | 12         | 10         | 9          | 8          | Annual    | Annual               | MoWE reports                    |  |
| 5. Roads in fair and good condition (Operations)  | X    | %      | 82  | 84.6                     | 85.9       | 86.7       | 87         | 88         | Annual    | ERA MIS              | ERA                             |  |
| 6. Citizens who are informed about Woreda budget (Transparency)   |      | %      | 19  | 21                       | 23         | 25         | 25         | 25         | Annual    | survey report/ WCBS  | EMCP                            |  |
| 7. Citizens who report that Woreda officials have actively sought the views of people in their Kebele on improving quality of basic services (Accountability) |      | %      | 48  | 50                       | 50         | 55         | 55         | 55         | Annual    | Survey/ WCBS         | MA                              |  |
| 8. WoFEDs <sup>20</sup> that have effectively rolled out IBEX (Financial Management)  |      | Number | na  | 734                      | 800        | 900        | 900        | 900        | Annual    | MoFED report         |                                 | There may be further changes/additions in PFM indicators |

<sup>20</sup> Woreda Finance and Economic Development Office. There are approximately 900 woredas in Ethiopia; this number changes regularly due to the creation of new woredas.

| Intermediate Results and Indicators  |      |        |                         |               |            |            |            |            |           |                          |                                 |          |
|--|------|--------|-------------------------|---------------|------------|------------|------------|------------|-----------|--------------------------|---------------------------------|----------|
| Intermediate Result 1: Improved availability of qualified staff and operational resources for delivery of basic services |      |        |                         |               |            |            |            |            |           |                          |                                 |          |
| Intermediate Results Indicators  | Core | UOM    | Baseline (FY11) (EFY03) | Target Values |            |            |            |            | Frequency | Data Source/ Methodology | Responsible for Data Collection | Comments |
|  |      |        |                         | FY13 EFY05    | FY14 EFY06 | FY15 EFY07 | FY16 EFY08 | FY17 EFY09 |           |                          |                                 |          |
| 1. Health extension workers deployed   |      | Number | 30,900                  | 34,000        | 36,000     | 40,000     | 40,000     | 40,000     | Annual    | Administrative data      | FMOH                            |          |
| 2. Qualified Primary School Teachers   |      | Number | 145,511                 | 175,000       | 215,000    | 245,000    | 275,000    | 300,000    | Annual    | Administrative data      | FMOE                            |          |
| 3. Woreda road desks with appropriate staff(Disaggregated by Regions)  |      | Number | 155                     | 390           | 470        | 560        | 600        | 650        | Annual    | ERA MIS                  | ERA                             |          |
| 4. Development agents with specialization on Agro-ecological zones and high value crops                                  |      | Number | 5,130                   | 9,000         | 9,900      | 12,000     | 12,000     | 12,000     | Annual    | MoA MIS                  | MoA                             |          |
| Intermediate Result 2: Improved transparency and fiduciary assurance regarding the use of public funds                   |      |        |                         |               |            |            |            |            |           |                          |                                 |          |
| 6. Woredas that post the refined and simplified budget and expenditure template to the public                            |      | %      | 70                      | 80            | 90         | 100        | 100        | 100        | Annual    | survey report            | EMCP/MoFED                      |          |
| 7. Basic service units that post the standardized service delivery template  |      | %      | 25                      | 30            | 40         | 50         | 60         | 70         | Annual    | survey report            | EMCP/MoFED                      |          |
| 8. Audit coverage of the annual budget   |      | %      | 30                      | 35            | 40         | 45         | 50         | 60         | Annual    | Audit report             | MoFED/OFAG                      |          |
| a. ORAG <sup>21</sup>  |      | %      | 30                      | 35            | 40         | 45         | 50         | 60         | Annual    | Audit report             | MoFED/OFAG                      |          |
| b. OFAG <sup>22</sup>  |      | %      | 90                      | 92            | 95         | 97         | 100        | 100        | Annual    | Audit report             | EMCP/MoFED /OFAG                |          |

<sup>21</sup> % woreda sectoral offices audited by regional auditor general annually

<sup>22</sup> % federal agencies and ministries audited by the federal auditor annually

|   |  |                 |    |     |     |     |     |     |        |                                    |                               |  |
|---|--|-----------------|----|-----|-----|-----|-----|-----|--------|------------------------------------|-------------------------------|--|
| c. Woredas that implemented prior period Audit recommendations  |  | %               | 5  | 20  | 25  | 30  | 40  | 60  | Annual |                                    |                               |  |
| 1. A. Number of woreda staffed with procurement specialist with regional procurement training and with clear career path                                |  | Number          | 0  | 50  | 100 | 300 | 400 | 500 |        |                                    |                               |  |
| b. woreda that publicly post all procurement award decisions  |  | Number          | 0  | 200 | 400 | 600 | 700 | 900 |        |                                    |                               |  |
| <b>Intermediate Result 3: Improved citizens' engagement on quality of basic services delivery</b>   |  |                 |    |     |     |     |     |     |        |                                    |                               |  |
| 10. Woredas where PBS Social Accountability Implementing Partners (SAIP) facilitate the use of Social Accountability tools                              |  | Number          | 50 | 100 | 150 | 175 | 320 | 400 | Annual | Survey                             | MA                            |  |
| 11. SAIP woredas that have developed joint action plans for service quality improvement based on interface meetings between service users and providers |  | Number          | na | 70  | 120 | 150 | 300 | 400 | Annual | Survey                             | MA                            |  |
| 12. Regions with functioning GRMs consistent with best international practice   |  | Number          | 2  | 5   | 7   | 9   | 11  | 11  | Annual | Survey                             | EMCP/COPCU /Federal Ombudsman |  |
| 13. Number of regions preparing and adopting standardize manual and guidelines Grievance Redress Mechanisms   |  | Number          | 3  | 6   | 8   | 11  | 11  | 11  | Annual |                                    |                               |  |
| 14. Regions Submit the PBS the quarterly Interim Financial Reports (IFR) to COPCU without major deficiencies  |  | Number          | 4  | 7   | 8   | 11  | 11  | 11  | Annual | Administrative data                | COPCU                         |  |
| <b>Intermediate Result 4: Strengthened M&amp;E systems at central, federal, and sub-national levels</b>   |  |                 |    |     |     |     |     |     |        |                                    |                               |  |
| 18. Number of PBS sectors with their indicators assessed through implementation of EDQAF  |  | Number per year | 2  | 2   | 2   | 2   | 2   | 2   | Annual | EDQAF reports                      | CSA                           |  |
| 19. Woredas that rolled out the new Education MIS   |  | Number          | 0  | 300 | 600 | 900 | 900 | 900 | Annual | EMIS project implementation report | MoE                           |  |
| 20. Improved community health management information systems<br>a) Proportion of health centres implementing the new HMIS                               |  | %               | 72 | 80  | 90  | 100 | 100 | 100 | Annual | HMIS                               | MoH                           |  |

|  |  |             |                           |                                |                               |   |   |   |        |                                 |      |  |
|--|--|-------------|---------------------------|--------------------------------|-------------------------------|---|---|---|--------|---------------------------------|------|--|
| b) Proportion of health posts implementing CHIS <sup>23</sup>  |  | %           | 22                        | 50                             | 75                            | 100   | 100   | 100   | Annual | HMIS                            | MoH  |  |
| 21. Woredas that rolled out the new WASH MIS <sup>24</sup>   |  | %           | 50                        | 300                            | 600                           | 900   | 900   | 900   | Annual | WASH MIS                        | MoWE |  |
| 22. Strengthened MoA's MIS   |  | Qualitative | No MIS                    | Develop MIS                    | MIS with data for all regions | Web Enabled MIS operational                       | Continued implementation of the new Web Based MIS | Continued implementation of the new Web Based MIS | Annual | MIS development progress report | MoA  |  |
| 23. Development of ERA's MIS   |  | Qualitative | Web based MIS operational | data available in four regions | data available in all regions | System Updating, and production of annual reports | Continued implementation of the new MIS           | Continued implementation of the new MIS           | Annual | MIS development progress report | ERA  |  |
| 24. Regions with up-to- date facility information through geo-referenced system (using CSA's branch offices) |  | Number      | 0                         | 8                              | 9                             | 11  | 11  | 11  |        | Various reports                 | CSA  |  |

<sup>23</sup> CHIS:-community health information system

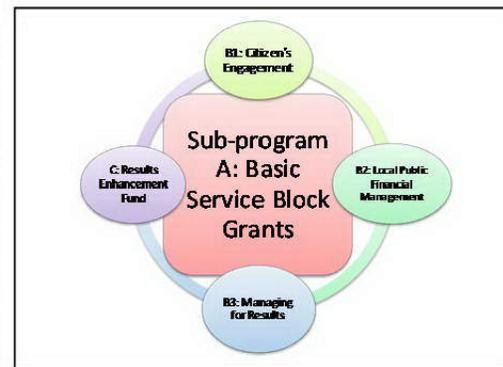
<sup>24</sup> Woredas that roll out the new WASH MIS under PBS support only.

## Annex 2 : Detailed Project Description

1. PBS supports the Government’s commitment to strengthen decentralized service delivery and enhance local transparency and accountability mechanisms that support those service delivery objectives. It combines (A) a high-volume, fast-disbursing sub-program that finances recurrent expenditures for basic services at sub-national levels, and (B) a local system strengthening sub-program with four components to improve transparency and accountability systems at woreda-level.

2. This combination of a fast-disbursing sub-program based on shared objectives and an integrated sub-program for local system strengthening allows the PBS program to follow internationally agreed aid-effectiveness principles of: country ownership and alignment, by supporting an existing and credible government program; harmonization through dedicated resources for coordination and streamlined donor processes; working with Government systems; mutual accountability through review mechanisms that encourage timely and predictable financing when benchmarks are met; and a strong focus on results, using a jointly-agreed results framework along with significant dedicated resources to strengthen national data collection and M&E systems. The central characteristics that make it uniquely appropriate for Ethiopia are the Governments and DPs strong shared commitment to improve basic service delivery, Ethiopia’s commitment to ongoing decentralization, and the effective accountability and public finance systems to ensure that resources deliver basic service results.

Figure 1: PBS 3 Structure of Components



3. *Basic Service Block Grants (Sub-program A – USD 6.2 billion)* finances recurrent (salaries, operation and maintenance) expenditures in the five basic service sectors (education, health, agriculture, water and sanitation, and rural roads) at local levels. IDA and DP funds are combined with Government’s own resources and distributed to regional and local governments through Federal Block Grant transfers. Local level expenditures are then recorded using the country’s financial management reporting system. As the program transfers resources through the Government’s fiduciary and governance systems in line with the Paris, Accra, and Busan agendas on effectiveness of development assistance, the project, through both Sub-programs A and B, builds capacity of the public financial management system.

**Promoting Better Services (PBS) Phase 3  
Outline of Program Elements**

**Sub-Program A: Basic Service Block Grants (USD 6.2 billion)**

**Sub-Program B: Strengthening Local Accountability and Transparency Systems (USD 114.6 million)**

*Component B1: Citizen's Engagement (USD 35.0 million)*

- Sub-component B1a: Financial Transparency and Accountability (FTA)
- Sub-component B1b: Social Accountability Program (ESAP)
- Sub-component B1c: Support of Grievance Redress Mechanisms (GRM)

*Component B2: Local Public Financial Management and Procurement (USD 52.6 million)*

- Sub-component B2a: Woreda PFM and procurement strengthening
- Sub-component B2b: Support for and roll out of IBEX system
- Sub-component B2c: Regional training and program support
- Sub-component B2d: Support to External Audit & Parliament

*Component B3: Managing for Results (USD 27.0 million)*

- Sub-component B3a: The Results Framework and Monitoring
- Sub-component B3b: Strengthening M&E systems
- Sub-component B3c: Demand-driven, Collaborative Analytical Works

**Sub-Program C: Results Enhancement Fund (USD 78.2 million)**

4. The Basic Service Block Grants are based on Core PBS Principles that reflect joint understandings of how to reach the shared development objectives of improved decentralized basic service delivery. Through a multi-sectoral, multi-level results chain, these Basic Service Block Grants provide resources that contribute to achieving PBS results. Resources provided through the Basic Service Block Grants are disbursed to the federal budget, and then, according to agreed allocation principles, distributed to regions. In turn, regions allocate these Basic Service Block Grants to local governments, again following agreed, transparent allocation formulae (See Financial Management appraisal summary for more information on funds flows through Ethiopia's decentralized federal system). Within woredas, these basic service block grants support recurrent expenditures for primary service delivery units, such as primary schools, primary health posts, farmer training centers, water delivery points, and woreda roads desks. Based on sectoral policies and guidelines, these primary service delivery units are ultimately responsible for expanding access and strengthening the quality of basic services in the country. For the PBS program to achieve its objectives, therefore, there needs to be agreement on crucial elements of this results chain.

5. To track progress towards common objectives and agreements, the program is based on a set of interrelated "Core PBS Principles" that guide program implementation. These core principles derive from Government commitments reflected in its Constitution, its current Growth and Transformation Plan (GTP), as well as sectoral and multi-sectoral plans, e.g., Health Sector Development Program IV, Education Sector

**Core PBS Principles**

- Results/ Development
- Sustainability
- Additionality
- Fairness
- Equity
- Transparency
- Fiduciary Probity
- Predictability

Development Program IV, WASH Program, Road Sector Development Program IV, Good Governance Package, etc.

### **Performance Assessment Framework for PBS 3 – Core Principles**

6. As was the case in the first and second phases of the program, PBS 3 is also based on a set of interrelated core principles which will be used to track progress towards common objectives and agreements. The monitoring mechanisms to ensure adherence to these principles remain largely unchanged from PBS 2, involving both formal tests and reviews. The formal tests involve ensuring that the government has met the requirements and specific commitments stipulated in the agreed frameworks. The Reviews are meant to track and address issues that are relevant to the Project and serve as a basis for ongoing dialogue on the challenges facing effective Project implementation and, where possible, contribute to agreed policy and other actions that will help alleviate the challenges.

7. Details of the monitoring and review mechanisms that will be used in PBS 3 are described in the following paragraphs.

### **Development Effectiveness/Results**

8. The Effectiveness Principle will continue to be one of the core principles under PBS 3. The Effectiveness Review under PBS 3 will focus on addressing issues relevant to effective service delivery with a view to identifying ways to further improve. Although effectiveness is influenced by a broad range of issues, the Effectiveness Review will address the following issues.

9. ***Adequate inter-sectoral resource allocation:*** This will involve examining the medium-term plan for inter-sectoral **resource** allocation for a better understanding of the longer-term resource needs of the basic service sectors and the complementarities among them. This is also important to ensure adequate funding to service delivery inputs with transaction costs showing a gradual decline.

10. ***Balanced intra-sectoral allocation:*** The Effectiveness Review will also examine the balance between capital vs. recurrent spending allocations as well as the salary vs. non-salary recurrent (operating) expenditures. This will be done in order to assess whether the share of non-salary recurrent and capital spending is improving over time.

11. ***Results achieved:*** The Effectiveness Review will continue to examine the results achieved in the basic service sectors in terms of access, quality and inclusiveness.

12. ***Approach and Methodology:*** The Effectiveness Review will be conducted semi-annually as part of the JRIS missions. For every JRIS, two of the five basic service sectors will be selected on which the Effectiveness Review will be conducted. The Effectiveness Review will be based on inputs provided by relevant sectoral experts, PBS Development Partners, as well as the sectoral Ministries, all of which will be complemented by data and information gathered during the pre-JRIS field missions. As necessary, the JRIS missions will also hear updates on relevant systems-strengthening initiatives being supported by the PBS Project to improve information,

data management, and national M&E systems. Specific action items will be developed as part of each JRIS.

## **Sustainability**

13. Ensuring sustainable financing for basic services has been an important concern since the start of the PBS Project. While the Additionality Principle has been addressing some elements of this issue, the Sustainability Principle under PBS 3 will cover a much wider range of issues around sustainability. The major objective of the Sustainability Review is to ensure that financing of basic services can be sustained over the long-term even without the PBS Project.

14. The initial basis for the sustainability review will be the Government's long-term projections for how the Government plans to finance decentralized basic service delivery. These will be summarized in the sustainability study, which will focus on domestic revenue mobilization and costs of basic services in the long run. Sustainability Reviews will consider progress towards these long-term targets and review any developments that may hinder that progress.

15. The following issues are the major areas on which the Sustainability Review will focus:

- ***Sources of Financing for Basic Services:*** The Sustainability Review will examine the different sources of financing for basic services, including Government-own revenues, donor resources (through Channels 1 and 2), NGO contributions<sup>25</sup>, community contributions, user fees, etc.
- ***Cost of Basic Service Delivery:*** As the cost of basic service delivery is bound to change as Ethiopia's economy and demographics continue to evolve, it is important to have a dynamic understanding of these changes so that their implications for service delivery costs are adequately reflected in projections of future resource needs. The Sustainability Review will, therefore, also seek to examine these dynamics and their impact on the question of costs.
- The share of domestic resources dedicated to basic service expenditures at all level with the aim to have a higher proportion of the PBS program paid for by domestic resources.
- ***Approach and Methodology:*** The Sustainability Review will be conducted at yearly intervals based on analytical pieces produced or commissioned jointly by the Government and DPs, beginning with the sustainability study mentioned above.

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<sup>25</sup> Development partners and the Government recognize the difficulty of tracking the full extent of financing from all sources.

## **Additionality**

16. The major objectives of the Additionality Principle are:

- To ensure that government priority to the MDGs are expressed in medium-term commitments to increase overall financing for the FBG and hence to basic service at sub-national level; and
- To ensure that allocated resources for basic services are flowing in a predictable manner.

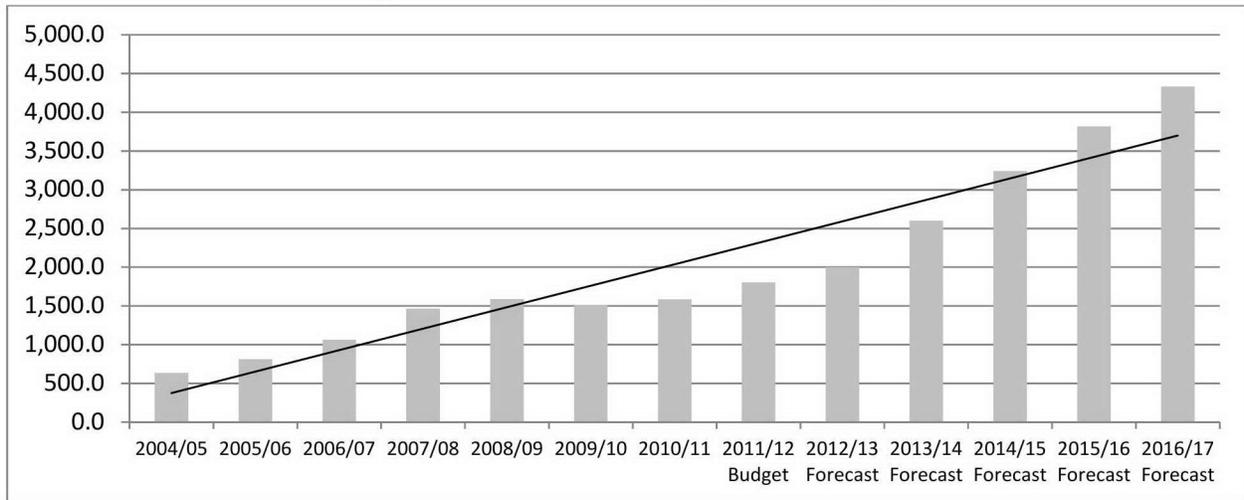
17. The monitoring mechanism for this Principle has evolved since it was introduced in the first phase of the Project. While there might be some modifications to accommodate emerging considerations, it was agreed that the revised criteria (in place since November 2010) will continue.

18. To ensure that these objectives are met, the Additionality Test will monitor trends in the federal Block Grants as a share of total federal spending and the proportion of sub-national spending on basic services.

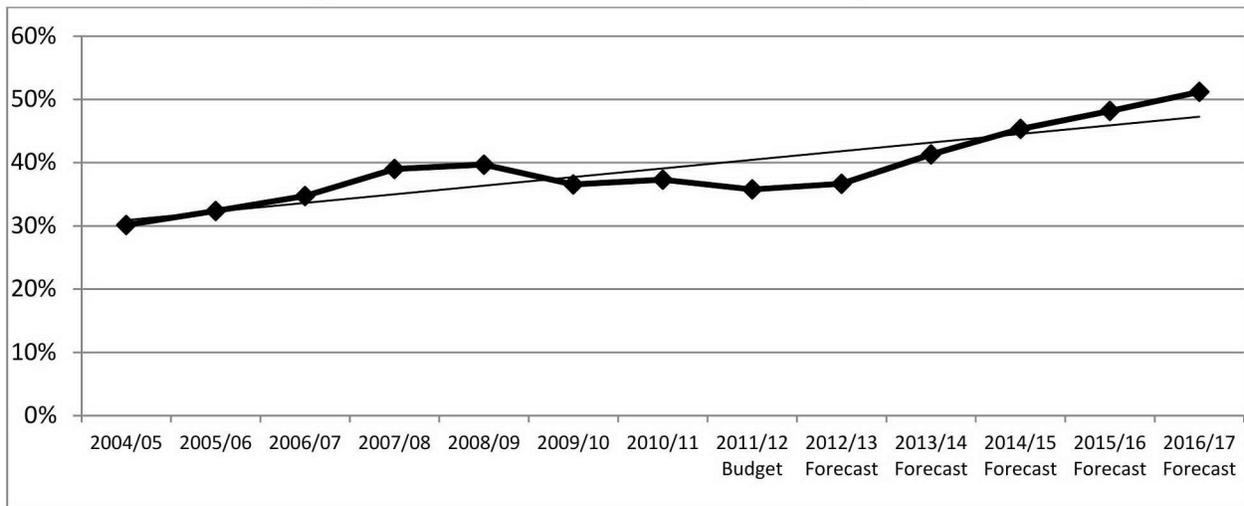
19. ***Non-declining allocation of FBG to regions:*** Under the Additionality Principle, the federal government is required to maintain a non-declining trend in Federal Block Grants to the regions as a share of total federal spending. When calculating total federal spending only expenditures from Treasury sources will be considered and non-discretionary expenditures --- such as debt payments (both domestic and external) as well as financing allocated under the MDG Support Fund --- will be excluded.

20. While the Federal Block Grants have continued to grow since PBS 1, the rate of growth has gone down in recent years. As a result, the FBG as a proportion of total Federal level spending has largely remained stable in recent years with a slight declining trend. Based on the Government's Macroeconomic and Fiscal Framework (MEFF), however, the rate of increase in the FBG is expected to rise significantly during the next five years in which PBS 3 will be operational. The FBG as a share of total federal expenditure is also envisaged to recover and continue to increase (see Figures 2 & 3).

**Figure 2: Federal Block Grant (in million USD)**



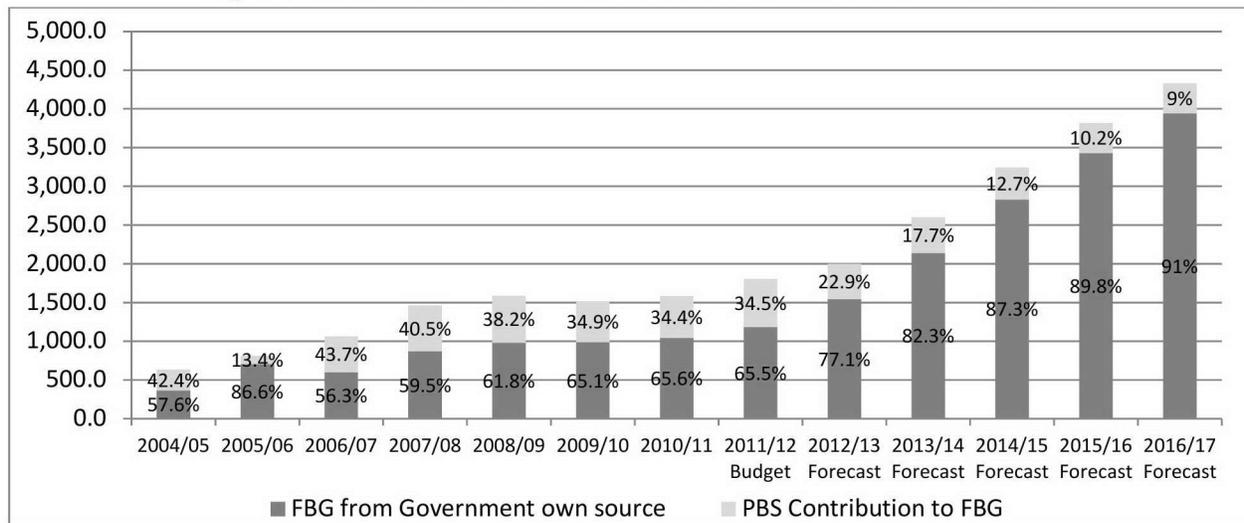
**Figure 3: FBG as a Share of Federal Government Expenditure**



21. The Additionality Principle also requires that the FBG in real terms shows a non-declining trend. To assess this, the amount of FBG allocated in year (t+1) will be compared with the pre-actual or budgeted amount in year (t). For this exercise, the nominal FBG amounts would be converted to real values using the annual average value of the Consumer Price Index (CPI).

22. This approach will also monitor the share of domestic financing comprising the total FBG (including PBS funding) as this is an important indicator of sustainability. To ensure the sustainable financing of the Block Grant, the share of domestic financing should show a non-declining trend over the medium-term. As can be seen from Fig. 2.4, an increasingly larger proportion of the FBG has been financed from domestic sources with this trend envisaged to accelerate in the next five years.

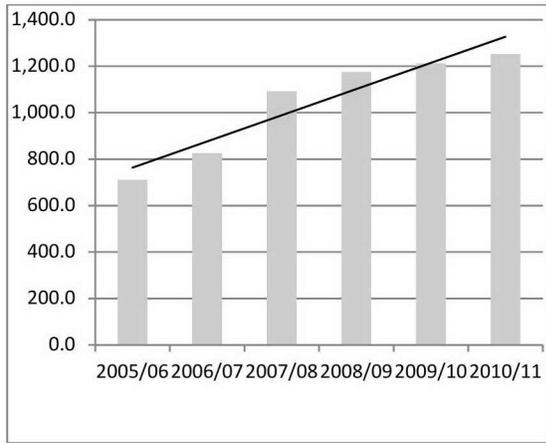
**Figure 4: GoE and PBS Donors' Contributions to the Federal Block Grant**



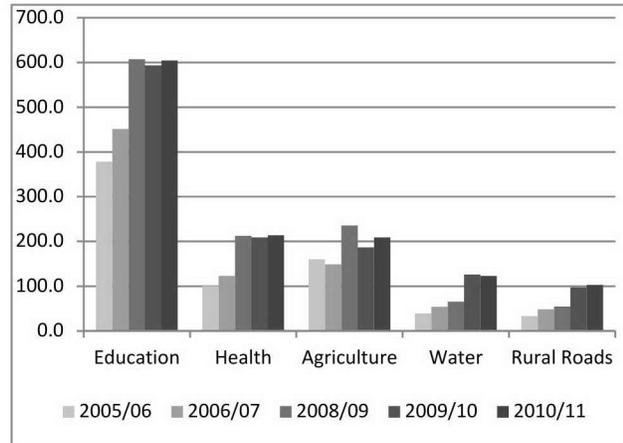
**23. Non-declining share of basic services in sub-national spending:** The Additionality Test will also involve a review of sub-national level spending on the five basic services sectors. To ensure that regions and woredas continue to give priority to these sectors, the Test requires that they maintain a non-declining share of basic services from their total spending/budget. This involves comparing the share of basic services from total budget of regions and woredas in year (t) with their share from total pre-actual spending in year (t-1).

24. While spending on basic services has increased over the past few years at both regional and woreda levels, its share of total spending has declined in recent years. Regional spending on basic services accelerated during the first three years of the PBS operation but became largely stable with only modest growth in subsequent years. This can be attributed to a significant slowdown in the rate of spending increases in education, health and, to some extent, agriculture in recent years. At least at the regional level, spending seems to be shifting towards water and sanitation as well as rural roads while spending on education, health, and agriculture has remained largely stable.

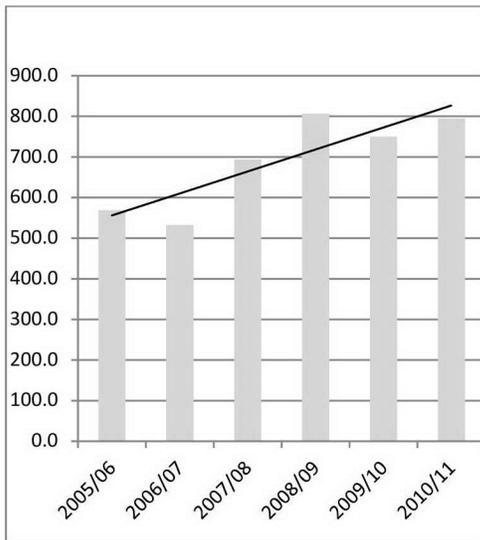
**Figure 6: Regional Spending on Basic Services in million USD**



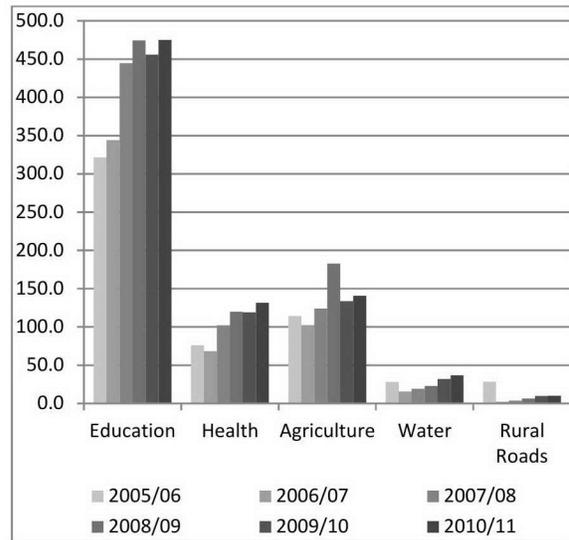
**Figure 5: Regional Spending on Basic Services Sectors (in million USD)**



**Figure 8: Woreda Basic Service Spending (in million USD)**

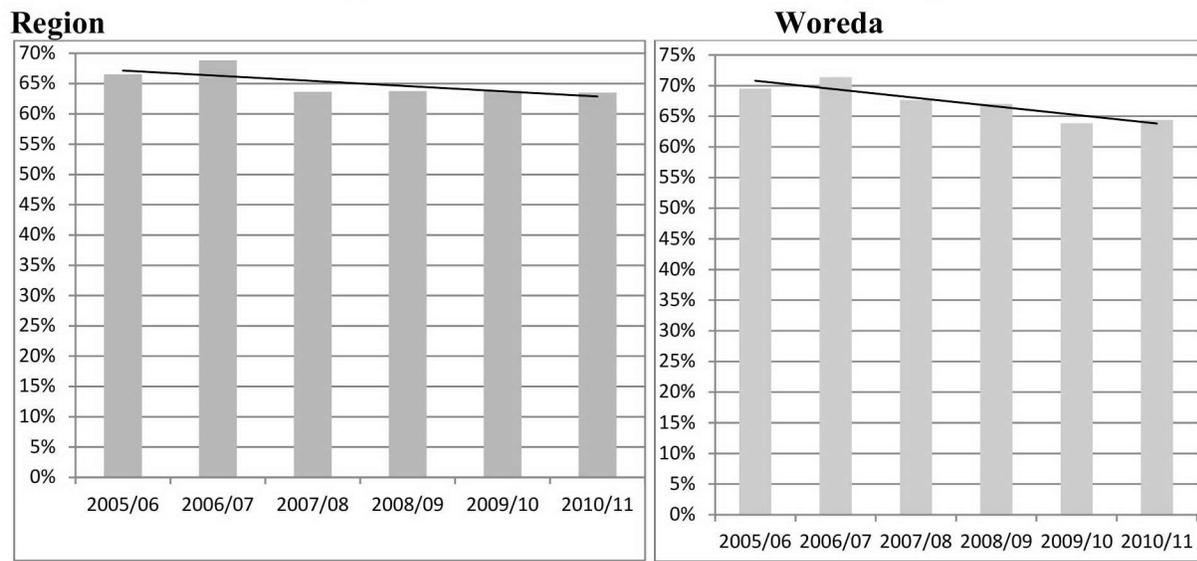


**Figure 7: Woreda Spending on Basic Services**



25. Spending on basic services as a share of total spending has dropped significantly in recent years at both regional and woreda levels. However, the share seems to have become stable over the past three years without showing a significant declining trend. While this observed decline is of some concern, it needs to be put in its proper context to be better understood. As the PBS program is multi-sectoral in nature and several of the basic services being supported are complementary in nature, it is important to strengthen all stakeholders' understanding of overall costs of basic services going forward, the parameters driving inter- as well as the intra-sectoral allocations (see the Development Effectiveness/Results Principle).

**Figure 9: Share of Basic Services from Total Spending**



**26. Approach and Methodology:** There will be two opportunities to assess the Additionality Principle within a year.

- i. The April/May Additionality Test (ex-ante review) will focus on trying to assess the policy direction of the government in terms of decentralized basic service delivery. Based on the government's medium-term Macroeconomic and Fiscal Framework, it verifies that there is:
  - a) a non-declining trend in the FBG as a share of federal spending (treasury source) next year (t+1) compared with the current year (t) as well as a positive trend in the medium term; and
  - b) a non-declining trend in the FBG allocation to regions in real terms. This involves assessing the allocation of FBG for next year (t+1) compared to the preceding years' budgeted /pre-actual amounts.
  
- ii. The October/November Test (ex-post review) focuses on whether the government's spending reflects its stated commitments and policy direction to decentralized basic service delivery. This will be done by examining actual fiscal out-turns against the proclaimed budget. This Test will verify whether: the agreed FBG under the MEFF (for the current FY) is reflected in the federal budget proclamation:
  - a) The FBG budgeted in the preceding year (year t-1) is disbursed (at least 95 percent of the budgeted amount, subject to the level of disbursed PBS sources); and
  - b) Sub-national (region as well as woredas) allocations in year (t) and actual spending in year (t-1) is consistent with the GoEs' commitment to continue to give priority to basic services by maintaining a non-declining trend in the share of basic services in their budget.

## Fairness

27. Similar to the Additionality Principle, the monitoring mechanism for the Fairness Principle has also evolved during the life span of the PBS Project. It was, however, agreed that the monitoring mechanism that was used during the second phase of the Project will continue to be used in PBS 3.

28. The objectives of the Fairness Test are to ensure that:

- resource allocations from the federal government to the regions and from regional governments to woredas are rules-based and transparent; and
- FBG disbursements to the regions as well as from regions to woredas are close to allocations.

29. **Rules-based allocation of resources:** Federal Block Grant allocations to Ethiopia's nine regional governments are based on an inter-governmental fiscal transfer formula developed under the supervision of the House of Federation. This formula has evolved significantly over the years, with the most recent iteration having been approved by the HoF in May, 2012. Regional governments also develop and use transfer formulae to allocate block grants to their woredas. While there are differences from region to region, these formulas draw heavily from the formula used at the federal level.

30. To make sure that resource transfers continue to be rules-based, the semi-annual JRIS and others existing Economic and Sector Working Groups will be used as forums for the presentation and discussion of inter-governmental fiscal transfer formulae used by selected regions. When necessary, occasional workshops could be organized on which the formulas used by the federal government as well as the regions will be presented and discussed.<sup>26</sup>

31. **Block grant disbursements are close to allocations:** The Fairness Test will continue to ensure that budgeted allocations of the FBG to regional governments as well as from regions to woredas are actually disbursed. It has been agreed that at least 90 percent of the allocated Block Grant must be disbursed by the end of the fiscal year for the government to pass the Fairness Test. Adequate explanations should be provided for discrepancies exceeding 10 percent.

32. **Approach and Methodology:** While the formal Fairness Test will be administered once per year during the October/November JRIS, there will be two evaluations of the Fairness Principle within a year.

- i. The April/May Fairness Test will be administered only to take note of any major discrepancies occurring at the mid-point of the fiscal year and bring them to the attention of both the government and Development Partners.

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<sup>26</sup> The PBS Secretariat organized one such workshop in May 2011. See: Alem, Demmelash, Xavier Furtado, Samuel Mulugeta, *Woreda Block Grant Transfer Formulas: Current Practices and Challenges*, May, 2011. At the May 2012 JRIS, it was agreed that the Secretariat would organize another workshop on these matters.

- ii. The October/November Fairness Test will then be the formal Test and will examine whether the allocated block grant amounts in the preceding fiscal year have been fully disbursed. Allocations are said to be fully-disbursed if at least 90 percent of the allocated amount is disbursed. Explanations are required for discrepancies above 10 percent.

33. In addition, assessing the Fairness Principle will also involve conducting discussions with members of regional and woreda councils, relevant sector officials, and other stakeholders on relevant issues. These discussions are meant to assess the extent to which the resource allocation mechanisms (i.e., the inter-governmental fiscal transfer formulas) are transparent. Such discussions will be conducted in selected regions as part of the pre-JRIS field missions.

## **Equity**

34. The government and PBS Development Partners have agreed to include Equity as one of the core principles of PBS 3. Equity in this context means equitable access to basic services between different regions and within regions while also accounting for gender-related differences. It would therefore be important to put in place mechanisms that enable the monitoring of progress towards equity with the objective of narrowing any identified gaps. This assessment will be conducted as a review.

35. The major objective of the Equity Review will be to track and assess any discrepancies in access to basic services among the different regions and woredas and between the genders, with the view to identifying possible interventions.

36. **Approach and Methodology:** The Equity Review will be conducted semi-annually as part of the JRIS. The October/November Review will be based on feedback obtained from discussions conducted with relevant stakeholders, including woreda council members, service providers and beneficiaries as part of the pre-JRIS field missions. The Equity Review will be conducted based on a jointly-agreed methodology involving a Terms of Reference that outline guiding questions for the discussions.

37. In addition to the feedback obtained from the discussions with relevant stakeholders at the pre-JRIS field missions, the April/May Equity Review will also benefit from an assessment of discrepancies in access to basic services between the big and emerging regions and by gender by making use of region and gender-specific data that will be provided as agreed in the Managing for Results component of the Project.

38. When appropriate, the Government and PBS Development Partners will jointly commission independent studies to advance all stakeholders' understanding of relevant issues of common concern.

39. As is the case under PBS 2, adherence to the above shared principles and fiduciary requirements will continue to be assessed through the semi-annual PBS JRIS missions. Disbursements for Sub-Program A (Basic Service Block Grants) will depend on satisfactory outcomes of the Tests and Reviews. The PBS 3 Core Principles will continue to form the overarching framework for assessing progress and overall program performance. However, while the Additionality and Fairness Tests will be assessed against clear thresholds (as indicated

above), the Principles will be jointly reviewed to assess trends, progress, and challenges to guide future dialogue. Disbursements will be affected only in those instances where one or more of the Tests are not met and one or more of the Principles are obviously disregarded. Donors reserve the right to determine individually the amount to be retained. In the spirit of mutual accountability and predictability in resource allocation, the decrease in disbursement will be executed in the following year/disbursement period (t+1).

### **Fiduciary Probity and Transparency**

40. The PBS program relies on a robust fiduciary system reaching from the federal level through regions to local administrations. It involves numerous mechanisms, which will be outlined in the Financial Management appraisal section of this PAD. At the same time, the Project Development Objective (PDO) also underscores the joint commitment to transparency of information about resources and results. Along with strengthened systems for financial probity, information/data transparency is considered integral to improving the quality of and access to basic services.

41. **Approach and Methodology:** With respect to the Fiduciary Principle, the PBS program requires the Government to submit regular financial reports and audits to DPs to demonstrate that fiduciary standards are being maintained and strengthened. Between JRIS meetings are a series of monthly follow-up meetings that ensure adherence to a clear work program, timely follow-up actions to address identified weaknesses, and that efforts are being taken to strengthen worda-level fiduciary systems. Each JRIS hears an update on progress achieved and then defines a series of deliverables for the following JRIS.

42. In order to ensure ongoing progress on transparency, efforts will be made to continue to promote greater transparency of budgets and results at all levels. This includes through the presentation of gender- and regionally-disaggregated results at JRIS missions, the Additionality and Fairness Tests described above, and the updates at each JRIS on the posting of budget and service delivery standards and results at local levels as well as other related updates on the FTA and Social Accountability components. Under PBS 3, efforts towards greater transparency will be expanded to include audit findings and service delivery standards, so that citizens, officials, and decision-makers receive as much information as possible regarding the range and quality of basic services provided. PBS 3 JRIS missions will also strengthen their attention to how budget transparency can be enhanced at all levels. Moreover, the program (through the PBS Secretariat) will develop and implement a joint communications strategy.

### **Predictability**

43. The PBS program relies on predictable resource flows to ensure that basic service delivery results can be achieved. To achieve those resource flows, Development Partner contributions need to be based on longer-term commitments, so that agreed disbursements can be made on time. Likewise, the Government has a responsibility to accurately reflect these DP contributions for PBS in yearly government budgets. Under PBS 3, this Principle will take higher profile and the JRIS missions will include opportunities to verify this commitment to mutual accountability and DP performance.

44. **Approach and Methodology:** A two-pronged approach has been devised to monitor the short and longer term commitment of all parties.

45. In the *short-term*, Government and Development partners will regularly review at the JRIS/JBAR: (i) donors will work towards a greater predictability in their performance. Development Partners will therefore: provide multi-annual projections of their commitments; verify that these are accurately reported on budget; and report annually on variations between commitments and disbursements; and (ii) the accuracy, as reflected in budgets, of Government expectations for Development Partner contributions for the Basic Service Block Grants.

46. DPs will also work to improve the alignment to the Ethiopian fiscal calendar by concentrating disbursements in the second and fourth quarters of the Ethiopian Fiscal Year following the successful conclusion of JRIS missions in October and May.

47. Government and DPs will also engage in a continued dialogue to develop a *long-term* strategy to finance decentralized basic services. This will consist of: (i) analytical work to assess the costing and resources required to ensure quality services for all; and (ii) developing joint strategies to attract additional resources in the framework of the JBAR.

48. *Strengthening Local Accountability and Transparency Systems (Sub-program B – USD 114.6 million)*. As outlined above, Basic Service Block Grants provide resources through Ethiopia’s decentralized economic governance system to woredas, as the administrative level responsible for local basic services. While the country’s decentralized, integrated system of fiduciary, administrative and information governance is robust, the Government and Development Partners recognize that it can and should continue to be strengthened, particularly in its implementation in the large number of very diverse woreda administrations throughout Ethiopia. As a complement to the Basic Service Block Grants Sub-program and in support of the overall PBS objectives, Sub-program B: Strengthening Local Accountability and Transparency Systems seeks to maintain and strengthen these systems with a strategic focus on the woreda-level as the front-line of administration with responsibility for PBS objectives. The Sub-program includes three interrelated components: (B1) Citizen’s Engagement, (B2) Local Public Financial Management, and (B3) Managing for Results.

49. *Citizen’s Engagement (Component B1 – USD 35.0 million)*. As recognized in the Program Development Objective and Core PBS Principles, transparency and accountability are essential to promoting improved local service delivery. In the context of PBS and international evidence, there is growing agreement among stakeholders that local service delivery which includes efforts to share and discuss budget and service information, account for user feedback and priorities, and engage service users and providers in joint action planning, is likely to experience improved service quality<sup>27</sup>. Strengthening local opportunities for citizen’s engagement supports these Core Principles, improving delivery and quality of services at woreda and kebele levels through an

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<sup>27</sup> This is in line with conclusions of the independent evaluation of ESAP Phase 1. See: IPE Global, “Evaluation Report – Final: Evaluation and Design of Social Accountability Component of the Protection of Basic Services Project, Ethiopia”, New Delhi, June 2010.

institutionalized system for transparency and accountability that is socially inclusive<sup>28</sup> and responsive to local needs.

50. In Phases 1 and 2, the PBS program supported opportunities for citizens to get information about local budgets and local service delivery objectives, as well as to provide feedback to those responsible for service delivery<sup>29</sup>. For PBS Phase 3, the Government and PBS Development Partners will seek to expand, deepen and link these on-going efforts to promote citizen's engagement. It will also seek to institutionalize them, so that efforts for citizen's engagement can be sustained outside of the PBS program.

51. The Citizen's Engagement Component (B1) links three thematically related work programs to strengthen the system and capacity for services to be delivered to local users in an increasingly transparent, responsive and accountable manner. The three sub-components include: (B1a) Financial Transparency and Accountability (FTA); (B1b) Ethiopia Social Accountability Program (ESAP); and (B1c) Support of Grievance Redress Mechanisms (GRM).

**52. (B1a) The Financial Transparency and Accountability (FTA) Sub-component**, implemented by the Ministry of Finance and Economic Development through its decentralized system, supports the "supply side" of citizen's engagement, promoting information and communication activities with citizens on expected service standards, budgets and budget use, and public education on budget processes. Under PBS 3, the objective of the FTA sub-component is to build upon achievements attained under the last two phases of the PBS project and to deepen citizens' access to budget, expenditure and service delivery information and thereby enhance the participation of citizens in the planning and budget preparation processes.

**53.** FTA under PBS 3 will focus on strengthening transparency and accountability by supporting: (i) Improvements in the quality of information available to the public by refining and simplifying the FTA tools so that the budget and service delivery information can be easily understood by citizens of different levels of education; (ii) refinements to the budget literacy training (BLT) modules, and providing BLT for Woreda citizens to raise awareness and understanding of public budgeting and planning process; (iii) Continued rollout of the FTA tools at the Woreda and Kebele levels and disclosing budget and expenditure and service delivery information to citizens, using the FTA templates, mass media and other innovative ways; (iv) Extension of the FTA initiative to the transparency of audit and procurement information by developing FTA templates

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<sup>28</sup> In this context, a socially inclusive system is one that ensures equal attention to the special interests and needs of all social groups, including those of women, children and youth, the elderly, disabled people, and people living with HIV/AIDS.

<sup>29</sup> For example, the PBS Social Accountability program aims to institutionalize mechanisms for social accountability, channeling resources and training to local civil society organizations that provide opportunities for citizens to evaluate local services and provide feedback to authorities on the quality and priorities of service providers. Opportunities for citizens to provide feedback depend on whether information is available to them. Accordingly, on a nationwide-scale PBS has also supported woreda-level Financial Transparency and Accountability (FTA) activities. FTA activities aim to increase citizens' ability to meaningfully engage in public budgeting procedures. These activities have quickly taken root in Ethiopia and so far more than 119,000 people have participated in budget literacy training. Woreda-level budgets are now systematically posted, promoting transparency in service provision and encouraging citizens to participate in public budget discussions and provide feedback on service delivery.

to disclose audit and procurement activities; (v) Strengthening the local accountability structures (Woreda and Kebele council members) on Woreda planning and budgeting procedures, and enhance citizen participation by creating discussion forums on pre-budget process (planning stage); (vi) Experience sharing and practical training on FTA initiatives in regional and/or international practices; (vii) Orientation on service delivery templates for Woreda Health, Education, Agriculture, water and Woreda Finance offices; (viii) Procuring of bill-boards and suggestion boxes for posting templates and getting feedback in regions and Woredas; and (ix) Monitoring and benchmarking of progress made towards FTA objectives.

54. (B1b) The **Ethiopia Social Accountability Program (ESAP) Sub-component**, implemented by an independent Management Agency on behalf of the Government and supervised by a multi-stakeholder Steering Committee, supports the “demand side” of citizen’s engagement, providing citizens, as public services users, with the means to assess and monitor the planning, delivery and quality of services, and voice their needs and preferences. They are thus able to engage with service providers to improve service performance through joint action plans. The ESAP Sub-component is fully financed by an IDA administered programmatic multi-donor trust fund, without IDA financing. PBS 3 aims to strengthen the use of social accountability tools, approaches, and mechanisms by citizens and citizen groups, civil society organizations, local government officials, local elected council members, and service providers, including sector officers, as a means to make basic service delivery more accessible, equitable, effective, responsive and accountable. In PBS 3, the most significant development of ESAP will be the effort to secure sustainability of the efforts by institutionalizing social accountability as a mechanism of the woreda planning and budgeting and expanding capacity development and training.

55. The *objective* of the ESAP sub-component in PBS 3 is that public service providers in the targeted woredas deliver improved quality services in response to feedback and plan inputs from citizen groups and communities. Attainment will be verified through a randomized controlled trial (impact evaluation). As in PBS II, implementation will take place in 40-50 subprojects in around 170 woredas. This round of subprojects will begin in 2014 when the ones started under PBS II have completed, and end two years later. Supported by extensive capacity development and training, each subproject will be implemented by an individual CSO or a partnership of organizations, on the basis of evaluated proposals and assessed institutional capacity. With two rounds of subprojects, started within PBS 2 and 3 respectively, each at the cost of USD20.5 million, it is anticipated that social accountability will have been implemented in around 340 woredas and covered some 1,100 kebeles with an estimated 4.5 million service users at the end of PBS 3.

56. (B1c) The **Support of Grievance Redress Mechanisms (GRM) Sub-component** will help to strengthen the existing GRM offices at the regional state level, strengthen their linkages to existing institutions for public accountability, and contribute to information and public awareness of the services they provide. The objective is to contribute to the strengthening of impartial review and redress for citizens in cases of maladministration related to provision of public basic services. The proposed GRM support will include the following main activities: technical assistance to develop a common standard of grievance redress procedures and handling at the regional GRM offices; capacity development and training for the grievance officers to be capable of applying the agreed standards; financial assistance of the regional GRMs to ensure adequate

staffing and facilities; and information and public education of citizens on the opportunities and procedures for grievance handling in the regions. The sub-component will be implemented by an appropriate government entity and overseen by a multi-stakeholder steering committee.

**57. Local Public Financial Management and Procurement (Component B2 – USD 52.6 million).** The PBS Program relies on a robust, decentralized Public Financial Management system that allows public resources to flow reliably from the federal treasury, through regional and zonal administrations, to woreda-level and front-line basic service providers that generate results. While Ethiopia’s PFM system is strong, given the scope, complexity and diversity of the decentralized economic governance system in the country, there are regions and aspects of its operation that urgently need to be strengthened. Given the focus of the PBS operation on local level administration, woreda-level PFM system strengthening is of highest priority.

58. The Government, with Development Partner support, is developing a comprehensive governance, public sector capacity and Public Financial Management action plan to ensure that the overall Ethiopian system to generate results, retain quality staff and maintain accountability is improved. The PBS Local PFM Component B2 will be embedded within that comprehensive reform action plan. While that comprehensive action plan is being developed, this component results from agreement between the Government and DPs on the particular constraints to effective public financial management and the need to support relaxation of those constraints as a matter of priority.

59. These needs include ensuring: implementation of standard simplified woreda-level fiduciary guidelines and systems that automated financial management systems are supported and expanded in their coverage, adequate training for woreda-level fiduciary staff, a robust internal control system, and audit coverage of woredas increases significantly from its current level of 24 percent to a minimum of 32 percent in the first year and a higher percentage in later years.

60. The Local Public Financial Management Component consists of four sub-components: (B2a) Woreda PFM and procurement strengthening; (B2b) Support for IBEX roll-out; (B2c) Regional training and program support Systems; and (B2d) Support for external audit and parliament.

61. (B2a) The **Woreda PFM and Procurement Strengthening Sub-component** will provide support to woreda-level PFM systems. Working with the Ministry of Finance Expenditure Management and Control Program and its regional counterparts, the sub-component will provide technical support to woredas, help strengthening the existing PFM committees at zones and woredas to provide hands-on support to woredas on PFM issues, support strengthened internal control and procurement systems at woredas (that PFM studies have repeatedly pointed out as the weakest parts of the PFM system), help implement the recommendations of the woreda Pool Study to provide better support to service delivery sectors, and help develop and implement woreda-focused action plans to strengthen that system.

62. The component will also strengthen woreda procurement systems. Activities aim to create a sound procurement system at woreda level that could enable the use of public resource appropriately with accountability while addressing human resource and facilities challenges. The procurement reform activity will also support the national procurement profession certification program. Given the nature of the reform activities which require specific areas of

competence, the activities and the associated fund shall be managed by the Public Procurement and Property Administration.

63. (B2b) **Support for IBEX Roll-Out.** The Program supports initiatives for improved financial management, including rolling out an automated financial management software (IBEX) from region to woreda levels. While the Government is exploring options for more sophisticated integrated financial management software, it recognizes that it will not be feasible to install those options at the woreda-level for some time to come, for financial, logistical and staffing reasons. Therefore, it recognizes it needs to ensure that financial management automation is available for woredas and that the IBEX system is the backbone of that automated system. It is therefore a priority under PBS 3 to ensure that the IBEX system is maintained and rolled-out to more woredas in the country.

64. As a continuation and expansion of activities undertaken through PBS 2, through this sub-component, PBS 3 will distribute already procured hardware and software for woreda-level finance offices to allow them to install and access the IBEX system. Subject to gaps revealed through needs assessment planned to be undertaken in the second year, additional procurement can be effected in the third year of the PBS 3. The latter is intended to the strengthen capacity of woredas overall public finance management. Further, the procurement of the subcomponent will continue supporting the IBEX Support Unit in MOFED and expansion of internet connectivity for woreda-level finance offices, so that they are able to transfer financial reporting information to regions electronically.

65. (B2c) The **Regional Training and Program Support Sub-component** addresses a primary constraint to woreda-level PFM and procurement performance, the need for enhanced staff capacity within woredas. Currently, there is high staff turnover, estimated to be 25 percent per annum, where PFM (and other) woreda staff frequently move into and out of their positions. Often, this staff turnover involves those without fiduciary training taking on financial management or procurement tasks. Accordingly, there is a strong need to train woreda staff in the systems and procedures to maintain fiduciary systems. The main activity supported by this sub-component is to develop standardized training materials, to institutionalize delivery of this training through regional management institutes, and to monitor the quality of this training. This sub-component also supports the development and dissemination of standardized manuals in cash management, procurement, internal audit and commitment control. With a view to further strengthen program implementation; this sub-component will continue providing support to the Channel One Program Coordination Unit (COPCU) in MOFED as well as the regional Channel One Coordinators, due to whose effort there has been a major improvement in program reporting and management.

66. (B2d) **Support for External Audit and Parliament Sub-component.** ORAGs currently cover 24 percent of woredas every year. Thus, the bulk of woredas do not get audited on an annual basis. They are neither covered through annual audits nor through continuous audits OFAG conducts. In consultation with OFAG and ORAGs, the Government and Development partners have agreed that, by the end of PBS, audit coverage will have increased to beyond 52 percent. This sub-component provides funding to outsource audits to private audit firms while maintaining oversight over quality, to establish quality assurance teams at the Federal and Regional levels, to support IT audits, and to establish an Audit Training School that will take

responsibility for structured training of auditors at the Federal and regional levels. This sub-component builds on the experience of PBS 2 in supporting the accountability committees of the Federal Parliament and the Regional Councils. The plan during the PBS 3 period is to empower woreda councils so that local accountability becomes the responsibility of local oversight institutions. The sub-component supports development of standardized training manuals (agreed with the Clerk of the Federal Parliament) and for its dissemination to nine regional councils, two city administrations and more than 1000 woreda councils. It will also involve an innovative media component that builds on the PBS 2 FTA experience to disseminate accountability information through media.

**67. Managing for Results (Component B3 – USD 27.0 Million).** Reliable, timely and available data and results analysis are jointly essential for meeting PBS Program objectives. Together they allow mutual monitoring of progress towards GTP and PBS goals and analysis of why progress is particularly strong in some regions or sectors and could be improved in others. Accordingly, PBS Sub-program B on decentralized system strengthening includes the Managing for Results (M4R) Component. The overall aim of the M4R Component is to enhance the effectiveness of the PBS 3-project by ensuring that data, systems, and analytic capacity are strengthened to deliver results throughout the project implementation period. It will (a) monitor PBS program results, (b) strengthen the multi-sectoral, decentralized system for credible, timely and available data, and (c) undertake targeted surveys and studies that fill crucial gaps in the Government's and DP's understanding of how PBS results can be sustainably achieved.

68. Based on these objectives, the Managing for Results (M4R) Component (B3) includes three sub-components: (B3a) Results Framework and Monitoring; (B3b) Strengthening M&E Systems; and (B3c) Demand-driven, Collaborative Analytic Work.

69. (B3a) The **Results Framework and Monitoring Sub-component** focuses on measuring and monitoring results through the jointly-agreed results framework (See Annex 1). It involves the systematic collection of information about progress toward stated results, which will feed into management decision making to ensure the effective implementation of the program. While the results framework includes data aggregated for the whole country, at JRIS reviews in April/ May of each year, for certain key results indicators, the regions will produce data disaggregated by region. Further, to the extent that it is available or can be made available with reasonable effort, data will be presented disaggregated by gender. Overall, the data necessary to present PBS program results should be aligned with the GTP data and indicators, collected under the auspices of CSA. Where additional data needs to be collected, the M4R sub-program will support that system strengthening.

70. (B3b) The **Strengthening M&E Systems Sub-component** aims to improve results measurement and reporting by supporting sustainable statistical and M&E capacity at both national and sub-national levels. Building on the PBS program's success to develop M&E capacity, such as implementing the Ethiopian Data Quality Assessment Framework (EDQAF), this sub-component will seek to strengthen units and systems involved in data collection, collation, and reporting in the five relevant sectors. While to date that support has focused on Federal level institutions, in the third phase of support for the PBS program, this system strengthening support will be expanded to regions. PBS 3 will also support the Development Planning and Research Directorate of MoFED and at the Central Statistical Agency in their

respective roles of data managers, statistical coordinators to strengthen their policy analysis capabilities and increase information utilization for decision making. In addition, it will provide support to the relevant sectors at sub-national levels in quality control, data collection, and analysis and contribute to a strong M&E system for the GTP as a whole. .

71. (B3c) **Demand-driven, Collaborative Analytical Works:** The third sub-component will complement the other two, providing opportunity to finance additional analytical works that could help better measure the effectiveness of the program and identify lessons during implementation that will enhance overall service delivery. The sub-component will support a range of studies, assessments and evaluation activities that will measure equitable access to, as well as the effectiveness and quality of, basic services.

**Table 3: Sub-program B: Cost Detail**

| <b>PBS 3 Sub-Program B: Strengthening Local Transparency and Accountability Systems</b> |                       |                      |                      |                      |
|---|-----------------------|----------------------|----------------------|----------------------|
| Costings and Financing  |                       |                      |                      |                      |
|   | Total Cost            | DP Contribution      | IDA Contribution     | GAP                  |
| <b>Component B1: Citizen's Engagement</b>   |                       |                      |                      |                      |
| B1a: Financial Transparency & Accountability  | \$ 12,450,000         | \$ -                 | \$ 9,500,000         | \$ 2,950,000         |
| B1b: Social Accountability  | \$ 20,500,000         | \$ 7,037,100         | \$ -                 | \$ 13,462,900        |
| B1c: Grievance Redress Mechanisms   | \$ 2,020,000          | \$ 1,520,000         | \$ 500,000           | \$ -                 |
| Total: Component B1   | \$ 34,970,000         | \$ 8,557,100         | \$ 10,000,000        | \$ 16,412,900        |
| <b>Component B2: Local Public Financial Management</b>                                  |                       |                      |                      |                      |
| B2a: Woreda PFM & procurement strengthening   | \$ 22,784,817         |                      |                      |                      |
| B2b: IBEX roll-out and support  | \$ 5,420,357          |                      |                      |                      |
| B2c: Regional training & program support  | \$ 19,380,317         |                      |                      |                      |
| B2d: Support to External Audit & Parliament   | \$ 5,000,000          |                      |                      |                      |
| Total: Component B2   | \$ 52,585,491         | \$ 32,585,491        | \$ 20,000,000        | \$ -                 |
| <b>Component B3: Managing For Results</b>   |                       |                      |                      |                      |
| B3a: Results Framework and Monitoring   | \$ 600,000            |                      |                      |                      |
| B3b: Strengthening M&E Systems  | \$ 20,700,000         |                      |                      |                      |
| B3c: Demand-driven, Collaborative Analytic Works  | \$ 5,700,000          |                      |                      |                      |
| Total: Component B3   | \$ 27,000,000         | \$ 12,037,100        | \$ 10,000,000        | \$ 4,962,900         |
| <b>Sub-program B Totals</b>   | <b>\$ 114,555,491</b> | <b>\$ 53,179,691</b> | <b>\$ 40,000,000</b> | <b>\$ 21,375,800</b> |

72. **Sub-Program C: Results Enhancement Fund** (*DFID Financing and Implementation – UKLBS 50 Million, USD 78.2 million*). Ethiopia has demonstrated that it can deliver development results. Further, there is a growing recognition that effective development assistance should focus on supporting results, working through and enhancing government systems. In the November 2010 consultation the Prime Minister held with Development Partners on the Government's Growth and Transformation Plan, he underscored that in Ethiopia, it is fully appropriate for a higher proportion of development assistance to follow results-based financing approaches. The PBS program has been a platform for innovation in its first two phases, exploring how best to support financial transparency and accountability as well as local

investment grants. It is therefore appropriate that the program explore opportunities to support results-based approaches in its third phase.

73. In response to this Government interest, over time, support for the PBS program will evolve to follow more results-focused approaches. To explore opportunities for that transition to happen smoothly, the PBS 3 operation will include as Sub-Program C: Results Enhancement Fund. Supported through DFID financing and implemented through DFID, as its name implies, this sub-program will support achievement of specific results, particularly achievement of innovations that improve the effectiveness of decentralized basic service delivery. The incentives will be made available to regional, woreda and service delivery levels. When, through an independent, objective verification protocol, it is determined that one of these results has been met, resources will be disbursed to the administrative unit that was able to achieve this goal.

74. In line with Government principles, the Results Enhancement Fund will operate according to goals of equity and learning. While looking to provide resources for achievement of specific goals, it will ensure that resources do not disproportionately reach the more advanced regions. To achieve this principle, it will provide equitable opportunities across regions to access funds. Further, in support of learning and following widely used practices of sharing experiences of e.g., model households within communities, the fund will include mechanisms that allow those jurisdictions that were successful in reaching these results to share how they did so with those that were not successful. The details of this component will be determined based on a study to be agreed between DfID and Government.

**Table 4: PBS 3 Program Costs**

| Program Components (US\$ Millions)   | Program Costs  | GOE Financing  |                | DPs            | IDA          | %IDA        | B Gap       |
|--|----------------|----------------|----------------|----------------|--------------|-------------|-------------|
|  |                | MEFF           | A Gap*         |                |              |             |             |
| Sub-Program A: Basic Service Block Grants  | 6,192.9        | 3,170.8        | 1,482.9        | 984.2          | 555.0        | 9.0%        |             |
| Sub-Program B: Strengthening Local Transparency and Accountability Systems   |                |                |                |                |              |             |             |
| B1: Citizen's Engagement   | 35.0           | -              | -              | 8.6            | 10.0         | 28.6%       | 16.4        |
| B2: Local PFM & Procurement  | 52.6           | -              | -              | 32.6           | 20.0         | 38.0%       | -           |
| B3: Managing for Results   | 27.0           | -              | -              | 12.0           | 10.0         | 37.0%       | 5.0         |
| Sub-Program C: Results Enhancement Fund  | 78.2           |                |                | 78.2           |              |             |             |
| Unallocated  |                |                |                |                | 5.0          |             |             |
| <b>Total (US\$ Millions)</b>   | <b>6,385.7</b> | <b>3,170.8</b> | <b>1,482.9</b> | <b>1,115.6</b> | <b>600.0</b> | <b>9.4%</b> | <b>21.4</b> |
| * GOE will likely seek DP contributions to reduce this gap for Sub-program A. However, GOE has committed to cover from its own resources any remaining gaps in block grants beyond DP commitments in any given year. |                |                |                |                |              |             |             |

### **Annex 3 : Implementation Arrangements**

#### *Project Institutional and Implementation Arrangements*

1. As was done under PBS 2, PBS 3 will continue to use existing Government structures and work closely with other development partners and local stakeholders, including civil society.

#### *Project administration mechanisms.*

2. The Federal Ministry of Finance and Economic Development (MoFED) is the executing agency responsible for Sub-Programs A and B, including all Components, and has overall responsibility for the oversight, coordination, and M&E of program activities. It will liaise with other relevant line ministries, development partners, and other key stakeholders to ensure timely implementation of program activities and satisfactory achievement of program goals and objectives.

3. With the approval of PBS 2, the PBS Unit within the Macro Economic Policy and Management Directorate was tasked with implementing program activities. To ensure that MoFED was able to fulfill these responsibilities, MoFED created a Channel One Programs Coordinating Unit (COPCU) which is responsible for managing and coordinating all development partner (DP) programs funded through the Government's Channel One system, among which PBS is the largest. This arrangement helped to streamline many activities that had previously been scattered among different departments. Following feedback from PBS DPs, MoFED launched a restructuring of COPCU in early 2011 in order to ensure that key monitoring, supervisory, and operational activities pertinent to all Channel One Programs --- especially to the PBS Project --- were given adequate attention. While the restructuring of COPCU remain a work in progress, PBS DPs have observed important improvements in COPCU's performance and continue to try to find ways (through the PBS Secretariat as well as other forms of support) to support COPCU's development.

4. The Head of COPCU reports to the State Minister of Development Planning and Economic Management of MOFED, and works closely with other State Ministers and directorates involved in PBS. COPCU's responsibilities include: i) directly supervising, reviewing, and monitoring progress on all PBS components; ii) ensuring the timely fulfillment of dated covenants, requirements and agreed actions; iii) coordinating with the Treasury and Macro Directorates to ensure that DP support for the Federal Block Grant are transferred in accordance with agreed fiscal transfer formulas; iv) working in collaboration with the Government Accounts Directorate to ensure effective financial management, timely reporting, and compliance with fiduciary requirements; v) undertaking all procurement and contracting of consulting services for PBS; vi) leading and coordinating the Government's involvement in the semi-annual JBAR and JRIS missions and other ongoing dialogues; and v) submitting the Implementation Completion Report upon completion of PBS 3.

5. In undertaking its full range of activities, COPCU collaborates closely with other directorates in MOFED to ensure timely and efficient implementation of program activities. This

includes the: Government Accounts Directorate<sup>30</sup>; the Macro Economic Policy and Management Directorate<sup>31</sup>; the Treasury Department<sup>32</sup>; Development Planning and Research Directorate<sup>33</sup>; the Expenditure Management and Control Program (EMCP) Coordinating Office<sup>34</sup>; and the Federal Procurement and Property Administration (FPPA)<sup>35</sup>.

6. At the regional government level, Bureaus of Finance and Economic Development (BoFEDs) will continue to have similar responsibilities at the regional level as MoFED has at the federal level. In late 2011, all BoFEDs created new positions for Channel One Coordinators at the regional level. This structure will continue under PBS 3 and will help to strengthen the overall system's capacity for PBS 3 implementation and follow-up. BoFED responsibilities include: i) receiving, consolidating, and transferring to MoFED financial and expenditure reports from the Woreda Finance and Economic Development (WoFED) offices; ii) receiving woreda level plans for the basic service sectors and assisting woredas in reconciling their plans within the agreed budget; iii) allocating budgets to woredas in line with the agreed fiscal transfer formulas; iv) reviewing and consolidating results reports from woreda governments; v) following up on audit findings and informing MoFED for the consolidation of action plans; and vi) collaborating with Regional Bureaus of Civil Service to implement, manage, and monitor FTA activities at sub-national levels.

7. At local level, WoFEDs and Urban Administration Offices of Finance have similar responsibilities as those of the BoFEDs. Their responsibilities also include: i) undertaking regular M&E and coordination with woreda sector offices; ii) undertaking operational tasks such as planning, supervision, and financial management; iii) submitting consolidated monthly reports, including monthly reconciliation of expenditures to BoFEDs; iv) reporting on a monthly basis on the actual use of block grants including basic services sub-program resources at local level and overall performance in relation to service delivery targets; v) enhancing financial transparency and collaborating in social accountability initiatives at local levels; and vi) managing and coordinating the day-to-day implementation of FTA-related activities.

8. Councils at regional, woreda and kebele levels: i) provide general oversight of those sub-national government institutions involved in the PBS Program's implementation; ii) review and approve annual development plans and budgets; and iii) facilitate information sharing and harness the involvement of citizens in the planning, budgeting, and management of delivering basic services. They will also be responsible for furthering Sub-program C1 Financial Transparency and Accountability (FTA) initiatives.

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<sup>30</sup>The Government Accounts Directorate within MoFED assists in monitoring and tracking financial flows to lower levels of Government and is responsible for preparing quarterly IFRs, ensuring that expenditures and revenues are reported in IBEX, and ensure that annual audits are conducted and reported on in a timely manner.

<sup>31</sup>This Directorate is responsible for consolidating and preparing regional and federal fiscal reports, and transfers from regions to woredas.

<sup>32</sup>Treasury is responsible for submitting withdrawal applications with the necessary supporting documentation, and for transferring block grants to the Regions' Bureaus of Finance and Economic Development (BoFED).

<sup>33</sup>The Development Planning and Research Directorate is responsible for maintaining the Government's results information with reference to progress towards the Growth and Transformation Plans goals.

<sup>34</sup>The EMCP will be responsible for the agreed activities related to FTA (Sub-Component B1a) and all PFM activities under Component B2 (to strengthen public financial management).

<sup>35</sup> While COPCU will undertake procurement of goods and consultancy services for the procurement strengthening activities of Component B2, in coordination with EMCP, FPPA will be responsible for administration of contracts with consultants and for overall coordination and leadership of activities.

### *Environmental and Social (including safeguards)*

9. As noted above in the Appraisal Summary, for Sub-program A, Basic Services Block Grant, as Project financing is limited to recurrent expenditures for basic services and does not include financing for capital investment or civil works, World Bank safeguard policies are not triggered. Although there could be concurrent Government financing for capital development in the basic services sectors that will enhance the development outcomes of Sub-Program A, this is not necessary to achieve the objectives of PBS 3. Also for Sub-Program B, which is to strengthen Local Accountability and Transparency Systems, the World Bank safeguard policies are not triggered. Thus the Environmental category for PBS 3 is determined to be C.

### *Monitoring and Evaluation*

10. As noted in Annex 2, Results constitute the overarching core principle of the PBS program. Building on the significant contributions made by the M&E Sub-Program under PBS 2 to the program's significant results focus, PBS 3 plans an even stronger focus on results, benchmarking achievements, and innovation (Component B3 and Sub-program C).

11. Due to the scope and size of the activities to be implemented under these two Components, COPCU will continue to jointly implement activities under ERA and MoE, while MoH, MoWE, MoA, and CSA will be responsible for implementing their respective activities.

12. COPCU will ensure timely fund transfers from the Treasury to the special accounts opened at each of these agencies. It will also develop, implement, operate and maintain a financial management system in line with the overall financial management and fund transfer guidelines of the PBS program. This will include systems for budgeting, internal control, cash management, accounting, financial reporting, funds flow, procurement, and auditing as per the agreed financial administration and reporting formats of the GoE;

13. CSA, MoA, and MoWE will maintain full responsibility for implementation of all Project activities related to them, including procurement of goods and consultancy services and submission of financial reports to COPCU and that COPCU staff will be granted full access to all Project information, records and data for internal and external audit purposes.

14. Lessons learned from the implementation of similar activities in PBS 2 show that assuring independence while, at the same time, securing buy-in and ownership of results by the client is a challenge. Moreover, in some of the studies, due to lack of capacity by the part of consultants, timeliness and quality of survey results have also been compromised.

15. In order to find the optimum balance, one option is to continue to conduct the agreed surveys, assessments, and studies jointly with strong oversight from the CSA while partners (through hiring international and/or national consultants) handle analysis and report writing tasks. Most importantly, the analytical works will be implemented in ways that build evaluation capacity for line ministries, the CSA, and the WMU. For this, the implementation arrangements for the mid-term and end-of-project evaluations will be handled by the PBS Secretariat so as to facilitate capacity building, ensure the quality of these evaluations, and also protect the independence of the findings/results.

## *Role of Partners*

16. PBS 2 includes 10 other DPs, and PBS 3 is expected to include up to 8 DPs.<sup>36</sup> As such, other Development Partners will continue to play a significant role in supporting the program.

17. To support and strengthen the ongoing success of the PBS program, DPs established the PBS Secretariat at the outset of PBS 1, the role of which was further elaborated and formalized at the beginning of PBS 2 in May 2009. The Secretariat is housed at the Ethiopia World Bank Country Office; its staff costs, operational expenses, and activities are supported through donor contributions to a Bank-executed MDTF.

18. Since October 2010, the PBS Secretariat has benefitted from stronger management with a clearer strategic focus. Through its work, the Secretariat has demonstrated its central role in strengthening the client orientation of the PBS program as well as building and reinforcing the partnership across DPs and between DPs and the Client that has been critical the program's success. Consequently, the PBS Project has served as an example of aid and development effectiveness.<sup>37</sup> As such, all PBS Donors (led by the Project's largest supporters: the World Bank, DFID, the African Development Bank, and the European Union) have stressed the importance of making the Secretariat a central element of PBS 3 implementation support and development partner coordination. This same point was made in the review of PBS 1 and 2 commissioned on behalf of all Project donors by the European Union<sup>38</sup> as well as other assessments of the PBS Project.<sup>39</sup>

19. The Secretariat's effectiveness has grown significantly during the course of PBS 2. The Secretariat has improved donor coordination, harmonization, alignment, and analysis related to the PBS program. In addition to providing technical assistance to the Client, it also provides the core analytical work behind the Additionality and Fairness Tests and other analytical pieces to inform the dialogue between DPs and the Government. Given anticipated needs and changes under PBS 3, the group agreed to three key objectives for the Secretariat:

- a. **To sustain and improve all partners' understanding on the effectiveness, efficiency, and management of block grant resources.** An essential role for the Secretariat is to provide technical analysis and inputs to inform the application of the program's Core Principles. This includes: providing ongoing analytical work to inform the application of the Additionality and Fairness Tests; sector-level public expenditure analysis; technical work related to the proposed Reviews for PBS 3; strengthened links across program elements; as well as ongoing customized training/support on procurement, auditing and financial reporting.

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<sup>36</sup> In addition to IDA, confirmed DPs for PBS 3 are the African Development Bank, DFID, the European Union, and Italy. Three other agencies have expressed tentative interest, but confirmation must await the approval of new country strategies.

<sup>37</sup> The PBS Project was featured at the World Bank's 2011 Showcase on Aid Effectiveness as well as the Knowledge and Innovation Space at the 4<sup>th</sup> High-Level Forum on Aid Effectiveness at Busan, South Korea. Relevant documents can be found at: [www.africa-platform.org](http://www.africa-platform.org) (search for "Ethiopia").

<sup>38</sup> ECORYS (Stephen Lister et al.), *Ethiopia: Multi-Annual Review of PBS Programme – Final Report*, 2012.

<sup>39</sup> DFID, *Understanding VfM in the Protection of Basic Services Programme*, 2012.

- b. **To contribute to an improved understanding of the PBS program’s sectoral impact.** The Secretariat will build on and expand its existing efforts to strengthen links to the relevant sector-specific programs and dialogue fora. Supported with analytic and diagnostic work (e.g., review of sector performance linked to expenditure analysis), it is expected that, over time, this will contribute to a stronger appreciation of the specific and differential impacts the PBS program is having in the five basic service sectors.
- c. **To provide effective administration and logistical coordination in support of improved dialogue and supervision.** This includes making arrangements for the semi-annual JRIS missions, pre-JRIS field missions, as well as added events and workshops as necessary.

20. The Secretariat’s staff complement consists of the following staff:

- The **Coordinator**, whose responsibility is to manage the Secretariat’s day-to-day functions, provide quality control on the Secretariat’s analytical work, and work closely with the Development Partner Co-Chairs to ensure a harmonized donor approach that is informed by strong technical work. The Coordinator reports to the Co-Chairs of the Multi-Donor Working Group, one of which is permanently the World Bank TTL for the Project.
- The **Monitoring and Evaluation Specialist** is responsible for supporting the M4R component (Sub-Program D under PBS 2, Component B3 and Sub-program C under PBS 3) and ensuring the Government’s timely completion of key deliverables.
- The **Secretariat’s Economist** provides public expenditure analysis to determine the Government’s compliance with the PBS Core principles and greater diagnostic attention to the efficiency and effectiveness of the Federal Block Grant.
- The **Public Financial Management Specialist** and the **Audit Specialist** will support and facilitate the timely implementation of the program’s support for PFM.
- Hands-on training and technical assistance will continue to be provided to the Government by the Secretariat’s **Financial Reporting Specialist** and the **Procurement Specialist**.
- In terms of logistics and administration, the Secretariat is supported by an **Administrative Assistant** to ensure the effective execution of a broad range of key administrative processes that are essential to the smooth functioning of the program.

21. Under PBS 3, the PBS Development Partners Group will decide upon new/updated Terms of Reference for the Secretariat. These will reflect changes and innovations with implications for the Secretariat’s role. Through this Terms of Reference and depending on resources made available by Development Partners through the Multi-Donor Trust Fund financing the PBS Secretariat, the Development Partners will consider expanding the complement of PBS Secretariat staff. Options include: additional economist support to enhance analytic capacity, additional M&E support given the enhanced M4R component under PBS 3, sector officers to support implementation of the M4R component and facilitate linkages to basic

service sectors, social accountability expertise, and an operations officer to ensure that the Secretariat's logistics and coordination roles are handled smoothly.

22. Through the program trust fund, PBS DPs will ensure that the Secretariat has the necessary financial resources to fulfill its mandate. The Secretariat will maintain its annual work planning and annual reporting exercise(s) which provide DPs and the Secretariat management with the tools necessary to provide oversight of and strategic direction to the Secretariat's work while remaining flexible and sensitive to new opportunities and challenges as they arise.

## **Annex 4 : Financial Management and Disbursement Arrangements**

### **I. Country Issues**

1. The GOE has been implementing a comprehensive public financial management (PFM), with support from development partners, including the Bank for the last twelve years through the Expenditure Management and Control sub-program (EMCP) of the government's civil service reform program (CSR). This was being supported by the IDA financed PSCAP, PBS and other donors financing as well as Government own financing. These programmes have focused on strengthening the basics of PFM systems: budget preparation, revenue administration, budget execution, internal controls, cash management, accounting, reporting and auditing. With the basics increasingly in place, the Government is beginning to increase its focus on strengthening the linkages between public policy objectives and expenditure. In this context, GOE has embarked on a programming/performance budgeting framework within MOFED.

2. The May 2011 Ethiopia PEFA PFM performance measurement framework assessment covered the federal government in form of Ministries and Agencies as well as five regions. The study notes that Ethiopia has made significant progress in strengthening PFM at both federal and regional levels. Improvements have been noted in budgeting and accounting reform. The credibility of the budget improved during 2006/07-2008/09 (EFYs 1999-2001) relative to the three years covered by the first PEFA assessment (2002/03-2004/05; EFYs 1995-97). The predictability in the composition of expenditure improved sharply, the variance in excess of the aggregate deviation falling to 5.7 percent. The main reason for the improvement appears to be strengthened in-year predictability in the availability of funds for the commitment of expenditures. The budget is reasonably realistic and is reasonably implemented as intended, and performance in this regard has improved marginally since the period covered by the first PEFA assessment. The next PEFA assessment will be conducted in collaboration with development partners and the Government in EFY 2006.

3. Comprehensiveness and transparency improved during the period covered by the 2010 PEFA assessment. Other notable areas of improvement are: Increase in the amount of budgetary documentation submitted to House of Peoples' Representatives, strengthened reporting on donor projects and programs, improved transparency in inter-governmental fiscal relations, through greater timeliness in the provision of information to regional governments on the size of the budget subsidies that they will receive, and improved access by the public to key fiscal information through audit reports. An issue remaining to be addressed is for the Government to make available to the public information on the incomes and expenditures of extra-budgetary operations. The quality of debt management improved relative to the 2007 PEFA assessment, but the periodicity of reconciliation remains annual.

4. Weaknesses were noted in internal audit which necessitate increased focus on systems audit, and increasing management response to audit findings. Further strengthening of the internal audit function is a key challenge. Bank reconciliations continued to be carried out in a timely fashion for all Treasury-controlled accounts, as were reconciliation and clearance of suspense accounts and advances. The full roll-out of IBEX has helped to strengthen the quality of in-year budget execution reports, Annual financial statements prepared for 2006/07-2008/09 (EFYs 1999-2001) included information on revenue and expenditures, financial assets and liabilities, but excluded information on donor-financed projects and programs. A limiting factor continued to be the use of non-IPSAS compliant accounting standards; compliance with IPSAS would require disclosure of information on donor-financed projects and programs.

5. Overall performance of external audit has improved due to increased coverage (to 51 percent of 2008/09 budgetary expenditures from 23 percent of 2006/07 budgetary expenditures) and a lessening of the time needed to audit annual financial statements. Audits conducted by OFAG generally adhere to INTOSAI auditing standards and focus on significant issues. .

6. The PFM study also notes that regional performance of PFM reform varies from region to region.

## II. Risk Analysis and Mitigation

7. The table below outlines respective perceived financial management risks to the program. A number of suggested mitigating measures have been outlined below which form part of the program action plan. Further, a separate PFM component within the program has been designed to address woreda level weaknesses as part of the overall program. The detailed FM risks noted are outlined below noting that the overall FM risk rating is substantial after the mitigation measures:

| <b>Risk</b>  | <b>Risk Rating</b> | <b>Risk Mitigating Measures</b>  | <b>Residual Risk Rating</b> | <b>Conditions for Effectiveness (Y/N)?</b> |
|--|--------------------|--|-----------------------------|--|
| <b><i>Inherent Risk</i></b>  |                    |  |                             |  |
| <b>Country Level</b><br>Weak capacity, high staff turnover of qualified accountants and auditors especially at regions and woredas. Weaknesses in country PFM systems  | S                  | The noted weaknesses are being addressed by the ongoing Civil Service Reform Program led by the EMCP. The program includes a sub component that will support external audit capacity building.   | S                           | N  |
| <b>Entity Level</b><br>Weak capacity at regions. Weak capacity of MoFED in supervision and following up with projects  | S                  | There will be regular oversight by MoFED. This will be assisted by continuous audits whose results will be used to train government on aspects that are deficient. Monitoring of project activities will be strengthened at federal and regional level. There will be regular supervision by DPs.  | M                           | N  |
| <b>Project Level</b><br>The project has a number of implementing entities. Project activities go to Regions and Woredas where capacity is low. Although improved in recent year, previous experience on PBS has shown late reporting as a major risk | H                  | This is a repeater project with most systems remaining the same. Some capacity has been built in implementing entities that took part in the previous phases of PBS. Regular supervision missions and monitoring of interim financial reports; and regular continuous audits and external audits will be put in place. Adequate timing to accommodate consolidated reporting has been factored into the design on reporting. Formats of reports are carefully redesigned. Late reporting is being dealt with by taking appropriate measures including withholding funds to woredas and Regions that report late. | S                           | N  |

| <b>Risk</b>  | <b>Risk Rating</b> | <b>Risk Mitigating Measures</b>   | <b>Residual Risk Rating</b> | <b>Conditions for Effectiveness (Y/N)?</b> |
|--|--------------------|---|-----------------------------|--|
| <b>Overall Inherent Risk</b>   | <b>H</b>           |   | <b>S</b>                    |  |
| <b>Control Risk</b>  |                    |   |                             |  |
| <b>Budgeting</b><br>Government budgeting system is very basic with weak budget monitoring aspects in terms of analysis such as variance analysis. This is especially the case for sub-program B  | S                  | -Annual budget plans to be prepared in sufficient detail to be used as a management tool;<br>-Budgeting training will be conducted with emphasis on variance analysis by MoFED;<br>-<br>-for sub-program B activities will be mapped to GOE's Budget codes- i.e MoFED will assign specific account/budget codes in the government's functional classifications for this Sub-program B's activities;<br>-Close Supervision will be performed by the Bank including the monthly meeting on PBS FM issues with MoFED and DPs.  | M                           | N  |
| <b>Accounting</b><br>Weak capacity coupled with turnover is an issue. Past experience shows that for some components (Sub-program C1 &D) there are advances that are not settled on time by the implementing entities. Ledgers may not be timely updated in some of the woredas. | H                  | -Overall, staffing issues in the country are being addressed by the ongoing Civil Service Reform Program;<br>-MoFED will support and follow up with BoFEDs and WoFEDs;<br>-Continuous audit arrangements will check that accounting procedures and internal control procedures are adhered to;<br>-In addition, Sub-program B intends to provide support to the PFM including the internal and external audit, facilitation of accountancy body and rollout of IBEX to Woredas;<br>-Additional staffing will be recruited for COPCU at MoFED;<br>-Follow up on advances and settlements thereof will be strengthened by MoFED and DPs. In this regard, Close Supervision will be performed by the Bank including the monthly meeting on PBS FM issues with MoFED and DPs. | S                           | N  |
| <b>Internal Control</b><br>Internal control environment is considered weak especially at Woreda level due to lack of adequate numbers of qualified staff as well as because of staff turnover. Lack of robust internal audit function.   | H                  | -Overall staffing issue in the country is being addressed by the ongoing Civil Service Reform Program of the Government;<br>-In addition, Sub-program B intends to provide support to the PFM focusing woreda level attention including the internal and external audit, facilitation of accountancy body and rollout of IBEX to Woredas;<br>-Continuous audit arrangements will check the accounting procedures and manuals are adhered with;<br>-MoFED's and BoFED's capacity will be strengthened by hiring internal auditors;<br>-Close supervision will be performed by the Bank including the monthly meeting on PBS FM issues with MoFED and DPs.  | S                           | N  |
| <b>Funds flow</b><br>Accompanying expenditure reporting may be delayed which may   | S                  | -IFR format has been agreed for each Sub-program with MoFED;<br>-Training will be provided on preparation of IFRs by MoFED;<br>-MoFED will support and follow up BoFEDs and   | M                           | N  |

| <b>Risk</b>  | <b>Risk Rating</b> | <b>Risk Mitigating Measures</b>  | <b>Residual Risk Rating</b> | <b>Conditions for Effectiveness (Y/N)?</b> |
|--|--------------------|--|-----------------------------|--|
| lead to delays in funds reaching woredas.  |                    | WOFEDs;<br>-Number of Banks being opened at local level is increasing.   |                             |  |
| <b>Financial Reporting</b><br>The Quality of reports needs to be improved. Although improved recently, delays in reporting could exist as a result of weak capacity & turnover as well as due to involvement of large number of implementing entities.   | H                  | -IFR format has been revised and agreed for each Sub-program with MoFED;<br>-Training will be provided on preparation of IFRs by MoFED to ensure timely reporting;<br>-MoFED will support and follow up with BoFEDs and WOFEDs when late reporting is observed;<br>-MoFED will continue to robustly review & check reports submitted by regions. The Bank will also continue its reviews of each reports;<br>-The Bank through a consultant will continue its hands on support to help MoFED in IFR preparation;<br>-MoFED will assign specific account/budget codes in the government's functional classifications for this Sub-program's activities. | S                           | N  |
| <b>Auditing</b><br>Although significantly improved recently, there could be delays in submission of external audit reports (due to weak capacity & turnover as well as due to involvement of large number of implementing entities). Quality of audits is concerning. Inadequate follow up on actions taken to resolve on audit management letter findings | H                  | -Audit TOR for auditors has been agreed in advance and continuous audit inputs will be used in the final financial audit work;<br>-Follow up on timely recruitment of auditors will be made;<br>-Strengthen the capacity of OFAG/ORAGs will be one agenda of the PFM reform aspect of PBS;<br>-Stringent reviews of audit reports and communication of the reviews to MoFED and OFAG will be continued.<br>-MoFED's and BoFED's will be strengthened to improve follow up;<br>-Woreda support units will be established as part of the PBS PFM reform.   | S                           | N  |
| <b>Overall Control Risk</b>  | <b>H</b>           |  | <b>S</b>                    |  |
| <b>Overall Project risk rating</b>   |                    |  | <b>Substantial</b>          |  |

H=High; S=Substantial; M=Moderate; L=Low

### **III. Strengths and Weaknesses of project financial management system**

8. The country's discipline in executing budget and compliance with the existing government regulations are the major strengths that the program financial management system will rely on in implementing the project. The government's existing financial management systems are already being used in a number of projects. MoFED has experience in implementing and managing IDA financed activities. The audit delays have significantly improved and latest reports were being submitted on time. The audit opinions on all components so far received were unqualified.

9. The main weaknesses for the project's FM arrangements include shortage of qualified accountants and auditors (mainly at Woredas), limited capacity and understaffing of the internal audit function, quality of financial reports and weak internal controls. Although quality and timing for financial reporting submission has improved over time, there are still quality concerns that need more work.

10. Management letters of previous audit reports revealed a number of internal control weaknesses. Some generic issues repeated in most woredas visited include: Cash management weaknesses (weaknesses in the preparation of Bank reconciliation and lack of bank statements.); long outstanding advances; and most importantly weak Internal audit function.

### **IV. Financial Management Implementing Entities**

11. For Sub-program A and B with the exception of Sub-program B1b, MoFED/COPCU will be responsible for FM. For Sub-program B.1.b. which is Ethiopia Social Accountability Program (ESAP) follows similar arrangements as depicted under PBS II with the Management agent (MA) selected under PBS II being responsible for FM. If there is a need to select a new MA, then a new FM assessment will be conducted. For Sub-Program C - The detailed financial management arrangements including responsibility for FM will be clarified when the design is completed and Operating Manual is prepared.

### **V. Budgeting**

12. The Ethiopian budget system reflects the fiscal decentralization structure of government. The budget is processed at federal, regional, zonal (in some regions), Woreda and municipality levels. The federal budgeting process usually starts by issuing the budget preparation note to the Budgetary Institutions (BIs). Based on the budget manual, the BIs prepare their budgets in line with the budget ceilings and submit these to MoFED within six weeks following the budget call. The budgets are reviewed at first by MoFED and then by the Council of Ministers. The final recommended draft federal budget is sent to parliament in early June and is expected to be cleared at the latest by the end of the Ethiopian Fiscal Year (EFY). Regional governments will receive funds of this project along with the government's portion as Block Grant subsidies which they will inturn allocate to woredas along with their own resources.

13. The Government's chart of account will accommodate expenditures for this program as was the case for phases I and II of PBS. There is a line item in the Government's functional classification of budget used by both MoFED and BoFED when transferring funds. Actual expenditures incurred on the basic services included in the PBS Program can also be identified to specific account/budget codes/line items in the Government's functional classification. For Sub-program B – MOFED (Government Accounts Directorate/COPCU) will assign or map specific account/budget codes from the government's chart of accounts so that expenditures are easily and consistently budgeted and accounted for under these codes.

14. Government of Ethiopia (GOE) and DPs will agree on the annual budgets and work plans for the sub-programs for implementation in the year in question.

15. MoFED, following government budget processes, will budget for activities whose implementation responsibility lies with MoFED. It will collect inputs from other implementing entities. The annual budget will be included in the annual budget proclamations of MoFED.

16. For Budget monitoring aspects, monthly reports are sent from reporting units (Federal BIs) to MoFED within 15 days from the end of the month. The system also requires monthly reports to be submitted from zones and WOFEDs to BoFEDs. This report includes budget monitoring-where a budget utilization report is prepared by each implementing entity to their respective management for activities that are under their responsibility. This will also continue for PBS 3. In addition, quarterly Interim Financial Reports sent to the DPs will also incorporate budget monitoring reports where actual performances will be compared with Budget and explanations will be provided for significant or major variances.

17. Budget monitoring and control is an area of weakness observed in the current phases of PBS especially for sub-program C1& D and Sub-program B. There is insufficient level of monitoring budget utilization at systemic level for project funds. Budget as a management tool should be improved by the project and that budgetary control should be adopted through regular analysis of variances between actual and budgeted expenditures, both for the current FY and cumulatively for the project life. Variances should be explained and reported to management for necessary corrective actions.

## **VI. Accounting Policies, Systems and Procedures**

18. Accounting for all Sub-programs will be governed by respective government accounting policies and procedures. The Ethiopian government uses a double entry modified cash basis of accounting since 2002. The double entry reform has been implemented at the federal level and in regions.

19. The computerized Integrated Budget and Expenditure (IBEX) accounting system is operational at the federal level and most regions and continues to be rolled out where absent. In most Woredas where IBEX is not installed, a manual accounting system is in place.

20. **For Sub-programs B**, the Government's accounting policies and procedures will be used for all except for Sub-program B1b. The Chart of Accounts will accommodate the expenditures of the activities. MoFED will assign specific account/budget codes in the government's functional classifications for this Sub-program's activities. MoFED will be the accounting center for expenditures that may be incurred at MoFED level. It will also consolidate financial reports and budget utilization reports. It will submit IFRs to the Bank. Each implementing entity will account for expenditures incurred at their entity, retain documentation and submit financial reports to MoFED for consolidation. **For Sub-program B1b**, a selected Management Agent will ensure an appropriate set of accounting arrangements are in place. **For Sub-program C**- The detail accounting arrangements will be clarified when the design is completed and Operating Manual is prepared.

21. **Staffing**-COPCU is manned with staff to undertake the financial management functions of the project at Federal level. A PBS FM team involving about seven staff is currently in place at COPCU. Responsibility and roles are clearly laid out for the staff. Regional channel one coordinators are recruited to strengthen regional follow ups. The current FM staffing level at the

MoFED/COPCU will not be sufficient to handle the follow up and accounting and reporting duties and hence agreement is reached to recruit four senior accountant within four months after effectiveness of the project and these accountants will strengthen COPCU's capacity to follow up regions and implementing entities, to prepare reports, to follow up the whole continuous audit process. There are also accountants at regional/woreda level financed by PBS.

## **VII. Internal Control and Internal Auditing**

22. The PBS will use government financial management systems and procedures (except for Sub-program B1b and Sub-program C). These procedures are expected to be adequate to ensure that satisfactory internal controls are in place. **For Sub-program B1b-A** selected Management Agent will ensure an appropriate set of internal controls are in place which will be written into a governing financial management manual. **For Sub-program C-** The detailed internal control arrangements will be clarified when the design is completed and Operating Manual is prepared.

23. MoFED and BoFEDs each have Inspection Departments whose mandate includes ensuring good quality of internal audits at the Ministries at Federal level and Sector bureaus at region level, following up on the audit recommendations noted by internal audit reports at different Ministries at Federal level and Sector bureaus at region level, providing training and improving manuals.

24. Each public body has internal audit units performing post audits on all financial transactions of the entity, involving an assessment of whether the budget utilization is in line with the intended purposes and it is envisaged that staff of internal audit in the respective bodies and levels will include internal audit of the project in their annual program.

25. Internal audit within government is weak particularly at woreda level and reforms are being undertaken to address it. In the meantime, it was agreed to recruit 2 internal auditors at MoFED and 1 internal auditor at BoFEDs of each of the following regions: i.e. for Tigray, Amhara, SNNPR, Oromia, Benishangul Gumuz, Gambella, Somali, and Afar. Their primary role is to support the project and COPCU in following up on audit findings (continuous and financial audit findings, i.e as to whether audit findings are really being addressed by woredas and regions and others). The recruitment of auditors will be finalized four months after effectiveness and their ToR will be prepared within one month after effectiveness. Owing to previous problems relating to cash advances, it is expected that internal audit shall follow up on all advances that are more than six months old in certifying the existence of the funds and related accountability. Using data of employees per woreda benefitting from the project, internal audit of woredas shall undertake periodic spot checks.

## **VIII. Funds Flow and Disbursement Arrangements**

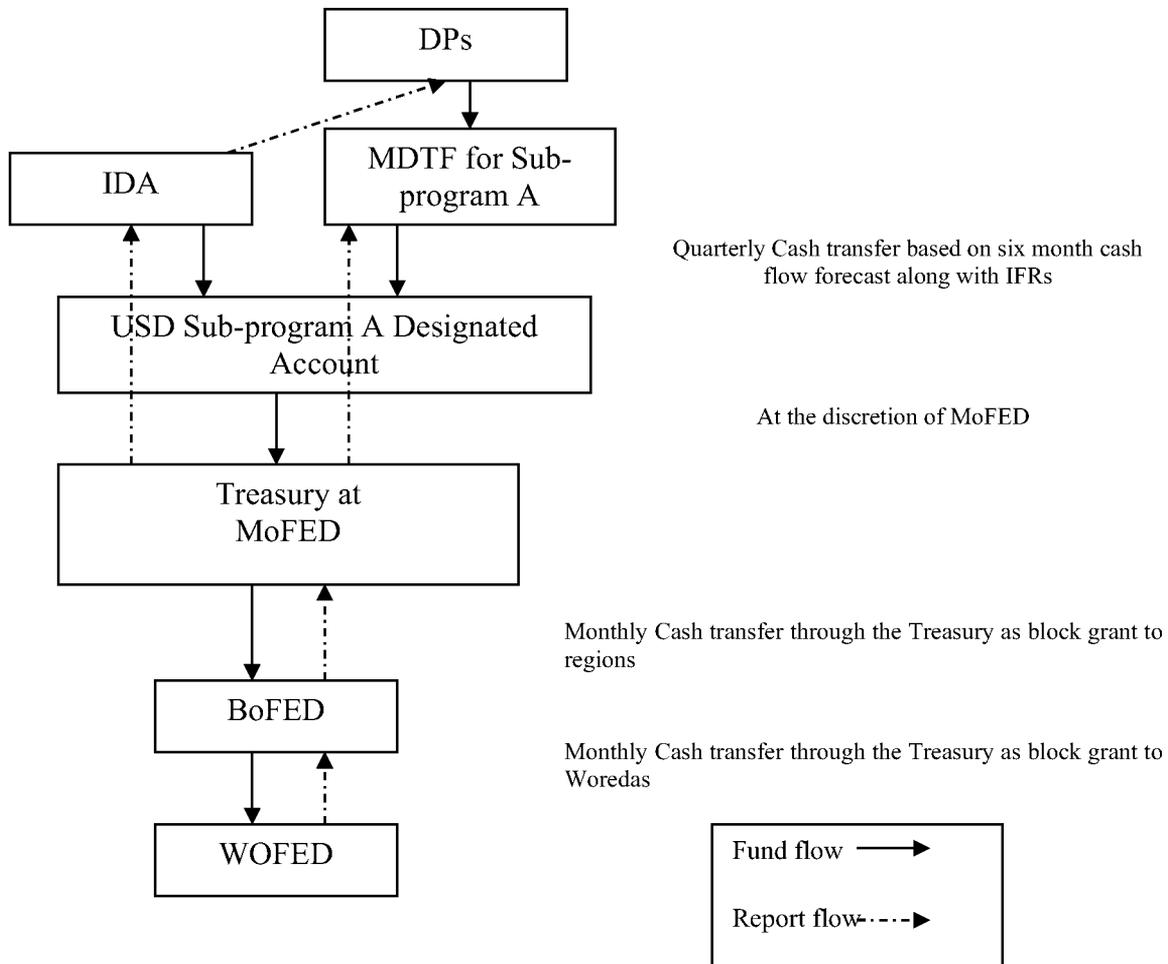
26. The IDA funds will be channeled to the respective Pooled Designated Accounts (DAs) opened at National Bank of Ethiopia (NBE) and managed by MoFED as outlined below. Two pooled designated accounts will be opened, one for Sub-program A and one for Sub-program B (excluding Sub-program B1b). Report based disbursements using IFRs will be the basis for disbursements to the DAs (i.e., for Sub-program A and Sub-program B excluding Sub-program B1b). IDA will deposit an initial advance to the designated account based on the MoFED's application and work program complemented by its cash forecast. MoFED will use the designated account to finance eligible expenditures under the project in both foreign and local currencies, and then claim for replenishment of the designated account. MoFED may also use the other disbursement methods i.e, reimbursement, direct payments and special commitment as appropriate.

### Sub-program A: Basic Service Block Grants

27. After the initial advance, for both IDA and MDTF funds, the Government will in each quarter submit a Withdrawal Application along with Interim (Unaudited) Financial Reports (IFRs) that is prepared on the basis of expenditures (not transfers).

28. Sub-program A finances recurrent expenditures (salaries and operating costs) in the existing five basic service sectors, namely education, health, agriculture, water, and rural roads at local levels. IDA and DP funds are combined with Government's own resources and distributed to regional and local governments through Federal Block Grant transfers. As with PBS II, sub-national delivery of basic services would constitute "the Program" with two financing modalities: (i) only recurrent expenditures (salaries, operations and maintenance) in these service sectors will be eligible for financing from pooled PBS donor and Government own-revenue sources, and (ii) sub-national capital expenditures in the basic service sectors would be financed exclusively from Government sources. Thus, pooled PBS donor funding will only finance recurrent expenditures in the basic service sectors, while Government own revenues will finance both recurrent as well as capital expenditures (in the basic service sectors), with both types of funding going down to sub-national governments via the block grants. Reporting on expenditures for PBS 3 will only be for the recurrent expenditures as there will not be Local Investment Grants/capital expenditures (which is different from the previous phases of PBS). The eligible expenditures shall be indicated in the Financing agreements.

29. The following chart illustrates the funds flow for Sub-program A. As described above, Sub-program A, will follow the report-based method of disbursement using a designated account.



30. MoFED will open a Pooled Designated Account for Sub-program A denominated in US Dollars in the National Bank of Ethiopia on terms and conditions acceptable to IDA. Funds from the IDA and MDTF will flow into this Designated Pooled Account and from this USD account will they will flow to the treasury account maintained in ETB. MoFED will manage the USD and the treasury accounts.

31. The treasury in ETB will disburse and finance all eligible project expenditures at the respective offices involved in the project. MoFED will transfer funds to other implementing agencies (Regions and Woredas) from the treasury as part of the block grant to regions. The authorized amount of the Designated Account will be forecast expenditures for the next 6 months.

32. As the project will use report based disbursement, Funds will be advanced into the Pooled Designated Account based on forecasts of expenditures. Funds of the project co-mingled with treasury funds will be disbursed to BoFEDs from MoFED on a monthly basis based on cash flow plans and the Block grant formulas. In the same manner, BoFEDs will transfer to WOFEDs on a monthly basis to finance eligible expenditures. Each quarter, MoFED will prepare the IFRs for expenditures incurred at all levels based on a format agreed with the Bank. The IFRs will be submitted to the Bank along with the authorized withdrawal application based on a projected cash flow needs. Assurance that the funds to Woredas are appropriately used for the intended purposes will be sought from the continuous audits, OFAG/ORAGs regular annual audits and Bank

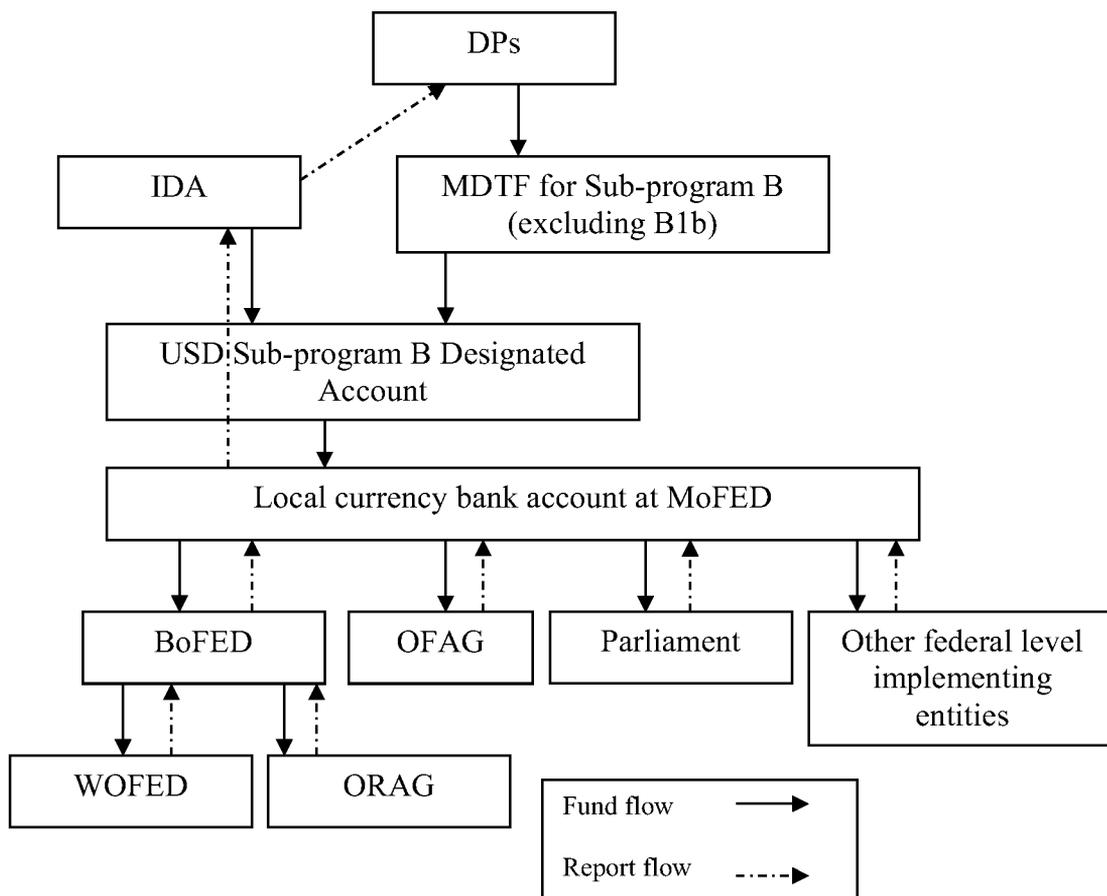
supervision. The Bank will retain its standard remedies for suspension, cancellation and refund. Also, the usual remedies for ineligible expenditures will apply to any misuse of funds.

Sub-program B<sup>40</sup>

33. After the initial advance into the sub-program’s Designated Account (for Sub-program B) MoFED will submit to the Bank on a quarterly basis a Withdrawal Application and an IFR prepared for actual expenditures that includes cash forecast required for the next six months. The initial advance will be the equivalent of six months budget/forecast.

34. The Bank in its own capacity and on behalf of other DPs for Bank-administered Multi-donor Trust Funds (MDTFs) will then deposit a share of financing to a Designated Pooled USD Account that GOE has designated for that purpose in the National Bank of Ethiopia.

MoFED will then draw resources from this designated account to its pooled local currency bank account. MoFED will use the funds for activities under its control and disburse as appropriate to federal level implementers (like CSA, OFAG, etc) and BoFEDs. BoFED will then disburse to regional implementing entities (like Woredas, ORAGs, etc) for the project purposes. The following chart illustrates the funds flow system:

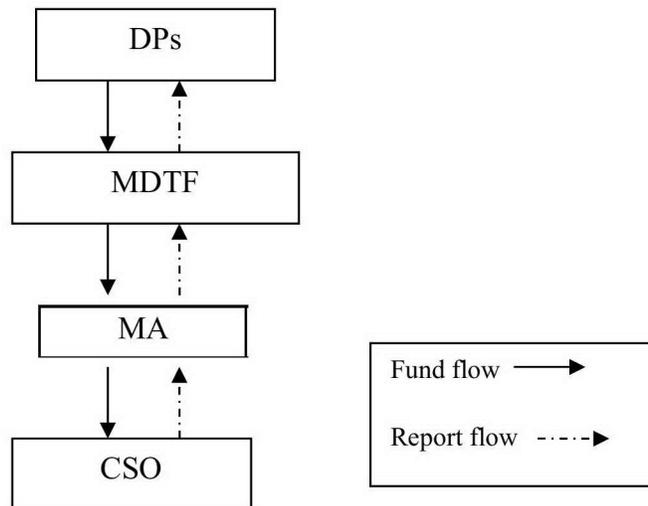


<sup>40</sup> This is excluding Sub-program B1b (which is *Ethiopia Social Accountability Program (ESAP)* being managed by a Management Agent).

35. The project will follow advances method using designated accounts as above. It can also follow one or a combination of the reimbursement, direct payment, and Special Commitment methods.

For Sub-program B1b-ESAP

36. The FM Manual will reflect the respective fund flow arrangements. The following chart illustrates the funds flow system for Sub-program B1b:



For Sub-program C-Result Enhancement Fund:

37. The detailed fund flow arrangements will be clarified when the design is completed and Operating Manual is prepared.

**Financial Reporting Arrangements**

38. MoFED will submit two quarterly consolidated unaudited interim financial report (IFR) prepared on the basis of actual expenditures one for Sub-program A within 90 days of end of the quarter and one for Sub-program B (excluding sub-program B1b, which is ESAP) within 75 days of end of the quarter. The formats of these IFRs were agreed at Negotiations and will be produced from the existing government accounting system. At minimum the respective IFRs for each sub-program will include the following: The IFR will include: (a) a Statement of sources and uses of funds, opening and closing balances for the quarter and cumulative; (b) Statement of uses of funds that shows actual expenditures. These are appropriately classified by main project activities (categories, components and sub-components). They will also include an actual versus budget comparisons for the quarter and cumulative; (c) a Statement of cash forecast/requirement- for six months (d) Notes and explanations (e) a statement on the movement of project's Designated Account including opening and closing balances and the movements (inflows and outflows). (f) Other supporting schedules and documents as needed. It is also expected that quarterly IFRs shall also contain narration of status of implementation of big issues noted in previous fiscal year management letters. While good improvements were observed in delivering IFRs on time, a lot of effort is needed to improve on the quality of the submitted IFRs.

The annual financial statements will include among other issues similar format as the quarterly reports. The annual financial statements do not need to include Statement of cash forecast. It is expected that woredas and regions shall prepare their reports for consolidation from updated ledgers maintained at such levels. Heads of WOFEDs and BOFEDs sign off on monthly reports being submitted for consolidation.

#### Sub-program A

39. For Sub-program A BSG, PBS donor funding would only finance recurrent expenditures in the basic service sectors, while Government own revenues would finance both recurrent and capital expenditures (in the basic service sectors), with both types of funding going down to sub-national governments via the block grants. The eligible expenditures would include salary and other recurrent/operating costs.

#### Sub-program B (excluding B1b)

40. CSA, OFAG and other federal level implementing agency will submit monthly financial reports to MoFED based on government reporting forms and deadlines. BoFED in respect of its own and the reports of WOFED, ORAG and other regional implementing agency will submit monthly/quarterly financial reports to MoFED based on government reporting forms and deadlines. The COPCU within MoFED will consolidate the reports received with expenditures at MoFED level and will produce the IFR for Sub-program B and submit it to the Bank and DPs.

#### Component B1b- ESAP- by a Management Agent

41. The Management Agent of the ESAP will prepare and submit an IFR 45 days from the end of the quarter. The IFR will include all contents outlined above at minimum.

#### Sub-program C – Results Enhancement Fund

42. The detailed reporting arrangements will be clarified when the design is completed and Operating Manual is prepared.

### **IX. Auditing**

43. MoFED will be responsible for having the financial statements audited annually and submitting the audit report (audited annual project financial statements and Management letter). Annual audited financial statements of this project will be submitted to the World Bank and other DPs within six months of the end of the government fiscal year (one audit report for all sub-programs excluding Sub-program B1b). The audit will be carried out by an auditor<sup>41</sup> acceptable to the Bank. All Audit ToRs were agreed at Negotiation. The auditors will be appointed within six months of effectiveness. The auditor will express an opinion on the project financial statements.. The auditor will also issue a Management letter highlighting internal control, compliance and other weaknesses. OFAG and ORAGs will receive funds under Sub-program B. The management letter should clearly state the observed issues, amount involved, what the possible risk could be, client response to the issues and conclude with a clear recommendation to be undertaken. The external auditor to be assigned for the whole PBS will audit the activities of recipients including OFAG and ORAGs. If OFAG is the auditor of PBS

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41 According to the Ethiopian Constitution, the Office of the Federal Auditor General (OFAG) is responsible for auditing all the financial transactions of the federal government as well as subsidies to the regions. OFAG has regional offices. Each of the regions has a Regional Auditor General, who is responsible for the audit of government financial transactions in the region

then, measures will be taken to select an independent auditor to audit the sub component being implemented by OFAG.

44. There will be continuous (interim) audit arrangements for Sub-program A which will be continued by OFAG. The TOR will include primarily the following issues:-incorporate (i) the need for robust sampling techniques; (ii) examination of systems and controls; (iii) testing of a sample financial transactions selected on the basis of the auditor's evaluation of internal controls; (iv) ensure that funds are reaching woredas on a timely manner; (v) based on data submitted by MOFED, stating the woredas, the number of employees and total wage bill per woreda, verifications of existence of the woreda level employees for which salaries is being financed by PBS and that the services financed by the program are indeed being provided; and (vi) provide an opinion as to whether funds are being used for the intended purposes. Reports (summary of findings) of this continuous audit will be submitted, on a quarterly basis, to IDA and DPs within 60 days of the end of the quarter. The auditor will use, among other tools, the results of the continuous (interim) audit in forming an opinion on the Project Financial Statements. The auditor will plan and perform the continuous (interim) audit in such a manner that it will add value and reduce the time it takes to produce the final Audit report. There will be adequate mechanisms to follow up on the findings of the continuous audit reports by the government by the Bank and other DPs. Continuous Audit ToRs were agreed at negotiation. In as far as coverage is concerned, it is expected that the auditor will strive to audit a minimum of 32 percent of expenditures for the first year and a higher percentage for the later years.

45. Owing to lack of sustained actions taken on previous fiscal year management letters, and low coverage on woredas and regions audited annually, MOFED shall share with the donor a progress report of actions undertaken on previous annual management letters six months after each fiscal year. Further, MOFED is also expected to form own teams that shall follow up on the implementation of recommendations in collaboration with Regional channel-one coordinators.

46. For Sub-program B1b-ESAP- The Management agent will be responsible for the audit and will have the financial statements of ESAP audited annually and submitting the audit report (audited annual project financial statements and Management letter). Annual audited financial statements of this project will be submitted to the World Bank and other DPs within six months of the end of the fiscal year of the Management Agent. Audit ToRs will be agreed when agreement is signed with the Management agent.

47. For Sub-program C - the detailed audit arrangements will be clarified when the design is completed and Operating Manual is prepared.

#### **X. Supervision Plan for all sub-programs**

48. As the overall FM risk rating of the project is substantial and that the program is implemented by all the regions and Woredas, supervision of project financial management will be undertaken more than twice a year. The supervision will review the projects financial management systems including but not limited to operation of designated account, evaluating quality of budgets, project financial management reports, assessing relevance of financial management manual, statements of expenditures, internal controls, reporting and follow up of audit and mission findings. The review will also conduct random reviews of financial statements, compliance with covenants. The financial management supervision will be conducted by IDA's financial management specialist staff and at times assisted by consultants. At each time of supervision, the projects financial management risks of the project will be assessed and influence

the frequency of supervision. There will be one comprehensive supervision in each year, which shall be conducted before a JRIS. To enhance such supervision, it is expected that MOFED and DPs will periodically send out teams to check on key issues pertaining to financial management. The supervision may also be performed jointly with other donors. Such efforts will be further supplemented by periodic in depth reviews to be undertaken once every year. Based on supervision result, the risk will be re-assessed and the frequency of supervision recalibrated.

## **XI. Financial Management Action Plan**

| <b>Actions</b>  | <b>Responsibility</b>       | <b>Completed by</b>                                   |
|---|-----------------------------|---|
| <b>Staffing</b>   |                             |   |
| Recruitment of financial staff at: <ul style="list-style-type: none"> <li>• MoFED- COPCU - four senior accountants</li> <li>• MoFED- COPCU - 2 internal auditors MoFED</li> <li>• BoFEDs- one internal auditor at BoFEDs for each of the following regions: i.e. for Tigray, Amhara, SNNPR, Oromia, Benshangul Gumuz, Gambella, Somali, and Afar</li> </ul> | MoFED/Regions               | Within 4 months after effectiveness                   |
| <b>Staff Training</b>   |                             |   |
| Training on budget monitoring, accounting and internal controls regulations and practices will be conducted   | MoFED                       | Ongoing   |
| <b>Chart of Account (Budget Code) mapping</b>   |                             |   |
| For Sub-program B activities – Government Accounts directorate will work with COPCU to assign specific account/ budget codes from the Government’s chart of accounts so that expenditures are easily and consistently budgeted and accounted for under these codes  | MOFED – COPCU and GAD       | Within 2 months of effectiveness                      |
| <b>Internal Audit</b>   |                             |   |
| Internal Audit at MoFED and Regions will review if audit findings are being addressed   | MoFED                       | Ongoing   |
| <b>Interim Financial Reports</b>  |                             |   |
| -Training on IFR preparation will be conducted to regions   | MoFED/ COPCU                | Ongoing   |
| <b>Audit Arrangements</b>   |                             |   |
| - The auditors will be appointed within 6 months of effectiveness.<br>-Strengthen MoFED and Regions on review & follow up of audit findings   | - MoFED/ OFAG<br><br>-MoFED | - Within 6 months after effectiveness<br><br>-Ongoing |

## **XII. Financial Covenants for all sub-programs**

### **49. For MoFED-**

- IFR-For Sub-program A, being implemented through MoFED, IFRs will be prepared on a quarterly basis, and will be submitted to the Bank and other DPs within 90 days after the end of each quarter. For Sub-program B being implemented through MoFED, IFRs will be prepared on a quarterly basis, and will be submitted to the Bank and other DPs within 75 days after the end of each quarter.
- Audit-An Annual audited financial statements to be submitted to the Bank and other DPs within six months after the end of the government fiscal year. For Sub-program A, OFAG will audit, on a continuous basis, samples of regions and Woredas that have received funds under the program to ensure that funds are used for the purposes intended. MoFED will cause OFAG to audit these regions and Woredas on a quarterly basis and provide the Bank with quarterly summaries, of audit findings within 60 days of the end of each quarter

- A progress report on actions taken on previous management letter six months after the due date of the audit report, which will be shared with the project auditors to vet or check during their annual audit.

50. For a Management Agent-

- For Sub-program B1b being implemented through a management agent, the IFR will be prepared on a quarterly basis, and will be submitted to the Bank and other DPs within 45 days after the end of each quarter.
- Audit-A Annual audited financial statements to be submitted to the Bank and other DPs within six months after the end of the fiscal year of the Management Agent

### **XIII. Governance and Accountability Framework**

51. Measures to tackle fraud and accountability aspects within the project should they arise will follow GOE systems set up to fight the scourge. The GOE established the Federal Ethics and Anti-corruption Commission of Ethiopia (FEACC) in May 2001 to tackle corruption and impropriety before it becomes rampant and widespread. Its objectives are (a) to strive to create an aware society where corruption will not be condoned (b) in cooperation with relevant bodies, to prevent corruption offences and other improprieties (c) expose, investigate and prosecute corruption offences and improprieties. MoFED and most of public bodies have an Anti-corruption Officers who have the responsibility of acting on suspected incidents of fraud, waste, or misuse of project resources or property. Employees of the ministry are advised to raise any governance and anti-corruption concerns with this officer as part of the programs complaint handling mechanism .It is divided into five departments some of which are responsible for investigation and corruption prevention. FEACC has also established offices at regional level to receive complaints from citizens. Whistle blowers can present their complaints about alleged corruption offences, ethical infringements and improprieties in person, on telephone, through e-mail, on fax and through post office. Their identity can be withheld upon request. Recently, GOE has passed the “Whistle Blowers and Witness Protection” Proclamation. Measures included within the operation to address GAC issues include: (A) a Citizens Engagement Component B1 that includes a large nationwide effort to promote greater financial transparency and accountability(FTA), a complementary Social Accountability sub-component to promote opportunities for civil society to interact with the more transparent information which the Government has begun to make available, and a new initiative to strengthen the system of independent Grievance Redress Mechanisms (GRM); (B) a Public Financial Management component B2 specifically designed to strengthen the formal PFM systems within woredas, (C) the Managing for Results component (B3) which seeks to improve the quality of results data so that decision makers and citizens at all levels are able to see whether public finances are delivering promised results; and (D) a strong set of quarterly financial reporting requirements and yearly audits which will include performance related aspects. Beyond these efforts formally built into program design, as part of implementation support, regional staff and citizens will be encouraged to report any cases of suspected fraud and corruption to resident Federal Ethics and Anti-corruption Commission.

52. The project will make use of website and other communication channels(notice Boards at the project website, press releases, notice boards and public meetings) to disclose information regarding the project. All forms of communication will also display channels available to the public to make enquiries and to file complaints.

## **Annex 5 : Procurement Arrangements**

### **Procurement Implementation Arrangements**

1. Procurement under the program to be financed through pooled funding by IDA and development partners as well as procurements using Trust Funds administered by the Bank would be carried out in accordance with: (i) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011; (ii) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011; (iii) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and revised in January 2011; (iv) introduction of Exceptions to National Competitive Bidding Procedures; and (v) the provisions stipulated in the Legal Agreements.
2. A Procurement Plan acceptable to the Bank covering at least the first eighteen months was prepared prior to Credit Negotiations. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame would be agreed between the Borrower and IDA WB task team in the Procurement Plan. The Procurement Plan would be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.
3. A General Procurement Notice (GPN) will be prepared and published in United Nations Development Business (UNDB), on the Bank's external website and in at least one national newspaper after the project is approved by the Bank Board, and/or before Project effectiveness. Specific Procurement Notices for all goods and works to be procured under International Competitive Bidding (ICB) and Expressions of Interest for all consulting services to cost the equivalent of USD 200,000 and above would also be published in the United Nations Development Business (UNDB), Bank's external website and the national press.
4. Most of the agencies handling procurement under the second phase of the Protection of Basic Services program (PBS II), namely: COPCU, CSA and MoWE will continue with the same responsibility under this phase of the program (PBS 3). Ministry of Agriculture is a new implementing agency added to undertake procurement activities for the PBS 3. The different assessments done so far including the CPAR 2010 show that, in general, procurement capacity in the country is weak. Procurement implementation suffers due to lack of commitment and recognition of public procurement as a strategic function to achieve developmental objectives. As is the case across the civil service, support for procurement including the incentive structure is sufficiently weak that implementing agencies fail to attract and retain proficient procurement experts, and procurement units lack the necessary facilities and working documents to enable them to carryout procurement efficiently and effectively. The Independent Procurement Audit of PBS II proved that the implementing agencies of the PBS program are also victims of the systemic constraints existing in the country procurement environment.
5. A number of procurement packages are envisaged to be undertaken under PBS 3 by different Implementing Agencies. The following paragraphs indicate expected procurement activities under the different project components.

6. **Procurement under Sub-program A:** This sub-component of the program would assist in financing of the delivery of basic services by woredas through regional block grants. All resource under this subcomponent is to be spent on recurrent and operational expenditure, and no procurement is considered to be undertaken with the resource allocated under this sub component.

7. **Procurement under Subcomponent B1a and B1c: Citizen's Engagement.** Procurement under subcomponent B1a includes procurement of Billboards and Suggestion Boxes which will be procured by the regional BoFEDs through a shopping procedure. The subcomponent also involves employment of consultants to undertake Impact Assessment Survey on FTA and assignment to develop FTA Templates which will be procured by COPCU in collaboration with the user work unit, EMCP. EMCP will take responsibility of preparing TORs for consultancy services as well as assigning technical persons for technical evaluations. Consultancy contract management will also be under the responsibility of EMCP. Similarly, there are limited procurement activities under subcomponent B1c related with consultancy assignment to produce Grievance Handling Procedures and manuals.

8. **Procurement under Subcomponent B1b: Social Accountability:** This sub component will be managed by a management agency, and when there are procurements undertaken by the agency the Bank's Guidelines mentioned in Paragraph 1 above will apply. Procurement may involve procurement of individual consultants who will provide services in the area of Training, Regional Coordination and facilitation and M& E tasks. This subcomponent will also involve implementation of sub projects through Civil Society Organizations or a partnership of organizations. Implementation activities through CSOs will be governed by article 3.19 of the Procurement Guideline. The procurement procedures and project activities to be carried out by the CSOs will be detailed in a Manual which would be approved by the bank and made public by Management Agent.

9. **Procurement under Component B2 Local Public Financial Management and Procurement.** Procurement under Subcomponent B2 includes procurement of IT Equipment and facilities to strengthen woreda Public Finance Accountability activities and IT Equipment to continue IBEX Rollout. It will also involve procurement of non consultancy service to connect woredas, zones, regional sector bureaus and federal bodies to the woredanet. There are also consultancy services for study of woreda procurement system review and study for procurement certification training. FPPA will be responsible to implement the woreda procurement support component, and will prepare required TORs and assign technical person that work in close collaboration with COPCU during procurement activities. COPCU will assume the overall procurement responsibility for this component.

10. **Procurement under Component B3 Managing for Results.** Procurement under this subcomponent mainly involves consulting services to be carried out at COPCU, CSA, MOWE and MOA. There are also various procurements of Goods including IT Hardware and Software for strengthening and building organizational infrastructure for M&E systems which will be procured either through International Competitive Bidding or National Competitive Bidding procedures to be agreed in the respective procurement plans. There are also various studies in the areas of Social Accountability Impact evaluation, Effectiveness and Equity in access for basic service, Basic Service Staff tracking Study, study on innovative mechanism of effective service

delivery, sustainability studies, and various surveys including facility survey, satisfaction survey etc.

11. **Experience and lessons learned during PBS II:** Procurement performance under PBS II was not satisfactory. There was significant delay on all planned procurements. Initially there had been delay in preparing and reaching agreement on Procurement Plan. After agreement was reached on the Procurement Plan, activities did not progress as per the plan. The main reasons for delays are lack of capacity and lack of accountability. There had not been adequate procurement capacity in COPCU, CSA and MOWE. There had not been appropriate monitoring of status of activities identified in Procurement Plans. Roles and responsibilities of the various stakeholders were not properly clarified, and responsibility with accountability was not transferred to the different players. Coordination among the various stakeholders was not robust. There were also cases where long discussions of technical requirements delayed World Bank no objections. The lessons gained during PBS II are taken as input for risk mitigation measures which are discussed in the subsequent paragraphs.

12. **Procurement Risk Assessment and Risk Mitigation Measures.** As part of the project preparation, the World Bank Procurement Specialists have undertaken procurement risk assessment of the key implementing agencies of the program. Accordingly, the procurement capacity of COPCU, CSA, MOWE and MOA has been assessed based on the criteria stipulated in the Procurement Risk Assessment and Management Systems (P-RAMS). According to the assessment, despite the high volume procurement activities entrusted to them, COPCU, CSA, MOWE and MOA have capacity problems related to procurement and contract management.

13. COPCU has a procurement unit specially set up to deal with procurement activities of PBS II. The unit is responsible to handle procurement on behalf of other beneficiary agencies outside of MoFED and user departments within MoFED. The unit has gained experience on goods procurement but still needs further strengthening since a number of weaknesses were observed during PBS II implementation. The COPCU procurement unit needs to have sufficient, motivated, trained and experienced procurement specialists to do the job in an organized manner. The unit also needs an officially designated leader to properly coordinate and implement procurement activities. COPCU need to attract and retain qualified procurement specialists. There are challenges to properly execute procurement activities throughout the cycle starting from procurement planning, preparation of bidding document, evaluation to contract administration. Procurement plan is not used as a tool to which activities are adhered and with which activities are monitored. Bidding documents are not initiated and prepared timely as per the procurement plan and the quality of bidding documents are not of satisfactory quality, usually necessitating extensive revisions. Evaluations are mostly inordinately delayed and obtaining contract award decision before expiry of the original period of bid validity has not been achieved in the past. Contract management is a challenge in COPCU as there is lack of clarity of where contract management responsibilities lie. Overall COPCU's procurement unit needs strengthening in staffing, organization and accountability mechanisms if it is to deliver results for PBS 3.

14. CSA will implement elements of subcomponent B3 which involves a range of consulting services. Though the agency is gaining some experience under the PBS II program, it still has only limited procurement capacity. The agency suffers from lack of qualified procurement experts, lack of procurement manual, lack of expertise in defining evaluation criteria and

applying them in the evaluation of proposals, lack of proper documentation and record keeping, lack of skills to formulate realistic procurement plans, lack of capacity for contract management, etc.

15. The Ministry of Water and Energy will implement water sector related monitoring and evaluation activities under subcomponent B3. Experience under PBS II shows that procurement in the MOWE didn't take off for a very long period of time due to lack of coordination between MOFED and MOWE as well as capacity limitations. Procurement under subcomponent B3, for which the water sector is beneficiary, is planned to be implemented under the Water Supply and Sanitation Program Procurement Management Unit of MOWE which has procurement experts having broader experience in donor funded projects. Nevertheless the unit is not insulated from the generic capacity problem existing across the nation like staff turnover, lack of accountability, etc. and procurement risk remains high at MOWE also. Procurements assigned for MOWE include procurement of IT Equipment and Consultancy services required for strengthening the MIS system, facility surveys, and system assessments for the water sector.

16. The Ministry of Agriculture, as a newly identified agency to undertake procurement under PBS 3, will implement agricultural sector related monitoring and evaluation activities under subcomponent B3. The procurement capacity assessment of the agency shows that procurement under the ministry is organized as a "case team" with a staff plan of 18 senior and junior procurement experts. However, the unit is currently staffed with only 7 junior procurement experts with no more than two years of working experience and no training on donor funded procurement procedures including that of the World Bank. Though the unit is tasked to handle procurement activities of donor funded projects, all those projects are supported by procurement experts recruited by the financiers, and administered in the respective project offices. As a result procurement experts in the unit did not gain exposure and experience out of those procurement activities. It is also learned that the unit and the procurement experts do not have much experience in handling procurement of consulting services which is one of the dominant activity envisaged under the PBS 3. Considering the limitation in staff experience, lack of proper record keeping procedures and facilities and associated limitation of accountability, procurement risk in the agency is "High".

17. Decentralized procurement activities in the regions would be carried out by regional BoFEDs. It is noted that the regional BOFEDs normally implement procurement through the Procurement and Property Administration support process which is tasked to undertake operational procurement. While it is recognized that specific capacity structure could vary from region to region, assessments done so far indicate regional procurement capacity is much weaker than the capacity at the federal level. In addition to the limited capacity, procurement at regions lacks proper organizational structure with segregation of duties and responsibilities, dual role of the regulatory function, and lack of independence of the complaint handling procedure. Though regional BoFEDs are not key procurement implementing agencies of the program, there are small value procurements which are better undertaken at regional than federal level. These procurements include procurement of IT equipment, non-consulting services for dissemination of information through the local media, and procurement of notice boards under subcomponent B1 which could be implemented using National Competitive Bidding and/or Shopping procedures. When such procurement is identified the regional BOFEDs shall prepare procurement plans and such procurement plans shall be compiled by COPCU and would be submitted for the Bank's

prior approval. It should however be noted that as per Footnote 61 of the Procurement Guidelines, Contracts shall not be divided into smaller units in order to make them less attractive for ICB procedures; any proposal to divide a contract into smaller packages shall require the prior no objection of the Bank. Particularly, there would be advantage of economies of scale if IT Equipment procurement were procured in bulk centrally and distributed to regions by suppliers by specifying various CIP destinations in the Bidding Documents.

18. The overall procurement risk of PBS 3 is considered “High”. The risk as it applies to the various implementing agencies of the program, albeit at a different degree, is a result of the generic capacity problem existing in the procurement environment of the country. However, there are also risks that can be addressed through proper organization, staffing, management of the procurement function at implementing agencies level. The following provides risk mitigation measures and action plans including prior review threshold.

**Table 5: Procurement risks and proposed mitigation measures**

| No | Key Risks  | Risk Mitigation Actions   | By Whom                           | By When  |
|----|--|---|-----------------------------------|--|
| 1  | Lack of accountability and ambiguity of roles of the different players | <ul style="list-style-type: none"> <li>As part of the POM, prepare procurement manual with clear distinction of roles and responsibilities of the different players at the different IAs of the program.</li> <li>As part of the POM, ensure that a system of accountability for procurement decision making is established that covers all steps of the procurement process and has timeframes for the decision, including the time allotted to make them</li> </ul>           | COPCU / CSA /MOWE/ MOA            | Before effectiveness   |
| 2  | Unsatisfactory record keeping and management                           | <ul style="list-style-type: none"> <li>Each of the IAs should assign a dedicated space, staff and facilities for record keeping</li> <li>The procurement manual has to provide clear procedure of handling and monitoring the movement of procurement records and responsible bodies</li> </ul>   | COPCU / CSA / MOWE/ MOA           | At the beginning of implementation and throughout the project period |
| 3  | Inadequacy of staff both in quality and number                         | <ul style="list-style-type: none"> <li>-Recruit qualified and experienced procurement specialist to lead and coordinate the procurement unit activities at COPCU. And ensure and maintain at least two additional procurement experts with qualifications and experience satisfactory to the Bank at COPCU</li> <li>Recruit at least two procurement specialist with qualifications and experience satisfactory to the Bank at CSA</li> <li>Ensure MOWE and MOA have</li> </ul> | COPCU<br><br>CSA<br><br>MOWE/ MOA | At the beginning of the implementation of PBS 3                      |

| No | Key Risks   | Risk Mitigation Actions  | By Whom                     | By When  |
|----|---|--|-----------------------------|--|
|    |   | adequate procurement staff   |                             |  |
| 4  | Unrealistic procurement plans   | <ul style="list-style-type: none"> <li>• Provide training on the preparation of PP to all IAs</li> <li>• Provide ongoing hands on support to staff</li> </ul>  | COPCU/<br>WB/               | At the beginning and throughout the project period |
| 5  | Unsatisfactory Bidding Documents, short listing and evaluation criteria | <ul style="list-style-type: none"> <li>• Provide Staff all applicable SBDs</li> <li>• Provide training to staff in the preparation of bidding documents etc</li> <li>• Provide ongoing hands-on assistance to staff of all IAs</li> </ul>  | COPCU/<br>WB/               | At the beginning and throughout the project period |
| 6  | Delay in procurement processing   | <ul style="list-style-type: none"> <li>• Create a working group including members from the user agencies and work units and monitor procurement implementation</li> <li>• Provide Training to procurement staff</li> <li>• Provide procurement hands on support using resources at the World Bank and PBS Secretariat</li> </ul> | COPCU /<br>WB               | At the beginning and throughout the project period |
| 7  | Lack of coordination between IAs and users during contract management   | <ul style="list-style-type: none"> <li>• Establish a working group and coordinate activities</li> </ul>  | COPCU/ CSA/<br>MOWE/<br>MOA | At the beginning and throughout the project period |

19. **Prior Review Threshold.** The threshold for prior review, for International Competitive Bidding (ICB) including the maximum contract value for which the short list may comprise exclusively Ethiopian firms in the selection of consultants, are presented in the table below for purposes of guiding the preparation of the initial procurement plan. The procurement capacity of implementing agencies would be reviewed annually and the threshold will be revised according to the improvements or deterioration in the procurement capacity. Additionally, each procurement plan will indicate the number of contracts procured through National Competitive Bidding procedures or selection of consultants having a short list of exclusively Ethiopian firms that will be subject to prior review as part of risk mitigation.

| Category                           | Prior Review Threshold (USD ) | ICB Threshold (USD ) | National Short-List Max Value (USD ) |
|------------------------------------|-------------------------------|----------------------|--------------------------------------|
| Works                              | ≥5,000,000                    | ≥5,000,000           | NA                                   |
| Goods and non-consultancy services | ≥500,000                      | ≥500,000             | NA                                   |
| Consultants (Firms)                | ≥200,000                      | NA                   | <200,000                             |
| Consultants (Individuals)          | ≥100,000                      | NA                   | NA                                   |

20. **Applicable Procurement Methods-** Selection of procurement methods shall be in accordance to the Bank's guidelines stated in paragraph 5.1 above and shall be indicated and agreed for each of the procurement packages in the respective procurement plans of the program.

21. In view of the above, procurement of goods and services above the stated threshold shall be undertaken through International Competitive Bidding procedure using the Bank's latest Standard bidding Document. Procurement of Goods and Non-Consulting Services which are below the "Prior Review" threshold can be procured through the National Competitive Bidding Procedure. Procurement of goods and services of small value contracts of less than USD 50,000 may be procured using Shopping procedures in accordance with paragraph 3.5 of Bank Guidelines. Where it has been determined to be to the advantage of the operation, Procurement of Goods and non-Consulting services under Direct Contracting shall be procured in accordance with paragraph 3.7 of the Bank's Guideline.

Selection of Consultant's shall be carried out using Bank's latest Standard Request for Proposal. Consulting firms for services estimated to cost more than USD 100, 000 equivalents would be selected through Quality and Cost based Selection (QCBS) method. Contracts with consulting firms services estimated to cost less than USD 100,000 equivalent may be selected using Selection based Consultant's Qualification (CQS) method. Individual consultants' will be selected on the basis of their qualification and in accordance with Section V of the Bank's Guideline for Selection and Employment of Consultants. Consulting services for audits and other services of a standard or routine nature may be procured using the Least Cost Selection Method while Single Source Selection may be used when justified in accordance with paragraph 3.8 of the Bank's Guideline. For consulting services of value less than USD 200,000 equivalent, shortlists may comprise entirely of national consultants in accordance with paragraph 2.7 of the guideline. When there is need for capacity reasons and access exceptionally qualified expertise and in accordance with paragraphs 3.15 and 3.16 of the guideline, UN agencies and NGOs could be employed to assist in case they have an advantage over commercial firms.

22. **Training and Workshops-** It is envisaged that there will be lots of training activities associated with capacity building and system strengthening subcomponent of the program specifically with subcomponents B1, B2 and B3. For all training activities, annual training plan shall be prepared by the implementing agencies and approved by the Bank. In case the training is to be outsourced to outside training institute, the procurement activity required for the hiring of the training institute shall be integrated into a procurement plan and agreed with the Bank. Similarly, venues for workshops and training materials that will be availed through a procurement process that will be done by comparing at least three quotations.

23. **National Competitive Bidding Procedures.** National Competitive Bidding (NCB) shall follow the Open and Competitive Bidding procedure set forth in the Ethiopian Federal Government and Procurement and Property Administration Proclamation No. 649/2009 and Federal Public Procurement Directive issued by the Ministry of Finance and Economic Development dated June 10, 2010, provided, that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the "Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011) (the "Procurement Guidelines") and the following additional provisions:

- i. The Recipient's standard bidding documents for procurement of goods and works acceptable to the Bank shall be used. At the request of the Borrower, the introduction of requirements for bidders to sign an Anti-Bribery pledge and/or statement of undertaking to observe Ethiopian Law against Fraud and Corruption and other forms that ought to be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Bank.
- ii. If pre-qualification is used, the Association's standard prequalification document shall be used;
- iii. No margin of preference shall be granted in bid evaluation on the basis of bidder's nationality, origin of goods or services, and/or preferential programs such as but not limited to small and medium enterprises.
- iv. Mandatory registration in a Supplier List shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and if recommended for contract award shall be given a reasonable opportunity to register with the reasonable cooperation of the Recipient, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette, or on a widely used website or electronic portal with free national and international access.
- v. Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents;
- vi. All bidding for goods and works shall be carried out through a one-envelope procedure.
- vii. Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation.
- viii. The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, new bids shall not be solicited, nor shall negotiated procurement in case of a failure of bidding be resorted to without the Bank's prior written concurrence. Negotiations shall not be allowed except in the case of a lowest evaluated responsive bid which exceeds the Borrower's updated cost estimate by a substantial margin, to try to obtain a satisfactory contract through a reduction in the scope of works/supply and reallocation of risk which can be reflected in a reduction in contract price.
- ix. In accordance with para.1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (1) the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and comments relating to the bid submission and performance of the contract, and to have them audited by auditors appointed by the Association; and (2) Acts intended to materially impede the exercise of the Bank's audit and inspection rights constitutes an obstructive practice as defined in paragraph 1.16 a (v) of the Procurement Guidelines.
- x. The Recipient shall establish and implement an effective, fair and independent protest mechanism allowing bidders to protest and to have their protests handled in a timely manner.

24. **SBDs for NCB:** FPPA's newly issued Standard Bidding Documents will be revised to take into account the above exceptions and the revised documents will be agreed with the Bank. The project's procurement manual will include as an annex revised SBDs that will be applicable for Bank Financed project.

25. **Implementation Support for Procurement-** In addition to the prior review supervision to be carried out from the Bank's Office, pre-JRIS field visit missions would incorporate procurement as part of each mission. Post procurement reviews will be carried out at a minimum once annually, and MOFED, CSA, MOWE, MOA and regional BOFED's shall provide all the required documentation and supports for the successful implementation of the supervision missions.

## Draft Procurement Plan PBS III (B1a, B1c, B2 and B3)

### B1a- Financial transparency and Accountability

|   | Description   | Estimated amount                   | Method   | Type                   | Review Type | Procuring Entity | Possible start date |
|---|---|------------------------------------|----------|------------------------|-------------|------------------|---------------------|
| <b>Goods, Works and Non-Consulting Services</b> |   |                                    |          |                        |             |                  |                     |
| 1   | Media Air Time  |                                    |          |                        |             |                  |                     |
| 1.1   | Procuring media dissemination service at federal                        | \$ 151,000                         | NCB      | Non-consulting service | Post        | COPCU            | June 2 013          |
| 1.2   | Procuring media dissemination service in Regions                        | \$38000/Region/yr <sup>42</sup>    | Shopping | Non-consulting service | post        | BOFED            | June 2013           |
| 2   | Billboards and suggestion Boxes   |                                    |          |                        |             |                  |                     |
| 2.1   | Billboard and suggestion boxes (Oromia)                                 | \$ 201,000                         | NCB      | Goods                  | post        | BOFED            | March 2013          |
| 2.2   | Billboard and suggestion boxes (Amhara)                                 | \$ 199,000                         | NCB      | Goods                  | post        | BOFEDs           | March 2013          |
| 2.3   | Billboard and suggestion boxes (Addis Ababa)                            | \$ 154,000                         | NCB      | Goods                  | post        | BOFED            | March 2013          |
| 2.4   | Billboard and suggestion boxes (all other regions)                      | Up to \$50000/Region <sup>43</sup> | Shopping | Goods                  | post        | BOFED's          | March 2013          |
| 3   | Printing of FTA Templates   |                                    |          |                        |             |                  |                     |
| 3.1   | Printing of FTA Templates (Oromia)                                      | \$110,000                          | NCB      | Non consulting service | post        | BOFED            | Jan 2014            |
| 3.2   | Printing of FTA Templates (all other regions)                           | Up to \$50000/Region               | Shopping | Non consulting service | post        | BOFED's          | Jan 2014            |
| <b>Consulting Services</b>                      |   |                                    |          |                        |             |                  |                     |
| 4   | Develop FTA template to disclose audit and procurement activities       | \$ 143,000                         | QCBS     | Consultancy            | post        | COPCU            | May 2013            |
| 5   | Impact assessment survey on budget literacy                             | \$ 145,000                         | QCBS     | Consultancy            | post        | COPCU            | Jan 2015            |
|   | <b>Sub Total, B1a</b>   | <b>3,259,000<sup>44</sup></b>      |          |                        |             |                  |                     |
| <b>B1c- Grievance Redress Mechanism</b>         |   |                                    |          |                        |             |                  |                     |
| <b>Consulting Services</b>                      |   |                                    |          |                        |             |                  |                     |
| 1   | Designing procedures, guidelines & manuals for regional and federal GRM | \$150,000                          | QCBS     | Consultancy            | post        | COPCU            |                     |

<sup>42</sup> Each region shall procure service for media coverage every year for three years at an estimated one time contract size of not more than \$38,000

<sup>43</sup> The estimated amount of the contract for the other regions (except Oromia, Amhara and Addis Ababa) is within the shopping threshold of less than \$ 50,000.

<sup>44</sup> This includes three years procurement of media dissemination service which amounts to \$1,254,0000

|   |  |                  |      |             |      |       |  |
|---|--|------------------|------|-------------|------|-------|--|
| 2 | Conduct research on existing grievance hearing and redress mechanism | \$150,000        | QCBS | Consultancy | post | COPCU |  |
|   | <b>Subtotal, B1c</b>   | <b>\$300,000</b> |      |             |      |       |  |

## B2- Public Financial management and Procurement

|   | Description  | Estimated amount           | Method                      | Type                     | Review Type | Procuring Entity  | Possible start date |
|---|--|----------------------------|-----------------------------|--------------------------|-------------|-------------------|---------------------|
| <b>Goods, Works and Non-Consulting Services</b> |  |                            |                             |                          |             |                   |                     |
| 1   | Office equipments (photocopiers, fax machines) for PFM activities  | \$ 2,871, 000              | ICB                         | Goods                    | Prior       | COPCU             | April, 2013         |
| 2   | Procurement of Hardware and Office Equipment for Woredas   | \$3,053,000                | ICB                         | Goods                    | prior       | COPCU             | Jan, 2014           |
| 3   | Print and distribute new PFM manuals at woredas  | \$700-<br>\$25000/Region   | Shopping                    | Non-consulting service   | Post        | Respective BOFEDs | June, 2013          |
| 4   | Procurement of windows server 2008 for each region   | \$ 220,000                 | NCB                         | Goods                    | post        | COPCU             | May, 2013           |
| 5   | Connecting finance office at different levels with the woredanet   | \$1,430,000                | Force Account <sup>45</sup> | Non-consulting services  | prior       | COPCU             | March, 2013         |
| 6   | Building Regional Data Centers   | \$1,400,000                | ICB                         | Works (Elecromechanical) | Prior       | COPCU             | June, 2013          |
| 7   | Procurement of Vehicles  | \$1,500,000                | ICB                         | Goods                    | prior       | COPCU             | June 2013           |
| 8   | Procurement of office equipments for PFM teams at zones  | \$425,000                  | NCB                         | Goods                    | post        | COPCU             | April, 2013         |
| 9   | Media air Time for Procurement   | \$30,000                   | Shopping                    | Non-consulting service   | Post        | COPCU             | March, 2013         |
| 10  | Office Furniture (COPCU)   | \$115,000                  | NCB                         | Goods                    | Post        | COPCU             | March 2013          |
| 11  | Office Supplies (COPCU)  | \$20000/year <sup>46</sup> | Shopping                    | Goods                    | Post        | COPCU             | Feb, 2103           |
| <b>Consulting Services</b>                      |  |                            |                             |                          |             |                   |                     |
| 11  | Woreda Procurement system review   | \$250,000                  | QCBS                        | Consultancy              | prior       | COPCU             | March 2013          |
| 12  | Study on need identification, competency and course development for procurement certification training (EIPAM) | \$510000                   | QCBS                        | Consultancy              | prior       | COPCU             | June 2013           |
|   | <b>Total B2</b>  | <b>\$11,940,000</b>        |                             |                          |             |                   |                     |

<sup>45</sup> Ethio telecom as the only internet service provider in the country and owner of the network shall be assigned to undertake labour related aspects of this activity

<sup>46</sup> A total of \$60,000 for three years operation

| <b>B3- Managing for Results</b>                 |  |                     |               |                        |                    |                         |                   |
|---|--|---------------------|---------------|------------------------|--------------------|-------------------------|-------------------|
| <b>No</b>                                       | <b>Description</b>   | <b>Amount</b>       | <b>Method</b> | <b>Type</b>            | <b>Review Type</b> | <b>Procuring entity</b> | <b>Start Date</b> |
| <b>Goods, Works and Non-Consulting Services</b> |  |                     |               |                        |                    |                         |                   |
| 1   | Procurement of computers, software and accessories for MoE                           | \$690,000           | ICB           | Goods                  | Prior              | COPCU                   |                   |
| 2   | Printing of HMIS materials (MoH)   | \$490,000           | NCB           | Goods                  | Post               | COPCU                   |                   |
| 3   | Procurement of MPI Boxes, (MoH)  | \$490,000           | NCB           | Goods                  | Post               | COPCU                   |                   |
| 4   | Procurement of shelves, (MoH)  | \$490,000           | NCB           | Goods                  | Post               | COPCU                   |                   |
|   | Procurement of computers & accessories for MIS rollout (MoWE)                        | \$780,000           | ICB           | Goods                  | Prior              | MoWRE                   |                   |
| 6   | Supply and installation of computers and accessories and supply of GPS for Roads MIS | \$700,000           | ICB           | Goods                  | Prior              | MoWRE                   |                   |
| 7   | Supply and installation of server database (MoH)                                     | \$20,000            | Shopping      | Goods                  | Post               | COPCU                   |                   |
| 8   | Procurement of office facilities, Media equipments,GPS for CSA                       | \$37,750            | Shopping      | Goods                  | Post               | CSA                     | Jan, 2013         |
| 9   | Procurement of TV and radio air time (CSA)   | \$ 24,000           | Shopping      | Non-consulting service | Post               | CSA                     | Jan.2013          |
| 10  | Printing brochures, calendars, documentary film (CSA)                                | \$25,000            | shopping      | Non-consulting service | Post               | CSA                     | Sep, 2013         |
| <b>Consulting Services</b>                      |  |                     |               |                        |                    |                         |                   |
| 11  | Teachers tracking survey, MoE  | \$200,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 12  | Internal validation assessment of EMIS   | \$200,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 13  | Service facility /delivery survey, (MoE)   | \$350,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 14  | Health staff tracking study (MoH)  | \$200,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 15  | Health facility survey (MoH)   | \$300,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 16  | Patient satisfaction survey (MoH)  | \$200,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 17  | Internal validation of WaSH MIS  | \$300,000           | QCBS          | Consultancy            | Prior              | MoWRE                   |                   |
| 18  | System updating to synchronize with NWI  | \$200,000           | QCBS          | Consultancy            | Prior              | MoWRE                   | June 2013         |
| 19  | Water facility survey  | \$300,000           | QCBS          | Consultancy            | Prior              | MoWRE                   | Sep, 2013         |
| 20  | Roads Base line data collection for five regions                                     | \$500,000           | QCBS          | Consultancy            | Prior              | COPCU                   | June, 2013        |
| 21  | DA tracking survey, MoA  | \$300,000           | QCBS          | Consultancy            | Prior              | MoA                     |                   |
| 22  | Baseline data collection, MoA  | \$400,000           | QCBS          | Consultancy            | Prior              | MoA                     |                   |
| 23  | Effectiveness study (linking financing with results) on agriculture                  | \$250,000           | QCBS          | Consultancy            | Prior              | MoA                     |                   |
| 24  | Sustainability study   | \$200,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 25  | Study on innovative mechanisms of effective service delivery                         | \$200,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 26  | Equity in access to basic services through Socio-Economic Study                      | \$300,000           | QCBS          | Consultancy            | Prior              | COPCU                   |                   |
| 27  | M&E system assessment for health sector  | \$275,000           | QCBS          | Consultancy            | Prior              | CSA                     | Feb, 201          |
| 28  | Data quality assessment for education sector   | \$275,000           | QCBS          | Consultancy            | Prior              | CSA                     | March, 2013       |
| 29  | Data quality assessment for agriculture sector                                       | \$275,000           | QCBS          | Consultancy            | Prior              | CSA                     | Sept, 2013        |
| 30  | Data quality assessment for water sector   | \$275,000           | QCBS          | Consultancy            | Prior              | CSA                     | Jan, 2014         |
| 31  | Data quality assessment for health sector  | \$275,000           | QCBS          | Consultancy            | Prior              | CSA                     | Sept, 2014        |
| 32  | M&E system assessment for rural roads  | \$275,000           | QCBS          | Consultancy            | Prior              | CSA                     | Jan, 2015         |
| 33  | Consultancy service for gender disaggregation for sectors                            | \$90,000            | CQS           | Consultancy            | Post               | CSA                     | Jan, 2013         |
| 34  | Study to incorporate use of statistical data in Ethiopian educational curriculum     | \$12,200            | CQS           | Consultancy            | Post               | CSA                     | May, 2013         |
|   |  |                     |               |                        |                    |                         |                   |
|   | <b>Total B3</b>  | <b>\$9,960,650</b>  |               |                        |                    |                         |                   |
|   | <b>Grand Total(B1a,B1c,B2 and B3)</b>  | <b>\$25,459,650</b> |               |                        |                    |                         |                   |

## Annex 6 : Operational Risk Assessment Framework (ORAF)

| Project Stakeholder Risks  | Rating: High  |                                 |                          |                       |
|--|---|---------------------------------|--------------------------|-----------------------|
| <p><b>Description :</b><br/>                     PBS Development Partners and other stakeholders continue to express concerns about whether space for citizen’s formal political engagement in Ethiopia is narrowing. Over 150 opposition members and journalists have been jailed since January, many on charges of terrorism. Human rights and press freedom groups have criticized Ethiopia's anti-terrorism law, saying it violates the country's constitution and inhibits political freedom.</p> <p>Development Partners need to continuously demonstrate that their funds are delivering basic service results and not leading to a reduction in political space. Without credible, survey-based evidence of results and strengthened transparency and accountability mechanisms, they might decide to withdraw support to maintain their institution’s reputation. There is also a risk to the Bank’s reputation if it is seen to be supporting or being associated with mechanisms or initiatives that do not include sufficient effort by the Government to open space for citizen engagement. Two issues that have emerged over the last 1.5 year make this particularly important: (i) A “villagization” program in the developing regions of Benishangul Gumuz, Gambella, Somali and Afar have relocated more than 100,000 households to village clusters at the professed purpose of ensuring their access to basic services. However, the manner in which the relocation has taken place has been alleged by human rights groups to be coercive; (ii) the Government agency responsible for regulating CSO operations has issued a policy requiring CSOs to ensure no more than 30 percent of</p> | <p><b>Risk Management:</b><br/>                     The numerous PBS accountability mechanisms are quite robust, though they could be further strengthened. To this end, the Bank will continue to work through the country program and PBS to broaden the space available for citizen engagement, specifically by promoting improved local transparency and accountability mechanisms. A study on designing a grievance redress mechanism (GRM) for PBS has been completed and the study findings used in the design of a Citizen’s Engagement sub-component of GRM Support to strengthen regional institutions and improve grievance redress in service delivery.</p> <p>PBS will also continue to strengthen monitoring and evaluation systems that monitor progress towards the MDGs and improved basic services. Towards this strengthening, it promotes independent survey-based quality checks on results.</p> <p>To manage the possible impacts on PBS and its partners by country policies and initiatives that are seen to limit citizen or civil society space and freedom, partners will continue to monitor their effects and ensure coordinated responses, and engage in available policy forums such as those under the Development Assistance Group (DAG). In addition, the High Level Forum has already provided a venue to discuss villagization and the CSO law. As a result of that discussion, the development partners were informed about the process of villagization and administration of the 70-30 guideline in the CSO law.</p> |                                 |                          |                       |
|  | <p><b>Resp:</b> MOFED,<br/>Development Partners</p>   | <p><b>Stage:</b> Continuous</p> | <p><b>Due Date :</b></p> | <p><b>Status:</b></p> |

|  |   |   |                   |                |
|--|---|---|-------------------|----------------|
| <p>their cost for administration and at least 70 percent for operations. As administrative cost would include activities such as transport, training, M&amp;E and supervision, DPs are concerned this may seriously limit CSO operations.</p>  |   |   |                   |                |
| <b>Implementing Agency Risks (including fiduciary)</b>   |   |   |                   |                |
| <b>Capacity</b>  | <b>Rating: Moderate</b>   |   |                   |                |
| <p><b>Description :</b><br/>Despite an overall strong PFM system, in some administrative areas, there is weak capacity on procurement and financial management, especially at the woreda level. Internal audit and procurement functions need further strengthening and high staff turnover issues need to be addressed since this adversely impacts capacity building efforts. There are ongoing delays in addressing findings and recommendations of Audit Reports.</p>                                  | <p><b>Risk Management :</b><br/>Targeted support for Public Financial Management reform and capacity strengthening through PBS and other programs have led to significant improvements in PFM, financial reporting and procurement over the past years. The PBS program provides Development Partners with an efficient entry point for policy dialogue and capacity development. Through Component B2, PBS 3 continues to support these activities and further strengthen support at woreda and regional levels, allowing Development Partners to use Government systems for financial management and procurement in an efficient manner.</p> <p>MOFED has significantly strengthened the Channel One Program Coordination Unit (COPCU) over the past several months and hired Channel One coordinators in all regions. Improvements in COPCU staffing and management, have demonstrated Government’s willingness to tackle implementation challenges. Program performance will benefit from additional staff, clearly assigned roles and responsibilities, improved financial management and strengthened capacity across MOFED. Newly acquired or allocated staff for procurement, financial management, safeguards, and social accountability continues to further strengthen implementation capacity. Under PBS 3, COPCU will be further strengthened, including the hiring of additional accountants for audit follow-up.</p> |   |                   |                |
|  | <b>Resp: MOFED</b>  | <b>Stage: Project design and implementation</b> | <b>Due Date :</b> | <b>Status:</b> |
| <b>Governance</b>  |   |   |                   |                |
| <p><b>Description :</b><br/>PBS is the Government’s flagship program, so it has created the institutional infrastructure to facilitate its implementation. The Government also increasingly sees and emphasizes the governance and accountability aspects of the program, and how important they are in facilitating efficient and equitable delivery of quality basic services.</p> <p>MOFED’s commitment to ownership of this high-profile Program is evidenced in Ethiopia’s improved basic service</p> | <p><b>Risk Management :</b><br/>The Government’s commitment to the PBS Program is clear and strong.</p> <p>The Government has committed a strong level of key staffing for COPCU. Further, it needs to improve its support to program management, financial management and procurement at woreda and regional levels. The Bank and Development Partners will continue to support MOFED’s management of the program, and provide timely and effective implementation support.</p>  |   |                   |                |

|  |                           |   |                                 |                          |                       |
|--|---------------------------|---|---------------------------------|--------------------------|-----------------------|
| <p>results. It strengthened COPCU, which manages all programs that finance resources flowing directly to regions. The defined mandate, appropriate staff mix and oversight of this unit are now strong. There is a risk that the turnover of key staff could severely impact program effectiveness.</p> <p>To improve local accountability, the Government has given steadfast support for Financial Transparency and Accountability activities.</p>   | <p><b>Resp:</b> MOFED</p> | <p><b>Stage:</b> Continuous</p>   | <p><b>Due Date :</b></p>        | <p><b>Status:</b></p>    |                       |
|  | <p><b>Resp:</b> MOFED</p> | <p><b>Stage:</b> Continuous</p>   | <p><b>Due Date :</b></p>        | <p><b>Status:</b></p>    |                       |
| <p><b>Project Risks</b></p>  |                           |   |                                 |                          |                       |
| <p><b>Design</b></p>   |                           | <p><b>Rating: Moderate</b></p>  |                                 |                          |                       |
| <p>The complexity of the overall PBS program design can leave the program vulnerable to unexpected circumstances that may stall Program implementation.</p> <p>Given the recurrent costs in each local government to cover civil servant salaries, the block-grants available to those governments leave little budget room to reallocate resources. As a result, while PBS seeks to enhance transparency and citizen engagement in local planning and budgeting, this needs to continue to be expanded and strengthened, so that as more capital resources become available at local levels, there are mechanisms for more fruitful citizen's engagement.</p> |                           | <p><b>Risk Management :</b></p> <p>To manage risks arising from program complexity, a very extensive implementation support apparatus has been put into place using both Bank and donor resources. This apparatus builds capacity and promotes improved compliance of program principles. PBS 3 design also limits program complexity by decreasing the number of components and implementing agencies responsible for them as well as streamlining particularly effort-intensive elements of implementation, i.e. FM reporting.</p> <p>The current budget has seen a significant increase in resources at local levels, though the sustainability of this for coming years is currently not clear. PBS' additionality principle will continue to be enforced and monitored. The Financial Transparency and Accountability (FTA) sub-component is launching an initiative in PBS 3 to conduct local level discussion forums at different stages in the budget cycle which is expected to strengthen citizens' engagement in this process. Moreover, the Social Accountability (ESAP) sub-component is seeking to increasingly institutionalize the opportunities for citizens and communities to provide their service delivery feedback and plan inputs as mechanisms of the local level planning and budgeting process. Finally, to streamline program initiatives and enhance impact PBS 3 will continue to strengthen the links between the FTA and ESAP sub-components thus combining supply and demand efforts in local planning.</p> |                                 |                          |                       |
|  |                           | <p><b>Resp:</b> MOFED</p>   | <p><b>Stage:</b> Continuous</p> | <p><b>Due Date :</b></p> | <p><b>Status:</b></p> |
| <p><b>Social &amp; Environmental</b></p>   |                           | <p><b>Rating: Low</b></p>   |                                 |                          |                       |
| <p><b>Description :</b></p> <p>Implementation of the Bank's social and environmental safeguards policies has been a challenge in some other projects in the portfolio. However, as most expenditure under PBS is for</p>   |                           | <p><b>Risk Management :</b></p> <p>While safeguards are not triggered for PBS 3, the program will include capacity building for social and environmental impact assessment at the woreda level,</p>   |                                 |                          |                       |

|   |   |   |                   |                |
|---|---|---|-------------------|----------------|
| recurrent cost and capacity building activities, risks are limited.   | <b>Resp:</b><br>MOFED   | <b>Stage:</b> Continuous                | <b>Due Date :</b> | <b>Status:</b> |
| <b>Program &amp; Donor</b>  | <b>Rating: Moderate</b>   |   |                   |                |
| <b>Description :</b><br>For the first two phases, the Program benefited from the support of the Bank and 10 Development Partners. It is expected that this experience will allow for smooth engagement moving forward. There is some risk that the number of DPs involved in the PBS program will drop. The World Bank's bureaucracy around trust fund administration could risk alienating partners, pushing them to direct their funds through other channels. Partners could also decide to channel their resources to Government without adhering to jointly agreed program principles. This would impact the Program's capacity to promote harmonized donor support.<br><br>During implementation, it is possible that development partners' actual contributions will differ from their expected contributions. | <b>Risk Management :</b><br>Development partners continue to finance the Bank's large administrative budget for Program supervision. They do this through contributions to both the PBS Secretariat as well as through an Enhanced Supervision Trust Fund. Despite the risks described, contributions have proven reliable in the past, and many of the revisions have typically resulted in increased contributions.<br><br>The World Bank must simplify and streamline its Trust Fund administration process to ensure a timelier and smoother transfer of funds. It will establish a "Programmatic Trust Fund" that allows support of the PBS 3 program overall, not individual components of that program.<br><br>Both the Government and the World Bank will encourage multi-year and in-year predictability of development partner funding.   |   |                   |                |
|   | <b>Resp:</b> World Bank   | <b>Stage:</b> Design and implementation | <b>Due Date :</b> | <b>Status:</b> |
| <b>Delivery Monitoring &amp; Sustainability</b>   | <b>Rating: Moderate</b>   |   |                   |                |
| <b>Description :</b><br>The Program will require large commitment by Government to take over recurrent expenditures in the future. The sustainability of basic service delivery will, in the long run, need to be taken on by Government as it increases its domestic revenue collection. However, in the short- and medium-run, there is likely to be continued support from development partners to finance the Government's progress towards the MDGs.<br><br>Issues of data quality could lead to uncertainty in the reliability of the Program's results.  | <b>Risk Management :</b><br>The Government always has been - and remains by far – the majority financier of the Block Grants. Last fiscal year saw a significant increase in domestic revenue collection. Moreover, in a period when the Block Grant itself has been expanding at a rapid pace, the Government has also steadily increased its domestic revenue share of financing for the Block Grants. This is an encouraging pattern towards sustainability. To further promote sustainability and independence from aid, the Government is placing high priority on increasing domestic savings and increasing tax revenues to 15 percent of GDP in its Growth and Transformation Plan (GTP). However, the ambitious GTP is also likely to face financing shortages, which may affect PBS and basic service delivery. There needs to be a large increase in domestic revenue collection before Government revenues can replace donor resources for sustainable financing of the program.<br>Through Component B3: Managing for Results, PBS 3 will continue to support activities to strengthen data quality at federal and local levels, and in close coordination with the Central Statistics Agency and line ministries. |   |                   |                |
|   | <b>Resp:</b> MOFED, CSA, Line ministries  | <b>Stage:</b> Continuous                | <b>Due Date :</b> | <b>Status:</b> |

**Overall Implementation Risk Rating: High****Comments:**

The PBS program is complex and resource intensive, involving several regions and layers of government, as well as promoting cross sectoral coordination. These complexities pose risks to project implementation. However, after six years of program implementation, both the Government and Development Partners have developed systems and practices for managing these complexities through augmenting implementation capacity. In addition, the number of implementing agencies has been reduced for PBS 3 (i.e., implementation will no longer involve the ministry of Health and the implementation complexities of the LIG component will now be eliminated) and some key procedures related to reporting have been streamlined.

## **Annex 7 : Implementation Support Plan**

### *Strategy and Approach for Implementation Support*

1. Given the size, scope and complexity of the PBS program, implementation support for the PBS 3 operation is extensive. The program involves extensive dialog with the Ministry of Finance and Economic Development, specifically coordination with the Channel One Programs Coordinating Unit, but also with other directorates in MOFED. In addition, the PBS program seeks to build linkages with regions, other sub-national governments and with sectoral ministries supporting basic services. Finally, given the World Bank's role administering multi-donor trust funds on behalf of PBS Development Partners, implementation support for the program involves extensive coordination with Development Partners. Overall, PBS implementation support is staff and time intensive.
2. The World Bank experience to date firmly demonstrates that effective implementation support for PBS requires an extensive field based presence. The Task Team Leader, a Lead Social Protection Economist, is based in Addis, as is the co-Task Team Leader, a Senior Social Protection Economist. For each of the sub-programs, a senior level, field-based staff takes responsibility as a focal point or Sub-program Task Team Leader. Further, a donor-financed PBS Secretariat coordinates activities between all DPs and Government agencies involved in the Program and provides critical analytical inputs to inform the ongoing dialogue between DPs and the Government. This extensive implementation support is financed by a combination of World Bank budget resources and donor-financed Multi-Donor Trust Funds.
3. Overall, it has been shown necessary and effective for there to be co-TTLs with responsibility for separate PBS sub-programs, e.g., a World Bank staff member who coordinates with Government and DP counterparts for each sub-program. Further, reflecting the PBS program's multi-sectoral approach, implementation support involves extensive cross support from several World Bank sectors, e.g., PREM, Public Financial Management and Social Development. Finally, to support development effectiveness and overall program implementation, the PBS Development Partners have established the PBS Secretariat, supported through Multi-Donor Trust Funds. The approach to date has relied on specific support from different sectors.
4. **Joint Review and Implementation Support Missions.** As is the case under PBS 2, the program's semi-annual Joint Review and Implementation Support (JRIS) missions will continue to be the primary mechanism by which Government and DPs undertake a joint review of program progress and challenges. Joint Budget and Aid Reviews (JBARs) will remain part of the JRIS missions. Moreover, prior to each JRIS mission, joint field missions will continue to be undertaken focusing on two of the program's five sectors and to better understand implementation and management challenges at the sub-national levels.
5. By providing a single platform for dialogue and review, the JRIS missions have been important to the program's overall compliance with aid effectiveness principles by ensuring harmonization and coordination. Moreover, the JRIS missions serve as the sole method for evaluating program achievements, shared and ongoing challenges, and then triggering donor disbursements to Sub-Program A (the Basic Service Block Grant).

6. Through the course of PBS 2, several important lessons have been learned which will inform the management and execution of JRIS missions (and related field supervision missions) under PBS.

7. These lessons include:

- the need for more consistent and rigorous attention to understanding program results;
- the importance of more carefully tracking and benchmarking progress on financial management and financial reporting;
- the need to maximize linkages to relevant sector programs and maximize the value of sector-specific expertise;
- striking an adequate balance between ensuring that the JRIS/JBARs give appropriate attention to macroeconomic issues while not overloading the instrument; and
- in the interests of mutual accountability, strengthening attention to aid in the budget, including matters of aid predictability and the quality of aid.

8. Under PBS 3, an even stronger, more consistent, and more rigorous attention will be given to understanding the program's results. At the JRIS in April/May, the Government will present a comprehensive picture of the program's overall results to date. This will draw upon data captured in the joint Results Framework as well as any relevant analytical works (surveys and studies) supported through Component B3 (Managing for Results). Where possible, the JRIS will feature data disaggregated by region as well as gender to better understand evolutions in structural and social inequities that affect the program's overall development effectiveness.

9. During PBS 2, tracking Government performance on financial management has improved with both Government and DPs giving more systematic attention critical bottlenecks in financial reporting. Under PBS 3, the simplification of the financial management and financial reporting systems outlined in Annex 3 (e.g., no QERs and revisions to the IFR formats) will facilitate an even stronger and more collaborative dialogue. Moreover, the focus of PFM support (Component B2) on woreda-specific weaknesses will also help focus the dialogue on concrete, measurable actions and results.

10. The program has made some notable progress in strengthening the links to sector-specific programs and ongoing dialogue in the 5 PBS sectors. Through the latter half of PBS 2 (starting in late 2010), the Secretariat has aggressively engaged the relevant sector working groups and line Ministries to strengthen their interest and participation in both pre-JRIS field missions as well as the JRIS itself. This has helped to enrich the quality of dialogue in the JRIS, while also helping the sectors better understand the role and value of the PBS program. It has also had the added benefit of reducing transaction costs on sub-national government officials by combining sector field reviews with PBS field missions. Nevertheless, these efforts could go further. There is room to improve how both Government and DPs think strategically about long-term financing for basic services and how the PBS program and sector-specific support programs maximize their complementarity. Consequently, these efforts will continue under PBS 3 through stronger and more consistent technical engagement with sector-specific interlocutors.

11. Striking the appropriate balance on macroeconomic concerns will require ongoing and careful management. While there is a broad consensus across the DPs that broad-based macroeconomic dialogue should not be within the purview of the PBS Project, there are certain macroeconomic phenomena that could impact the program's development effectiveness. PBS DPs will continue to work in partnership with the Government to identify those macroeconomic concerns that are of relevance to the PBS program and ensure that they receive adequate attention in appropriate for a stronger attention to aid predictability and mutual accountability should also be a hallmark of PBS 3. This could feature greater analytical work and dialogue on the overall aid financing picture in the 5 PBS sectors, the nature and quality of donor support (both on- and off-budget), and efforts to harmonize the cycle of donor pledging, confirmation of donor commitments, and then disbursements earlier in --- preferably in the first two quarters of --- the Ethiopian Fiscal Year. This will facilitate Government planning and reduce fiduciary risks.

12. As noted earlier, the semi-annual JRIS will continue to serve as the principle benchmark for triggering DP disbursements. Judging overall progress will continue to require ongoing dialogue with the Government based on clearly-agreed benchmarks and objectives. This dialogue should be underwritten by a strong, joint commitment to partnership, transparency, and mutual accountability.

13. Each of these objectives will have direct implications for DP staffing as well as the staffing and resourcing of the PBS Secretariat. In addition to the possibility of expanding the Secretariat's sector-specific expertise (which could also deepen analysis and engagement on sector-specific results), resources will also be necessary for hiring necessary short-term expertise.

### *Implementation Support Plan*

The main focus in terms of support to implementation during:

| <b><i>Time</i></b>         | <b><i>Focus</i></b>   | <b><i>Skills Needed</i></b>   | <b><i>Resource Estimate</i></b>                                    | <b><i>Partner Role</i></b>   |
|----------------------------|---|---|--|--|
| <i>First twelve months</i> | <i>Overall coordination across basic service sectors and cross-cutting PBS themes (social accountability, PFM, and results management). Donor coordination and trust fund management.</i> | <i>Lead Social Protection Economist, with particular focus on multi-sectoral operations, decentralization and social accountability.</i><br><br><i>Senior Social Protection Economist to serve as co-TTL, with particular skills in results focused operations.</i><br><br><i>Senior PREM Decentralization and public finance economist</i> | <i>BB: USD340K<br/>TF: USD700K<br/>Secretariat: USD1.2 million</i> | <i>Complementary project management skills to be provided by PBS development partners, particularly by TTL equivalents in PBS DPs.</i><br><br><i>Specific cross-cutting skills including macro-economics and public finance, Public Financial Management, Monitoring, evaluation and results, and social accountability.</i> |
|                            | <i>Development of approach to reviews of</i>  |   |  |  |

| <b>Time</b>         | <b>Focus</b>   | <b>Skills Needed</b>   | <b>Resource Estimate</b>  | <b>Partner Role</b>   |
|---------------------|--|--|---|---|
|                     | <p><i>PBS core principles, including in particular sustainability and decentralization.</i></p> <p><i>Refinement of specific action plans for local capacity building programs.</i></p> <p><i>Assurance that the second phase of Ethiopian Social Accountability Program is successfully launched and implemented smoothly.</i></p> <p><i>Support of launch of monitoring for results component, including technical support</i></p>   | <p><i>Lead public financial management expert to guide dialog on PFM component</i></p> <p><i>Senior social accountability expert with significant operational experience</i></p> <p><i>Monitoring and evaluation expert with cross-sectoral technical skills.</i></p>  |   |   |
| <i>12-48 months</i> | <p><i>Overall coordination across basic service sectors and cross-cutting PBS themes (social accountability, PFM, and results management), donor relations skills and trust fund management.</i></p> <p><i>Provide technical reviews of PBS core principles, including in particular sustainability and decentralization.</i></p> <p><i>Technical support and project management of specific action plans for local capacity building programs.</i></p> <p><i>Program management of Ethiopian Social</i></p> | <p><i>Lead Social Protection Economist, with particular focus on multi-sectoral operations, decentralization and social accountability.</i></p> <p><i>Senior Social Protection Economist to serve as co-TTL, with particular skills in results focused operations.</i></p> <p><i>Senior PREM Decentralization and public finance economist</i></p> <p><i>Lead public financial management expert to guide dialog on PFM component</i></p> <p><i>Senior social accountability expert with significant</i></p> | <p><i>BB: USD340K</i><br/> <i>TF: USD700K</i><br/> <i>Secretariat: USD1.2 million</i></p> | <p><i>Complementary project management skills to be provided by PBS development partners, particularly by TTL equivalents in PBS DPs.</i></p> <p><i>Specific cross-cutting skills including macro-economics and public finance, Public Financial Management, Monitoring, evaluation and results, and social accountability.</i></p> |

| <b>Time</b> | <b>Focus</b>   | <b>Skills Needed</b>   | <b>Resource Estimate</b> | <b>Partner Role</b> |
|-------------|--|--|--------------------------|---------------------|
|             | Accountability Program   | operational experience   |                          |                     |
|             | Technical implementation support for monitoring for results component, including technical support | Monitoring and evaluation expert with cross-sectoral technical skills. |                          |                     |

#### *Skills Mix Required*

| <b>Skills Needed</b>                                     | <b>Number of Staff Weeks</b> | <b>Number of Trips</b> | <b>Comments</b>   |
|--|------------------------------|------------------------|---|
| Lead TTL- Program management                             | 42                           | Resident in country    | Lead SP Economist and HD Sector Leader  |
| Senior TTL – program management                          | 42                           | Resident in country    | Senior SP Specialist and Co-TTL   |
| Lead Public Financial Management Specialist              | 20                           | Resident in Country    | TTL Public Financial Management component   |
| Senior public finance and decentralization expert (PREM) | 20                           | LRS                    | Support PBS DP working group on inter-governmental fiscal transfers                         |
| Senior Social Accountability Specialist (SD)             | 30                           | Resident in country    | TTL Social Accountability Program   |
| Senior Social Accountability Specialist (SD)             | 30                           | LRS                    | TTL Financial Transparency and Accountability program                                       |
| Senior Monitoring and Evaluation Specialist              | 20                           | Resident in country    | Results based lending focus and skills  |
| Trust Fund Management Specialist                         | 40                           | LRS                    |   |
| Senior Education Specialist                              | 5                            | Resident in Country    | Technical support for linkages between program and education sector.                        |
| Senior Health Specialist                                 | 5                            | Resident in Country    | Technical support for linkages between program and health sector.                           |
| Senior Water and Sanitation Specialist                   | 5                            | Resident in Country    | Technical support for linkages between program and WASH sector.                             |
| Senior Agricultural and Natural Resource Specialist      | 5                            | Resident in Country    | Technical support for linkages between program and Agriculture and Natural Resource sector. |
| Senior Roads Specialist                                  | 5                            | Resident in Country    | Technical support for linkages between program and rural roads sector.                      |
| FM specialist  | 20                           | LRS                    | Extensive demands for IFR reviews   |
| Procurement Specialist                                   | 10                           | LRS                    |   |

*Partners*

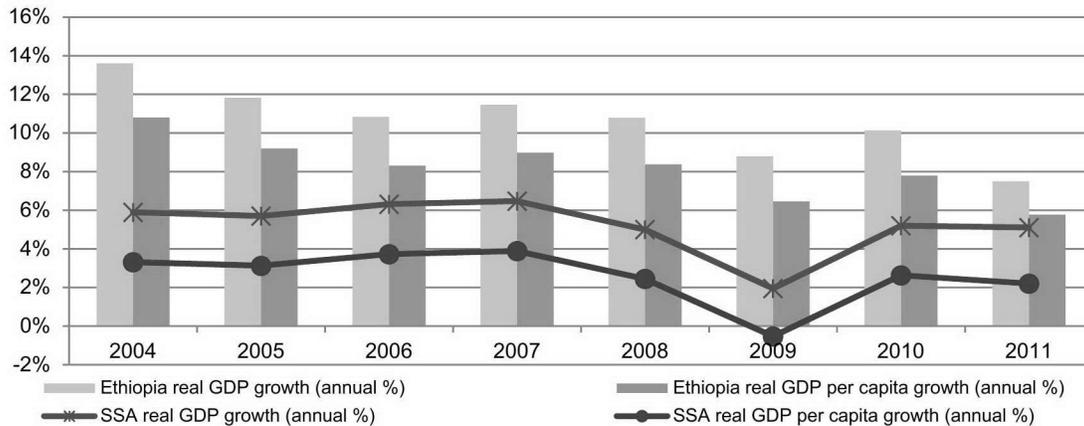
| <b><i>Name</i></b>         | <b><i>Institution/Country</i></b>     | <b><i>Role</i></b>   |
|----------------------------|---------------------------------------|--|
| <i>DFID</i>                | <i>DFID Ethiopia</i>                  | <i>Extensive program leadership and technical support, including co-chairmanship of PBS DP working groups on each of the sub-program</i> |
| <i>AFDB</i>                | <i>AFDB Ethiopia</i>                  | <i>Extensive program leadership and technical support, including co-chairmanship of PBS DP working groups on each of the sub-program</i> |
| <i>EU</i>                  | <i>EU Ethiopia</i>                    | <i>Extensive program leadership and technical support, including co-chairmanship of PBS DP working groups on each of the sub-program</i> |
| <i>Irish Aid</i>           | <i>Irish Aid Ethiopia</i>             | <i>Specific leadership of social accountability activities (member of Steering Committee) and M&amp;E Committee</i>                      |
| <i>Spanish Cooperation</i> | <i>Spanish Embassy Addis Ababa</i>    | <i>Participate in PBS working groups based on skills and interests.</i>  |
| <i>Italian Cooperation</i> | <i>Italian Embassy Addis Ababa</i>    | <i>Participate in PBS working groups based on skills and interests (currently public finance)</i>  |
| <i>KFW (Germany)</i>       | <i>German Development Cooperation</i> | <i>Participate in PBS working groups based on skills and interests (currently social accountability)</i>                                 |

## Annex 8 : Economic and Financial Analysis

### Economic context of PBS

1. **Between 2004 and 2011 Ethiopia experienced strong and generally broad-based real economic growth of around 10.6 percent on average** (Figure 10). Growth over the last nine years was far beyond the growth rates recorded in aggregate terms for Sub-Saharan Africa (SSA), which on average only reached 5.2 percent, less than half of Ethiopia's average real GDP growth rate during that period. Inspired by the East Asian experiences, growth was induced through a mix of factors including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. The initial double digits growth rates have now manifested slightly lower but remain at high single-digit levels. The economy is expected to stabilize at around seven to eight percent in 2012, largely owing to improved performance in the agriculture sector. GDP growth is likely to stay around that margin until 2016 (EFY 2008) driven by rising foreign investment and exports.

**Figure 10:** GDP growth rates – comparison between Ethiopia and Sub-Saharan Africa, 2004-11



Source: World Bank, World Development Indicators (2012); and IMF, World Economic Outlook (2011).

Note: World Bank staff estimate for SSA real GDP per capita growth in 2011. Government growth estimates and projections differ for 2010/11 and beyond and are above 11% per year (e.g.: 2010/11 estimate 11.4%, and 2012/13).

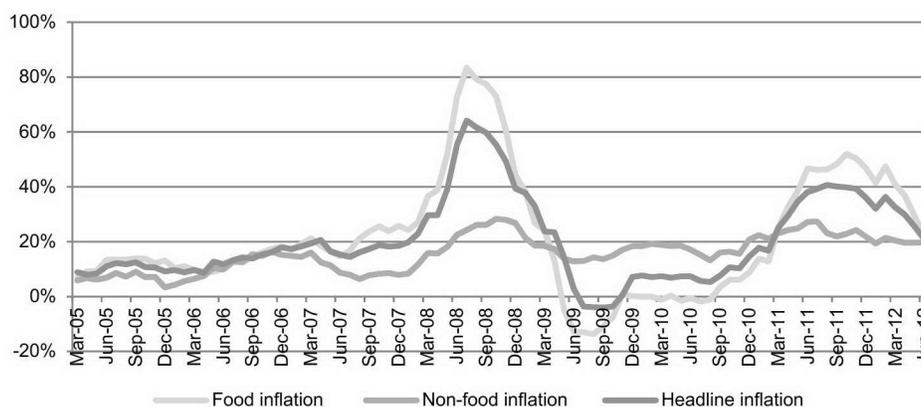
2. **The country's recent growth performance has been accompanied by two episodes of high inflation.** As in many other countries, Ethiopia suffered high inflation rates over 2008-2009; the average inflation rate for this period was 27.2 percent. More recently, inflation picked up once more in 2011 (33 percent on average during the year 2011), before starting easing in 2012; current projections put end-of-year inflation at below 10 percent.

3. **Inflation rates in Ethiopia are largely driven by developments in food price inflation** (Figure 11). In 2008, headline inflation peaked at 61.6 percent in August, driven by 79.2 percent in food price inflation; likewise, inflation in 2011 peaked at 40.7 and 40.2 percent in August and September, respectively, at a time when food inflation reached almost 50 percent. Food inflation kept rising to more than 50 percent in November 2011; but then headline inflation started to ease

slowly already, driven by a tightening stance of monetary conditions. But looking at non-food inflation, a measure of core inflation, shows a relatively high “socket” level, which indicates that inflation in Ethiopia is not purely a food price problem. In both spikes of 2008 and 2011 non-food inflation passed 20 percent, yet did not hit the 30 percent marker. In the 84 months between January 2005 and December 2011, core inflation was between 10 and 20 percent in 34 months, and above 20 percent in 25 months.

**4. Recent high inflation rates are a particular concern for Ethiopia and its economy.** Inflation has a negative impact on poverty, possibly pushing poverty up by as much as 0.5 percent for each increase in the inflation rate by 1 percent (Lopez, 2004).<sup>47</sup> Further, inflation negatively affects the domestic savings rate, which for the past decade (2000-10) has been in single-digit levels, as well as the investment rate, both of which are vital to finance the much needed infrastructure in Ethiopia.

**Figure 11:** Inflation rate in Ethiopia, January 2005 to June 2012



*Source:* Central Statistics Agency of Ethiopia (CSA)

**5. Ethiopia’s fiscal performance appears to be adequate given the current state of the economy and financing requirements for development.** The overall general government deficit (excluding grants) in 2010/11 was 1.6 percent of GDP and is estimated to increase slightly to 2.3 percent in 2011/12. These figures do not include quasi fiscal activities from state owned enterprise. To a large extent the deficits are financed through domestic borrowing with the sale of treasury bills and external project loans, and to a lesser extent also from receipts through privatization. On the revenue side, a tax reform was started in 2010 and is ongoing, which already shows significant improvements in tax collection. The tax to GDP ratio has improved from 8.6 percent in 2008/09 to 11.5 in 2010/11 and is estimated to reach 11.9 percent in 2011/12. At the same time, implementation of public financial management reforms is ongoing to strengthen the expenditure side. This includes plans to move to a program-based budgeting approach. The federal government budget execution in the first 11 months of 2011/12 reached around 85 percent of total expenditure.

<sup>47</sup> Lopez (2004): Pro-growth, pro-poor: Is there a tradeoff? WB Policy Research WP 3378, August 2004.

**6. The latest DSA for the country indicates that Ethiopia is at a low risk of external debt distress – similar to the findings in 2009/10 and 2010/11.**<sup>48</sup> However, given the large financing requirements for the GTP, it is expected that debt ratios would rise moderately in the medium-term and then to stabilize in the long-term. New disbursement projections reflect the fact that borrowing from domestic sources is constrained and public enterprises would continue to rely significantly on external financing to sustain its large infrastructure investments that are driving growth; for the latter it has to be expected that a growing share would be on non-concessional terms. Consistent with the authorities' intention to keep the low risk of external debt distress, the amount of non-concessional loans is limited. In fact, there may be a trade-off between the low risk rating desire of the Government and the implementation pace of the GTP.

### Evolution of poverty

**7. Ethiopia's economic growth has been accompanied by an important reduction in poverty – in both urban and rural areas.** While 38.7 percent of Ethiopians lived in extreme poverty in 2004/05, five years later this was 29.6 percent, which is a decrease of 9.1 percentage points as measured according the national poverty line, of less than US\$0.6 per day (see Table 6). Using the Growth and Transformation Plan (GTP), the target is to reduce this further to 22.2 percent by 2014/15, which would be another decrease of 7.4 percentage points over five years. There is some concern that the recent and high inflation rates would reverse some of this remarkable success made over the past five years (Ethiopia Economic Update, forthcoming).

**Table 6: Population below the national poverty line (less than US\$0.6 per day)**

|                            | 1995/96      | 1999/00      | 2004/05      | 2010/11      |
|----------------------------|--------------|--------------|--------------|--------------|
| <b>Urban (%)</b>           | 33.2         | 36.9         | 35.1         | 25.7         |
| <b>Rural (%)</b>           | 47.5         | 45.4         | 39.3         | 30.4         |
| <b>Total (%)</b>           | 45.5         | 44.2         | 38.7         | 29.6         |
| <b>Number of poor</b>      | 25.6 million | 28.1 million | 27.5 million | 25 million   |
| <b>Number of food-poor</b> | 27.9 million | 26.6 million | 27.0 million | 28.4 million |

Source: HICES (several issues).

**8. The evolution of poverty has benefitted from strong government policies in the social sectors, supported mainly through PBS.** Disbursements in the PBS program are dominated by the support to the Federal Block Grant (FBG), and as a result Ethiopia has seen increased decentralized spending on basic services. The FBG channel dominates expenditure in the PBS, which accounted for 90 percent of PBS 1 and 2. The contributions of development partners (DP) to the Government's FBG over the past years represented around 32 percent of the total value of the FBG. PBS donors have contributed nearly US\$2.4 billion during the period 2006-2011, resulting in an average per-capita expenditure growth of 5.7 percent per year for basic services on the subnational level (with significant increases in real per-capita expenditure in education, 27 percent, and health, 64 percent, during the period 2006-2011). This increased expenditure in social services brought about by PBS support for the FBG has also been

<sup>48</sup> Ethiopia has substantial levels of foreign exchange receipts from remittances. Since the DSA baseline and sensitivity tests *without remittances* in the 2011/12 analysis do not breach any of the country specific thresholds, the analysis of the 2011/12 DSA focuses on the method that considers *without remittances*.

accompanied by increases in the contributions of the Government to the FBG. Finally, most of the expenditure of the FBG, between 75 percent and 80 percent, is carried out by regions and woredas, fulfilling the PBS expectation of decentralized basic service provision.

**9. PBS not only increased financial resources in targeted sectors, but also showed value for money and impact in terms of progress in service delivery, particularly in education and health.** PBS has helped to finance the expansion in front-line staff, in particular in the education and health sectors (DfID 2011; and EU 2012)<sup>49</sup>:

- In education the number of teachers has almost doubled from 126,318 in 2005 to 252,708 in 2010. This resulted in reduced student-teacher ratios from 66 students per teacher in primary education in 2005 to 51 in 2010; and from 51 to 36 for secondary education. Much more, net enrollment in primary education grew from 68 percent to 85 percent in the period 2005-2011.
- In health, real expenditure in regions and woredas increased by 92 percent during the period 2005-2011, which resulted in an increase of health expenditure per capita of 9 percent per year. The higher expenditure in health has contributed to the number of health workers (which increased from nearly 7,000 to 37,000), and the number of health services (health posts from 4,211 to 14,416; health centers from 519 to 2,689; and public hospitals from 79 to 111). The higher availability of services and workers has reduced the health extension worker to population ratio from 1:4,369 to 1:2,647 during the period 2005-2011. As a result of the changes in the health sector, Ethiopia saw a reduction of the under-5 mortality rate from 123 per 1,000 births to 88 between 2005 and 2011; a reduction of infant mortality from 77 to 59; and increased vaccination rates from 76.8 percent to 84.7 percent (for DPT3+HepB3+HiB3) during the period 2005-2011. Despite health gains, maternal mortality has remained high (676 per 100,000 live births).

**10. PBS has also contributed to improvements in agriculture, water and sanitation, and rural roads indicators.** Although public expenditure growth rates in agriculture are modest compared to other sectors – around 2 percent per year in real terms – the number of extension workers more than doubled (from 20,000 to 55,500 between 2005 and 2011), and the number of households that have received agriculture extension services increased by almost 80 percent (from 5 million to 8.85 million households). More resources devoted to water and rural roads in fact increased the proportion of rural population with access to potable water, measured by access within a radius of 1.5 km for each household, from 35 percent to 71 percent between 2005 and 2011; also, the average distance to an all-weather road was cut by 1 hour from 4.5 hours in 2007 to 3.5 hours in 2011.

**11. Moreover, it appears that PBS is an operationally efficient (DfID, 2011) and effective means of supporting decentralized basic services.** Efficiency is another relevant aspect important to assess value for money – following the approach laid out by DfID in its PBS review. Efficiency refers to the way in which inputs are converted into outputs. And in fact, by making use of government systems, in particular the FBG, the PBS provides efficiency gains in the delivery of basic services and provides incentives to improve public financial management.

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<sup>49</sup> DfID (2011): *Understanding VfM in the Protection of Basic Services Programme*; and EU (2012): *Multi-Annual Review of PBS Programme* (2012).

In terms of effectiveness, DfID estimated a rate of return of 14 percent for PBS 2 (FBG) based on assumptions of rates of return in different sectors and the shares of these sectors in the PBS. As previously mentioned, PBS played an important role in helping achieve results in all sectors in which it operates, although precise estimates of the effect of PBS is confounded by other sector programs.

### Sustainability of PBS

**12. As discussed above, the analysis of the fiscal framework indicates that Ethiopia is at low risk of debt distress.** This could lead to the conclusion that PBS being part of the country's fiscal framework is also sustainable. Yet there are a number of elements that need to be taken into account in support of such a conclusion: i) the focus of PBS on recurrent spending and ii) the relevance of donor financing.

**13. PBS finances recurrent costs of basic service provision in social sectors of which a large portion is used to cover salaries (about 66 percent, upper part of Table 7).** Much more, the average growth rates of basic service salaries and PBS funding is almost identical (lower part of Table 7). This possibly implies that PBS supported the incremental salary cost of basic service providers over the past 4-5 years.

**Table 7: Main element of PBS: supporting recurrent expenditure for basic services provision**

| <i>Contribution of PBS to paying civil servant salaries</i>          |         |         |         |         |                |
|--|---------|---------|---------|---------|----------------|
|  | 2007/08 | 2008/09 | 2009/10 | 2010/11 | <b>Average</b> |
| Share of PBS in total (fed+reg) recurrent expenditure                | 19%     | 18%     | 16%     | 21%     | <b>17%</b>     |
| <i>o/w share of PBS in total (fed+reg) salaries</i>                  | 33%     | 32%     | 29%     | 36%     | <b>33%</b>     |
| Share of PBS in regional basic services current spending             | 51%     | 49%     | 44%     | 57%     | <b>50%</b>     |
| <i>o/w share of PBS in regional basic service salaries</i>           | 65%     | 62%     | 56%     | 72%     | <b>64%</b>     |
| <i>Annual growth rates of basic service salaries and PBS funding</i> |         |         |         |         |                |
|  | 2007/08 | 2008/09 | 2009/10 | 2010/11 | <b>Average</b> |
| Total national salary expense  | 39%     | 16%     | 13%     | 31%     | <b>25%</b>     |
| Regional total salary expense  | 40%     | 17%     | 15%     | 30%     | <b>26%</b>     |
| Salary of basic services at regions                                  | 33%     | 19%     | 14%     | 29%     | <b>24%</b>     |
| PBS  | 19%     | 13%     | 3%      | 64%     | <b>25%</b>     |

*Source:* World Bank staff compilation, based on data from MOFED.

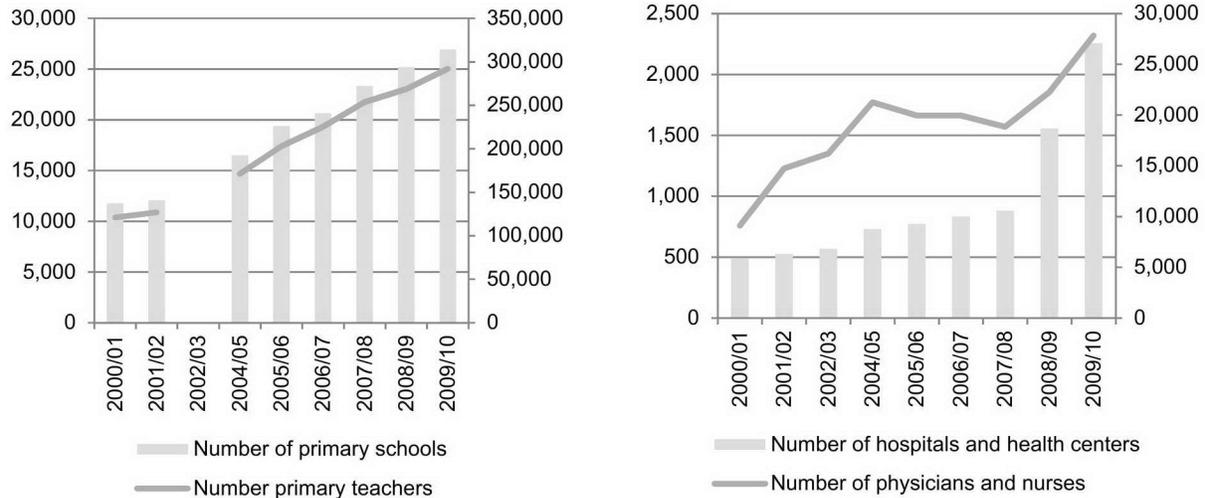
**14. Data available suggests that PBS supported the government's policy of expanding the provision of basic services: since 2005 the number of education and health workers increased strongly, as did infrastructure in those sectors.** In primary school, for example, the number of teachers increased from 203,039 in 2005 to 292,130 in 2010 (an increase of 44 percent), while the number of primary schools grew from 19,412 to 26,951 (an increase of 39 percent) in the same period. The health sector showed an expansion of 39 percent in the number

of physicians and nurses (from 19,960 in 2005 to 27,844 in 2010), while the number of hospitals and health centers increased by 192 percent (from 773 in 2005 to 2,258 in 2010).

**Figure 12: Increase in civil servants and physical infrastructure for basic service delivery**

*Increase in primary schools and primary teachers*

*Increase in hospitals/health centers and physicians/nurses*

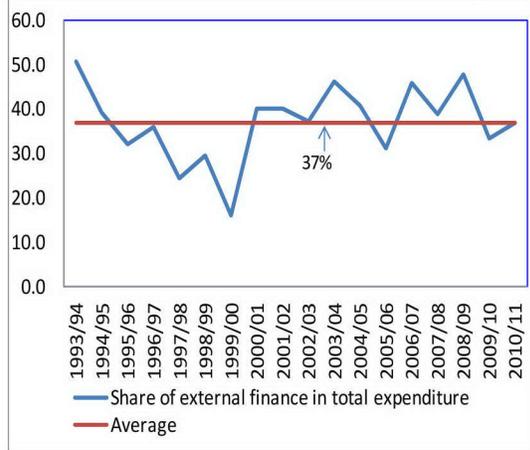


*Source:* World Bank staff compilation, based on data from MOFED.

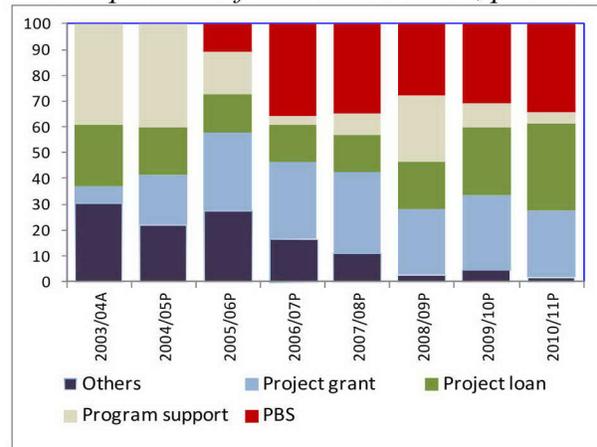
**15. High recurrent spending in the social services is not unusual.** Yet, when combined with heavy reliance on donor financing social spending can be vulnerable to reductions in the levels of donor support or to plans to further expand the program. The Ethiopian budget historically has been largely dependent on external finance. The share of external financing in the total government expenditure averaged 37 percent over the past two decades. The magnitude reached highs at 50 percent in 1993/94 during the period of the structural adjustment program and the lowest level at 16 percent during the Ethio-Eritrea war with pull out of donors and high military spending in 1999/00 (left-side of Figure 12). Looking at the composition of the external finance (right-hand side of Figure 12), PBS and other program support constituted about 40 percent between 2003/04-2010/11.

**Figure 13: History of external financing in Ethiopia**

*Share of External Finance in the Budget, %*



*Composition of External Finance, percent*



Source: World Bank staff compilation, based on data from MOFED.

16. Ever since the PBS program started in 2005/06 its importance in the budget, and thus donor interest, has grown (right-hand side of Figure 4). On average PBS accounted for about one-third of the overall external finance in the budget. The PBS program started on initiative of the World Bank (IDA) in 2005/06, and in the meantime has grown to a multi-donor program with nine supporting partners in 2011/12.<sup>50</sup> Since 2006/07, PBS contributions ranged from 1.3 to 1.7 percent of GDP and 10 to 20 percent of domestic revenue (Table 8). In terms of expenditure, PBS constituted about 7-12 percent of total expenditure and 16-25 percent of recurrent expenditure of the Government. On a positive note, the reducing share of PBS to domestic revenue shown in Table 8 indicates strengthened revenue collection throughout the system. On average, domestic revenue in the period showed an annual average increase of 23 percent.

**Table 8: Share of PBS financing in percent of Expenditure, Revenue, ODA and GDP**

|                            | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13   |
|----------------------------|---------|---------|---------|---------|---------|---------|-----------|
|                            | act     | act     | pre act | pre act | pre est | Budget  | Plan/proj |
| Total expenditure          | 12.1    | 8.6     | 9.8     | 7.1     | 9.1     | 5.0     | 5.0       |
| Current expenditure        | 25.1    | 17.6    | 20.8    | 15.9    | 21.2    | 12.2    | 12.1      |
| External budgetary finance | 46.1    | 34.2    | 31.7    | 30.7    | 34.4    | 24.1    | 27.3      |
| Domestic revenue           | 19.8    | 13.5    | 14.1    | 9.6     | 12.4    | 6.8     | 6.7       |
| GDP                        | 2.5     | 1.6     | 1.7     | 1.3     | 1.7     | 1.1     | 1.1       |

Source: World Bank staff compilation, based on data from MOFED.

<sup>50</sup> IDA, DfID, AfDB, EU, Austria, and Italy, and potentially Ireland, KfW, and Spain.

## Conclusion

17. This analysis suggests that while PBS has been essential to support the expansion of social services in Ethiopia and the improvement in social indicators, if donor support for PBS were to fall unexpectedly, it would cause difficulties for reaching the Government's basic service goals.

18. **The Government of Ethiopia is aware of the situation and indeed is willing, when absolutely necessary, to adjust to shortfalls in donor resources to PBS.** For instance, over the past year Ethiopia experienced significant delays from donor disbursements to PBS; the government was able to adjust funding to PBS by reallocating funds from capital expenditure to maintain basic services. The existence of this adjustment mechanism and the actual decision to execute reallocations show the commitment of the government to basic services, and its ability to fulfill its role when development partner resources are not forthcoming.

19. **Over the mid-term the Government will explore alternative ways to increase its share of funding for the Federal Block Grant, thereby reassuring its commitment to provide decentralized basic services.** During PBS I and PBS II the government steadily increased its share of the block grant, which is a significant step in ensuring the sustainability of basic service provision. To continue this trend, the Government is working on policy alternatives for federal, regional and local revenue mobilization. In addition, the Government would like to gain a deeper understanding of the costs of providing basic services and their geographical differences. Both insights are needed – on revenue mobilization and costing - to design appropriate policies that ensure continuing service delivery regardless of the external financing situations. To lay ground for the implementation of such policies, the Government requested the PBS program to provide channels to carry out a series of studies in the two concerned areas and provide a forum to jointly discuss options with development partners.

20. **Over the longer term, the Government is committed to sustained development and identifies the ability to provide basic services as one of its main targets.** The government reiterated its vision of assuming full financing of basic service delivery in the long run by increasing domestic revenue. The proposed work on domestic revenue mobilization and costing of basic services as part of the PBS 3 operation will be key inputs into the design of policies that will increase fiscal space and make this vision possible.

## Annex 9 : Decentralization in Ethiopia

### Context

1. Following the change in Ethiopia's government in 1991, the country's ongoing efforts to decentralize political, administrative and fiscal authority to regional and local governments have been a central element to its overall development trajectory. The Government has a strong commitment to decentralization and building a federal state, as enshrined in the 1995 Federal Constitution.

2. While the first wave of decentralization started only 20 years ago, the process should be seen as a work in progress for which the underpinning institutional arrangements for success are evolving and continue to require focused support.

3. It is essential that Ethiopia's decentralization project succeeds. The quality of decentralization and the related institutional arrangements will impact the effectiveness of the PBS program, several other projects in the World Bank's portfolio, and those of Ethiopia's other Development Partners.

### Historical Evolution<sup>51</sup>

4. To date, Ethiopia has seen two rounds of decentralization. The first round (devolution) took place during the transitional period from 1991 to 1994. During this time, the Government adopted its Transitional Period Charter and, through Proclamation No. 7/1992, created fourteen regional states.<sup>52</sup> This Proclamation devolved state powers to geographically-defined ethno-linguistic groups and associated pieces of legislation were also passed creating regional and woreda (district) councils. As necessary, regions could decide to establish zones as intermediaries between regional and district administrations. In addition to giving them the right to self-determination, these new regional units were granted a range of executive, legislative, and judicial powers within their defined regions, and exercised jurisdiction over matters of social and economic development as well as basic service delivery. Accordingly, regions were to create the necessary internal institutional arrangements, including: a council; an executive committee; a judicial administration office; a public prosecution office; an audit office; a police and security office; and a service and development committee.

5. Proclamation No. 7/1992 also stipulated the regional governing units' revenue sources; these included: tax revenues derived within their jurisdictions; fiscal transfers from the central government; domestic borrowing; and other sources of income. The latter category was specified in Proclamation No. 33/1992. However, due to capacity constraints, the regional governments were yet unable to carry out their revenue assignments; as such, they were highly-dependent on grants from the central government to meet their new expenditure obligations in the social sectors.

6. In spite of what appears to be a rather elaborate set of governing arrangements, these new regional governments remained subordinate to the central government. While the regional

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<sup>51</sup> This section draws extensively from Hashim Tewfik, *Transition to Federalism: The Ethiopian Experience*, Forum of Federations, 2010.

<sup>52</sup> Subsequently, the number of regions reduced to nine, as well as two urban administrations.

councils were accountable to citizens living within their regional borders, legally they were also responsible to Council of Representatives of the central government.

7. The promulgation of the 1995 Federal Constitution signified the beginning of Ethiopia’s second round of decentralization. The Constitution affirmed the roles and functions of federal vs. regional government. While the federal government retained authority over a broad range of functions and responsibilities (e.g., fiscal and monetary policy, international trade), the regions and woredas were given responsibility for ensuring basic service delivery in their respective jurisdictions. The federal government retained authority over setting policies and standards in each of the major social service delivery sectors.

8. In 2002, decentralization was extended to the woreda level with woreda governments expected to take on the bulk of service delivery responsibilities. Woredas receive block grants from their respective regional governments which, like the federal-regional grants, are also governed by formulas set by the regional governments and using broadly similar methodologies to that used in the federal-regional grant.<sup>53</sup>

9. Alongside the national legislature, the House of Peoples’ Representatives, the House of Federation is an apex federal-level institution of critical importance to the effective functioning of federalism and decentralization. As each nation and nationality is represented proportionally in the HoF, the House is meant to play a leading role in interpreting the constitution as well as resolving constitutional tensions and differences as they arise. In terms of service delivery, its most important role is to set the transfer formulas for the Federal Block Grant to the regions.

### Block Grant Transfers

10. The composition of the formula has evolved over the years (see Table 9 below).

**Table 9: Evolution of block grant formulas over time**

|                 |              | <b>Federal-to-regional formula</b>  |   |  |
|-----------------|--------------|---|---|--|
| <b>Pre-1995</b> |              | Ad hoc  |   |  |
| <b>1995</b>     |              | Based on a small number of <b>parameters</b> broadly proxying Regions' needs (e.g. population, development level, in turn computed on the basis of a small number of more detailed parameters), and sometimes fiscal capacity. Factors' weights varied over time. See below | Size of population (30); I-distance (development index) (25); Regional revenue collection (15); Capital budget allocation EFY94 (20); Area (10) |  |
| <b>1996/7</b>   |              |   | Size of population (33.3); Level of development (33.3); Ratio of regional revenue collection to budget (33.3)                                   |  |
| <b>1997/8</b>   |              |   | Size of population (60); Level of development (15); Ratio of regional revenue collection to budget (15); Area (10)                              |  |
| <b>2000</b>     |              |   | Size of population (55); Level of development (20); Level of poverty (10); Revenue collection effort and sector performance (15)                |  |
| <b>2002/3</b>   | <b>EFY95</b> |   |   |  |
| <b>2003/4</b>   | <b>EFY96</b> |   |   |  |
| <b>2004/5</b>   | <b>EFY97</b> |   |   |  |
| <b>2005/6</b>   | <b>EFY98</b> |   |   | Size of population (65); Level of development (25); Revenue collection effort (10) |
| <b>2006/7</b>   | <b>EFY99</b> |   |   |  |
| <b>2007/8</b>   | <b>EFY00</b> | Change to <b>'fiscal</b>  | Equal per capita spending adjusted for differences in   |  |

<sup>53</sup> For more on current practices and challenges in woreda block grant formulas, see: Demmelash Alem, Xavier Furtado, and Samuel Mulugeta, *Woreda Block Grant Transfers: Current Practices and Challenges*, unpublished (PBS Secretariat), May 2011.

|                 |              | <b>Federal-to-regional formula</b>  |   |
|-----------------|--------------|---|---|
| <b>Pre-1995</b> |              | Ad hoc  |   |
| <b>2008/9</b>   | <b>EFY01</b> | <b>equalisation</b> system'; with further refinement in May 2009 applicable for 2009/10 (EFY2002) | expenditure needs and capacities; The new formula was meant to be phased in over 4 years. (Applied for 25 percent of the envelope and 75 percent allocated according to old formula in EFY2000; 50/50 in EFY2001; etc.) |
| <b>2009/10</b>  | <b>EFY02</b> |   | Formula now based on representative expenditure (standard or national average unit costs) and revenue systems. Should hold for 3 years.   |

Source: Dom, Lister, Antoninis, *An Analysis of Decentralization in Ethiopia*, p. 92.

11. Of paramount importance has been ensuring the equitable/fair distribution of resources to the regional states. In so doing, successive versions of the formula have considered each region's needs, their populations, and revenue-raising potential. The focus on equity is a political necessity given Ethiopia's ethnic, social, and economic diversity and the potential for conflict within the federation.

12. The Government's 2004 Fiscal Decentralization Strategy noted that one of its objectives is to devolve decision-making power to lower levels of government.<sup>54</sup> The transfers are unconditional, in principle giving regional authorities full discretion over how they are used, though federally-determined policies and standards heavily influence regional decision-making. More recently, successive pre-JRIS field missions have revealed that *woreda* and regional authorities do not exercise as much practical autonomy as one might expect over planning, budgeting, and re-allocations given local realities and needs.<sup>55</sup> Some argue that these considerations, along with the increased use of Specific Purpose Grants, act as serious constraints on the regions' degree of genuine autonomy.<sup>56</sup>

### **The Future of Decentralization**

13. As the PBS program is primarily concerned with basic service delivery and improving systems for accountability at sub-national levels, it is essential that all parties have a common understanding of the Government's current vision and strategy for decentralization.

14. DPs therefore encourage the Government to take this opportunity to clarify its vision and forward strategy concerning decentralization through the preparation of a "Policy Letter on Decentralization and Sustainability", which the Government provided as part of its contribution to PBS appraisal. With regard to decentralization, the letter covers the following issues:

- how the Government sees decentralization as contributing to the basic service delivery objectives (in terms of both access and quality) noted in the GTP, relevant sector development plans, and MDG achievement;
- the Government's timeline for building specific types of capacity in sub-national governments (especially at the *woreda* level) leading to greater planning and budget management capacity, autonomy, as well as the specific initiatives/instruments that it would use, and the indicators/benchmarks that will gauge progress;

<sup>54</sup> Ministry of Finance and Economic Development, *Ethiopia: Fiscal Decentralization Strategy*, September 2004, p. 3.

<sup>55</sup> PBS Secretariat, *Report – PBS Rural Roads Field Mission to Amhara*, 2011 and PBS Secretariat, *Report – Joint GEQIP JRM-PBS Education Mission to Afar*, 2012.

<sup>56</sup> Catherine Dom, Stephen Lister, Manos Antoninis, *An Analysis of Decentralization in Ethiopia*, 2010.

- the link between the Government’s vision for decentralization and the implementation of the PFM systems-strengthening component for PBS 3;
- the Government’s plans to work with the regions to develop and/or strengthen the necessary legislative provisions for woreda block grant transfers; and
- the Government’s plan for increasing sub-national revenue generation as part of its long-term sustainability strategy.

15. In addition to clarifying the Government’s forward strategy for decentralization, the Policy Letter outlines how the Government intends meet the commitment it made in its 2004 Fiscal Decentralization Strategy to draw on lessons-learned to improve its approach to fiscal decentralization.<sup>57</sup> Moreover, it serves as a useful input to the Government’s commitment stated in the GTP to preparing a policy and legal framework to manage relationships between the federal and regional states. DPs appreciate that a differentiated approach will be necessary given the diversity of the country and the wide range of capacity at the regional and woreda levels.

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<sup>57</sup> MoFED, *Ethiopia: Fiscal Decentralization Strategy*, p. 18.

## **Annex 10 : Development Partner Contributions and Multi- Donor Trust Funds**

1. Development Partners have played an essential role in the design and implementation of PBS 1 and 2. Together, DPs have contributed a total of USD 2.98 billion across all components. This includes contributions from IDA, the African Development Bank, Austria, CIDA, DFID, the European Commission, Irish Aid, Italian Cooperation, KfW (Germany), the Netherlands, and the Spanish Cooperation Agency.
2. The first phase of the PBS Project was originally designed by DPs (led initially by the World Bank, DFID, and CIDA) in response to a difficult governance situation in 2005 which threatened to reverse the significant progress made towards achieving the MDGs in Ethiopia. After two phases of PBS, the Project has evolved into a true partnership enjoying strong donor coordination and Government ownership.
3. In September 2011, the PBS Secretariat launched the multi-donor design process for PBS 3. This was followed by intensive work through a series of multi-donor technical working groups and another workshop on PBS 3 design in February 2012. From the DPs side, the design process was led by a Steering Committee comprised of the World Bank, the AfDB, DFID, EU, and the PBS Secretariat. As such, PBS 3 reflects a high degree of donor coordination and harmonization, and the effective functioning of the MDTF is important to ensuring that donors remain harmonized during the Project's implementation.

### **Partners**

4. IDA's total financing of USD 1.29 billion for the first and second phases has leveraged donor financing of USD 1.69 billion from the other DPs bringing the total committed financing for PBS 1 and 2 including the Bank to USD 2.98 billion. Of the total financing provided by other partners, close to 80 percent has been channeled through Bank-administered MDTFs that have allowed for better harmonization, greater aid predictability, and enabling enhanced PBS Program supervision and monitoring.
5. The PBS 3 is expected to be co-financed by a smaller number of development partners. Foremost is the U.K., through DFID, which is presenting to its management, on the same timeline as the Bank's operation, a proposal of GBP 510 million (USD750 million) to co-finance the PBS Phase 3 Project via the Multi Donor Trust Fund. The European Union's proposal is to contribute Euro 50 million. IDA's planned level of support for PBS 3 will be USD600 million.
6. As in PBS 1 and 2, the Government of Austria and the African Development Bank have indicated their intention to support PBS 3 through parallel financing. Italy has indicated the same. Other DPs, including Ireland, KfW and Spain, may join PBS 3 at a later time. If so, they will have the option of providing their funds through the MDTF (if they agree to finance all of the same components) or channeling their funds as parallel financing to the Government's Treasury. The following table summarizes anticipated DP contributions as of appraisal.

**Table 10: Anticipated Development Partner support to PBS**

| <b>Program Components (USD millions)</b>                                   | <b>DPs Total</b> | <b>DFID</b>   | <b>AFDB</b>   | <b>EU</b>    | <b>Italy</b> | <b>Austria</b> |
|--|------------------|---------------|---------------|--------------|--------------|----------------|
| Sub-Program A: Basic Service Block Grants                                  | 984.21           | 664.62        | 237.88        | 61.35        | 12.27        | 8.10           |
| Sub-Program B: Strengthening Local Transparency and Accountability Systems |                  |               |               |              |              |                |
| B1: Citizen's Engagement   | 8.56             | 7.04          | 1.52          |              |              |                |
| B2: Local PFM & Procurement  | 33.29            | 21.89         | 11.40         |              |              |                |
| B3: Managing for Results   | 12.04            | 7.04          |               | 5.00         |              |                |
| Sub-Program C: Results Enhancement Fund                                    | 78.19            | 78.19         |               |              |              |                |
| <b>Total Program Support</b>   | <b>1,116.29</b>  | <b>778.77</b> | <b>250.80</b> | <b>66.35</b> | <b>12.27</b> | <b>8.10</b>    |
| <b>Total Implementation Support, of which:</b>                             | <b>18.83</b>     | <b>16.58</b>  | <b>1.25</b>   | <b>1.00</b>  |              |                |
| PBS Secretariat  | 4.87             | 3.28          | 1.25          | 0.33         |              |                |
| MDTF Administration  | 13.96            | 13.29         |               | 0.66         |              |                |

\* Spain, Ireland and KfW have supported the PBS program to date and may continue to support PBS 3.

### Structure of the Multi Donor Trust Fund

7. The World Bank is now focusing on simplifying and integrating MDTFs into its core business. Therefore, PBS 3 will include one program-level MDTF, not several co-financing MDTFs as was the case in PBS 1 and 2. All contributions to the program-level MDTF will be used to co-finance the same four Sub-programs:

- Sub-program A: Basic Service Block Grants;
- Component B1: Citizen's Engagement;
- Component B2: Local Public Financial Management;
- Component B3: Managing for Results.

8. In addition, resources in the program-level MDTF will be used to support the PBS Secretariat<sup>58</sup> as well as provide necessary resources for enhanced supervision. The cost of the Secretariat and the various components under Sub-program B will be fixed. Once these are met, any additional resources will be added to Sub-program A (block grants).

9. The program-level MDTF will exist beyond the duration of the IDA project. It is therefore expected that the MDTF Administration Agreement will be signed by contributing DPs in December 2012 with a closing date of December 2017.

10. The projected size of the MDTF is approximately USD700 million. The Bank will apply full cost recovery for administering and managing the MDTF (through a customized fee

<sup>58</sup> See Annex 3: Implementation Arrangements for more information on the PBS Secretariat.

arrangement). This is consistent with IBRD/IDA policies and procedures agreed to by the Bank's Board.

11. The World Bank will continue to apply its fiduciary standards and oversight to the use of IDA's own contributions and those donor resources channeled through the program-level MDTF, while also providing provide implementation support and enhanced supervision of the whole program.

# Annex 11 : Country At A Glance

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## Ethiopia at a glance

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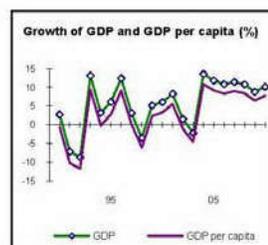
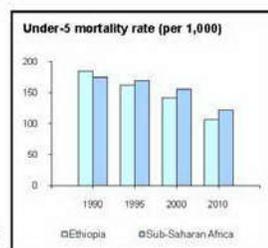
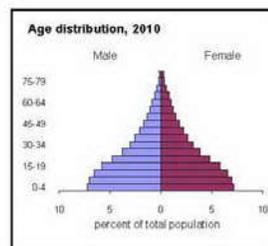
### Key Development Indicators

(2010)

|  | Ethiopia | Sub-Saharan Africa | Low income |
|--|----------|--------------------|------------|
| Population, mid-year (millions)          | 83.0     | 853                | 796        |
| Surface area (thousand sq. km)           | 1,104    | 24,243             | 15,551     |
| Population growth (%)                    | 2.2      | 2.5                | 2.1        |
| Urban population (% of total population) | 18       | 37                 | 28         |
| GNI (Atlas method, US\$ billions)        | 32.4     | 1,004              | 421        |
| GNI per capita (Atlas method, US\$)      | 390      | 1,176              | 528        |
| GNI per capita (PPP, international \$)   | 1,040    | 2,148              | 1,307      |
| GDP growth (%)                           | 10.1     | 4.8                | 5.9        |
| GDP per capita growth (%)                | 7.8      | 2.3                | 3.7        |

(most recent estimate, 2004–2010)

|  |     |     |     |
|--|-----|-----|-----|
| Poverty headcount ratio at \$1.25 a day (PPP, %)           | 39  | 48  | ..  |
| Poverty headcount ratio at \$2.00 a day (PPP, %)           | 78  | 69  | ..  |
| Life expectancy at birth (years)                           | 59  | 54  | 59  |
| Infant mortality (per 1,000 live births)                   | 68  | 76  | 70  |
| Child malnutrition (% of children under 5)                 | 35  | 22  | 23  |
| Adult literacy, male (% of ages 15 and older)              | 42  | 71  | 69  |
| Adult literacy, female (% of ages 15 and older)            | 18  | 54  | 54  |
| Gross primary enrollment, male (% of age group)            | 106 | 104 | 108 |
| Gross primary enrollment, female (% of age group)          | 97  | 95  | 101 |
| Access to an improved water source (% of population)       | 44  | 61  | 65  |
| Access to improved sanitation facilities (% of population) | 21  | 31  | 37  |



### Net Aid Flows

|                                | 1980 | 1990  | 2000 | 2010  |
|--------------------------------|------|-------|------|-------|
| <i>(US\$ millions)</i>         |      |       |      |       |
| Net ODA and official aid       | 211  | 1,009 | 687  | 3,529 |
| <i>Top 3 donors (in 2010):</i> |      |       |      |       |
| United States                  | 19   | 50    | 130  | 875   |
| United Kingdom                 | 4    | 35    | 11   | 407   |
| European Union Institutions    | 32   | 109   | 69   | 238   |
| Aid (% of GNI)                 | 3.4  | 8.4   | 8.5  | 11.9  |
| Aid per capita (US\$)          | 6    | 21    | 10   | 43    |

### Long-Term Economic Trends

|  |      |     |     |      |
|--|------|-----|-----|------|
| Consumer prices (annual % change)              | 12.5 | 5.2 | 6.2 | 25.3 |
| GDP implicit deflator (annual % change)        | 4.3  | 3.3 | 6.9 | 3.8  |
| Exchange rate (annual average, local per US\$) | 2.1  | 2.1 | 8.1 | 12.9 |
| Terms of trade index (2000 = 100)              | 131  | 151 | 100 | 105  |

|   | 1980  | 1990   | 2000  | 2010   |
|---|-------|--------|-------|--------|
| Population, mid-year (millions)             | 35.4  | 48.3   | 65.6  | 83.0   |
| GDP (US\$ millions)                         | 7,269 | 12,083 | 8,180 | 29,717 |
| <i>(% of GDP)</i>                           |       |        |       |        |
| Agriculture                                 | 60.7  | 54.3   | 49.9  | 47.7   |
| Industry                                    | 10.6  | 11.1   | 12.4  | 14.3   |
| Manufacturing                               | 4.9   | 4.8    | 5.5   | 5.2    |
| Services                                    | 28.8  | 34.5   | 37.8  | 38.0   |
| Household final consumption expenditure     | 80.0  | 77.2   | 73.8  | 89.4   |
| General gov't final consumption expenditure | 9.8   | 13.2   | 17.9  | 10.2   |
| Gross capital formation                     | 14.5  | 12.9   | 20.3  | 21.5   |
| Exports of goods and services               | 7.6   | 5.6    | 12.0  | 11.4   |
| Imports of goods and services               | 11.9  | 8.8    | 24.0  | 32.5   |
| Gross savings                               | 10.8  | 11.9   | 16.2  | 12.7   |

1980–90 1990–2000 2000–10  
(average annual growth %)

|     |     |      |
|-----|-----|------|
| 3.1 | 3.1 | 2.3  |
| 2.2 | 3.8 | 8.8  |
| 0.9 | 2.6 | 7.1  |
| 3.7 | 4.1 | 9.3  |
| 3.4 | 3.9 | 7.6  |
| 3.9 | 5.2 | 10.9 |
| 1.3 | 2.7 | 12.0 |
| 4.0 | 9.0 | 1.8  |
| 4.9 | 6.5 | 11.1 |
| 3.2 | 7.1 | 9.7  |
| 3.2 | 5.8 | 16.7 |

Note: Figures in *italics* are for years other than those specified. .. indicates data are not available.

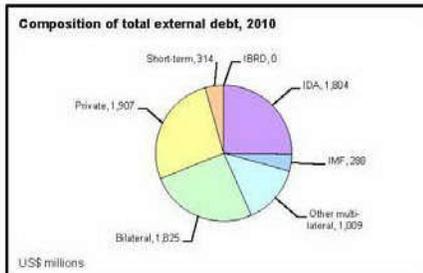
Development Economics, Development Data Group (DECDG).

## Ethiopia

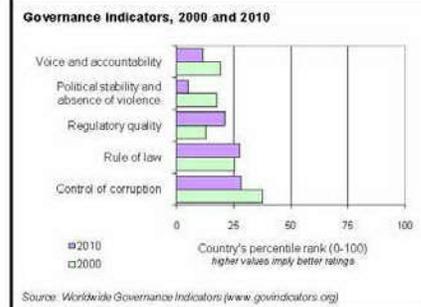
| Balance of Payments and Trade                                 | 2000  | 2010   |
|---|-------|--------|
| <i>(US\$ millions)</i>  |       |        |
| Total merchandise exports (fob)                               | 486   | 85     |
| Total merchandise imports (cif)                               | 1,611 | 8,632  |
| Net trade in goods and services                               | -976  | -6,642 |
| Current account balance as a % of GDP                         | -3.35 | -3,099 |
|   | -4.1  | -10.4  |
| Workers' remittances and compensation of employees (receipts) | 53    | 225    |
| Reserves, including gold                                      | 349   | 2,015  |

| Central Government Finance         | 2000 | 2010 |
|------------------------------------|------|------|
| <i>(% of GDP)</i>                  |      |      |
| Current revenue (including grants) | 15.7 | 15.0 |
| Tax revenue                        | 9.5  | 9.2  |
| Current expenditure                | 20.6 | 8.8  |
| Overall surplus/deficit            | -9.4 | 0.0  |
| Highest marginal tax rate (%)      |      |      |
| Individual                         | 35   | 35   |
| Corporate                          | 30   | 30   |

| External Debt and Resource Flows        | 2000  | 2010  |
|---|-------|-------|
| <i>(US\$ millions)</i>                  |       |       |
| Total debt outstanding and disbursed    | 5,495 | 7,147 |
| Total debt service                      | 138   | 192   |
| Debt relief (HIPC, MDRI)                | 2,728 | 1,865 |
| Total debt (% of GDP)                   | 67.2  | 24.1  |
| Total debt service (% of exports)       | 13.1  | 4.7   |
| Foreign direct investment (net inflows) | 135   | 184   |
| Portfolio equity (net inflows)          | 0     | 0     |



| Private Sector Development   | 2000 | 2010 |
|--|------|------|
| Time required to start a business (days)                                     | ..   | 9    |
| Cost to start a business (% of GNI per capita)                               | ..   | 12.8 |
| Time required to register property (days)                                    | ..   | 41   |
| Ranked as a major constraint to business (% of managers surveyed who agreed) | 2000 | 2010 |
| Tax rates  | 72.2 | ..   |
| Tax administration   | 59.2 | ..   |
| Stock market capitalization (% of GDP)                                       | ..   | ..   |
| Bank capital to asset ratio (%)  | ..   | ..   |



| Technology and Infrastructure                            | 2000 | 2010 |
|--|------|------|
| Paved roads (% of total)                                 | 12.0 | 13.7 |
| Fixed line and mobile phone subscribers (per 100 people) | 0    | 9    |
| High technology exports (% of manufactured exports)      | 0.1  | 3.0  |

| Environment   | 2000  | 2010  |
|---|-------|-------|
| Agricultural land (% of land area)                                | 31    | 35    |
| Forest area (% of land area)                                      | 13.7  | 12.3  |
| Terrestrial protected areas (% of land area)                      | 17.7  | 18.4  |
| Freshwater resources per capita (cu. meters)                      | 1,767 | 1,503 |
| Freshwater withdrawal (% of internal resources)                   | 4.6   | 4.6   |
| CO2 emissions per capita (mt)                                     | 0.09  | 0.09  |
| GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent) | 1.9   | 2.2   |
| Energy use per capita (kg of oil equivalent)                      | 284   | 402   |

| World Bank Group portfolio   | 2000  | 2010  |
|--|-------|-------|
| <i>(US\$ millions)</i>   |       |       |
| <b>IBRD</b>  |       |       |
| Total debt outstanding and disbursed                               | 0     | 0     |
| Disbursements  | 0     | 0     |
| Principal repayments   | 0     | 0     |
| Interest payments  | 0     | 0     |
| <b>IDA</b>   |       |       |
| Total debt outstanding and disbursed                               | 1,779 | 1,804 |
| Disbursements  | 137   | 389   |
| Total debt service   | 34    | 15    |
| <b>IFC (fiscal year)</b>   |       |       |
| Total disbursed and outstanding portfolio of which IFC own account | 0     | 5     |
| Disbursements for IFC own account                                  | 0     | 5     |
| Portfolio sales, prepayments and repayments for IFC own account    | 0     | 0     |
| <b>MIGA</b>  |       |       |
| Gross exposure   | ..    | 10    |
| New guarantees   | ..    | 10    |

Note: Figures in *italics* are for years other than those specified.  
 .. indicates data are not available. - indicates observation is not applicable.

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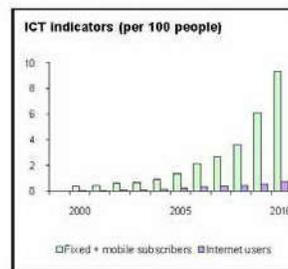
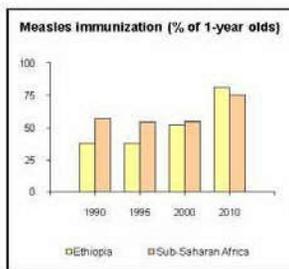
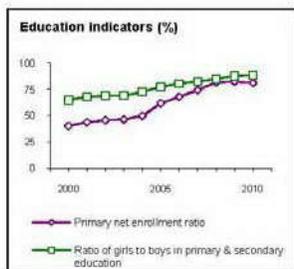
Development Economics, Development Data Group (DECDG).

## Millennium Development Goals

Ethiopia

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

|  | Ethiopia |      |      |      |
|--|----------|------|------|------|
|  | 1990     | 1995 | 2000 | 2010 |
| <b>Goal 1: halve the rates for extreme poverty and malnutrition</b>                      |          |      |      |      |
| Poverty headcount ratio at \$1.25 a day (PPP, % of population)                           | ..       | 60.5 | 55.6 | 39.0 |
| Poverty headcount ratio at national poverty line (% of population)                       | ..       | 45.5 | 44.2 | 38.9 |
| Share of income or consumption to the poorest quintile (%)                               | ..       | 7.2  | 9.2  | 9.3  |
| Prevalence of malnutrition (% of children under 5)                                       | ..       | ..   | 42.0 | 34.6 |
| <b>Goal 2: ensure that children are able to complete primary schooling</b>               |          |      |      |      |
| Primary school enrollment (net, %)   | 30       | 23   | 40   | 81   |
| Primary completion rate (% of relevant age group)  | 23       | 15   | 23   | 72   |
| Secondary school enrollment (gross, %)   | 14       | 11   | 14   | 36   |
| Youth literacy rate (% of people ages 15-24)   | ..       | 34   | ..   | 45   |
| <b>Goal 3: eliminate gender disparity in education and empower women</b>                 |          |      |      |      |
| Ratio of girls to boys in primary and secondary education (%)                            | 68       | 63   | 65   | 89   |
| Women employed in the nonagricultural sector (% of nonagricultural employment)           | ..       | ..   | 41   | 47   |
| Proportion of seats held by women in national parliament (%)                             | ..       | 2    | 2    | 28   |
| <b>Goal 4: reduce under-5 mortality by two-thirds</b>                                    |          |      |      |      |
| Under-5 mortality rate (per 1,000)   | 184      | 161  | 141  | 106  |
| Infant mortality rate (per 1,000 live births)  | 111      | 98   | 87   | 68   |
| Measles immunization (proportion of one-year olds immunized, %)                          | 38       | 38   | 52   | 81   |
| <b>Goal 5: reduce maternal mortality by three-fourths</b>                                |          |      |      |      |
| Maternal mortality ratio (modeled estimate, per 100,000 live births)                     | 990      | 920  | 750  | 470  |
| Births attended by skilled health staff (% of total)                                     | ..       | ..   | 6    | 6    |
| Contraceptive prevalence (% of women ages 15-49)   | 5        | 3    | 8    | 15   |
| <b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b> |          |      |      |      |
| Prevalence of HIV (% of population ages 15-49)   | ..       | ..   | ..   | ..   |
| Incidence of tuberculosis (per 100,000 people)   | 173      | 182  | 235  | 261  |
| Tuberculosis case detection rate (% of all forms)  | 110      | 25   | 59   | 72   |
| <b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>  |          |      |      |      |
| Access to an improved water source (% of population)                                     | 14       | 20   | 29   | 44   |
| Access to improved sanitation facilities (% of population)                               | 3        | 4    | 9    | 21   |
| Forest area (% of total land area)   | 13.7     | ..   | 13.7 | 12.3 |
| Terrestrial protected areas (% of land area)   | 17.7     | 17.7 | 17.7 | 18.4 |
| CO2 emissions (metric tons per capita)   | 0.1      | 0.0  | 0.1  | 0.1  |
| GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)               | 1.8      | 1.7  | 1.9  | 2.2  |
| <b>Goal 8: develop a global partnership for development</b>                              |          |      |      |      |
| Telephone mainlines (per 100 people)   | 0.3      | 0.2  | 0.4  | 1.1  |
| Mobile phone subscribers (per 100 people)  | 0.0      | 0.0  | 0.0  | 8.3  |
| Internet users (per 100 people)  | 0.0      | 0.0  | 0.0  | 0.7  |
| Computer users (per 100 people)  | ..       | ..   | ..   | ..   |



Note: Figures in *italics* are for years other than those specified. .. indicates data are not available.

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Development Economics, Development Data Group (DECDG).

